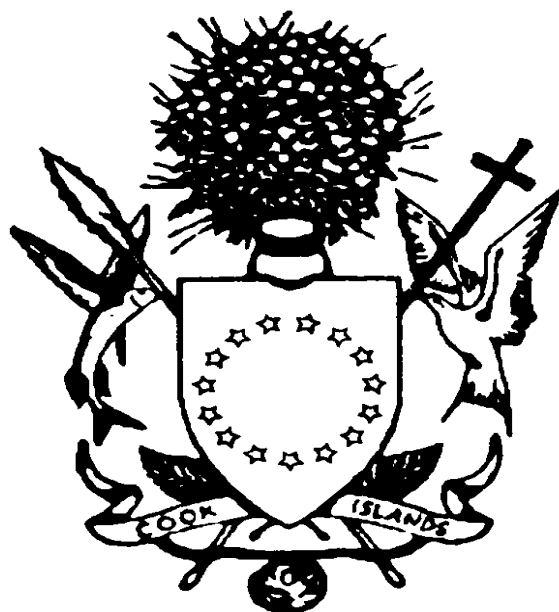

COOK ISLANDS GOVERNMENT

**2019/20 Half-Year Economic and
Fiscal Update**



Hon. Mark Brown
Minister of Finance

16 December 2019

Disclaimer

The 2018/19 actual expenditure and revenue data will differ from the June 2019 Quarterly Financial Report due to the accrual accounting system used by the Cook Islands Government. The data presented in the 2019/20 HYEPU is a more accurate reflection of actual expenditure and revenues in 2018/19.

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

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16 December 2019

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the 2019/20 Half-year Economic and Fiscal Update (HYEFU).

To enable the Ministry of Finance and Economic Management to prepare the 2019/20 HYEFU, I have ensured that the Financial Secretary has been advised of all Government decisions and other circumstances as at December 2019 of which I was aware and had material economic and fiscal implications.

The 2019/20 HYEFU has been produced in accordance with the *Ministry of Finance and Economic Management Act 1995-96*.

I accept the overall responsibility for the integrity of the disclosures contained in this document, and the consistency and completeness of the information in compliance with the requirements of the *Ministry of Finance and Economic Management Act 1995-96*.

Kia Manuia,

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

Honourable Mark Brown
Minister of Finance



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

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16 December 2019

STATEMENT OF RESPONSIBILITY

This Half Year Economic and Fiscal Update (HYEFU) 2019/20 is prepared in accordance with Section 11 and 16 of the *Ministry of Finance and Economic Management Act 1995-96*. Section 16 further states that the Minister shall no earlier than the 1st day of December, nor later than the 31st day of December in each financial year, cause to be published a report containing an economic and fiscal update prepared by the Ministry.

Therefore in accordance with Section 30(2) of the *Ministry of Finance and Economic Management Act 1995-96*, the Minister of Finance and the Financial Secretary shall prepare and sign a Statement of Responsibility for the financial statements.

The integrity of the disclosures and consistency with the requirements of the *Ministry of Finance and Economic Management Act 1995-96* are warranted in relation to the financial statements included within the 2019/20 HYEFU.

The update incorporates the fiscal and economic implications both of Government decisions and circumstances as at December 2019 that were communicated to me, and of other economic and fiscal information available to the Ministry in accordance with the provisions of the *Ministry of Finance and Economic Management Act 1995-96*.

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 'Garth Henderson'.

Garth Henderson
Financial Secretary

1 Medium-term Fiscal Strategy 2020/21 – 2023/24

1.1 Summary

This chapter presents the Cook Island Government’s Medium-term Fiscal Strategy (MTFS) for the period 2020/2021 to 2023/24, and serves as the 2020/21 Budget Policy Statement.

The MTFS has been developed with the aim of smoothing Government expenditure over the course of the economic cycle. It outlines the Government’s fiscal commitments over the medium-term, including the fiscal rules that the Government will aim to achieve, economic forecasts and in turn, the expenditure profile.

The Government’s Medium-term Fiscal Strategy is to deliver fiscally sustainable budgets. To achieve this the Government commits to:

- Adhere to the Fiscal Rules on debt, fiscal balance, expenditure growth and cash reserves.
- The development of, and appropriation into a Stabilisation Account and Sovereign Wealth Fund to ensure that excess revenues are saved for periods of economic downturn or natural disasters, and for future generations.
- An expenditure profile that is steered by the economic context, through the use of internal guiding principles.

The Government’s fiscal strategy is underpinned by the following policy elements:

- Investing in infrastructure that will ensure the sustainability of economic growth and the resilience of the economy to climate change.
- Increasing revenue without increasing the tax burden on society, through economic growth and by ensuring that tax legislation is enforced in an equitable manner.
- Investing in the capabilities of Government Agencies to ensure they operate effectively and efficiently.

The Fiscal Rules that Government commits to are as follows:

- Net debt rule: net debt should not exceed a soft cap of 30 per cent of GDP, and cannot exceed a hard cap of 35 per cent of GDP.
- Fiscal balance rule: the fiscal balance cannot exceed a deficit of 1.9 per cent of GDP.
- Expenditure rule: budgeted expenditure cannot grow by more than 4 per cent year-on-year.
- Cash reserves rule: the equivalent of 3 months of operating expenditure must be held in cash at any one time.

The Government is committed to the expenditure profile set out in Table 1-1 over the medium-term, with the fiscal space indicating the amount of additional expenditure that the Government can undertake in each year.

Table 1-1: Fiscal space and total expenditure

\$ million	2020/21	2021/22	2022/23	2023/24
Total expenditure	212.4	212.9	213.0	213.9
Fiscal space	3.0	9.0	11.0	37.5

This expenditure profile has been derived from the Fiscal Rules and MFEM’s internal operating guides, and as such, meets all the requirements of the Fiscal Rules. The profile will guide the development of

a medium-term budget that considers the economic and fiscal context as forecast by the Ministry of Finance and Economic Management (MFEM).

1.2 MTFS economic and fiscal forecasts

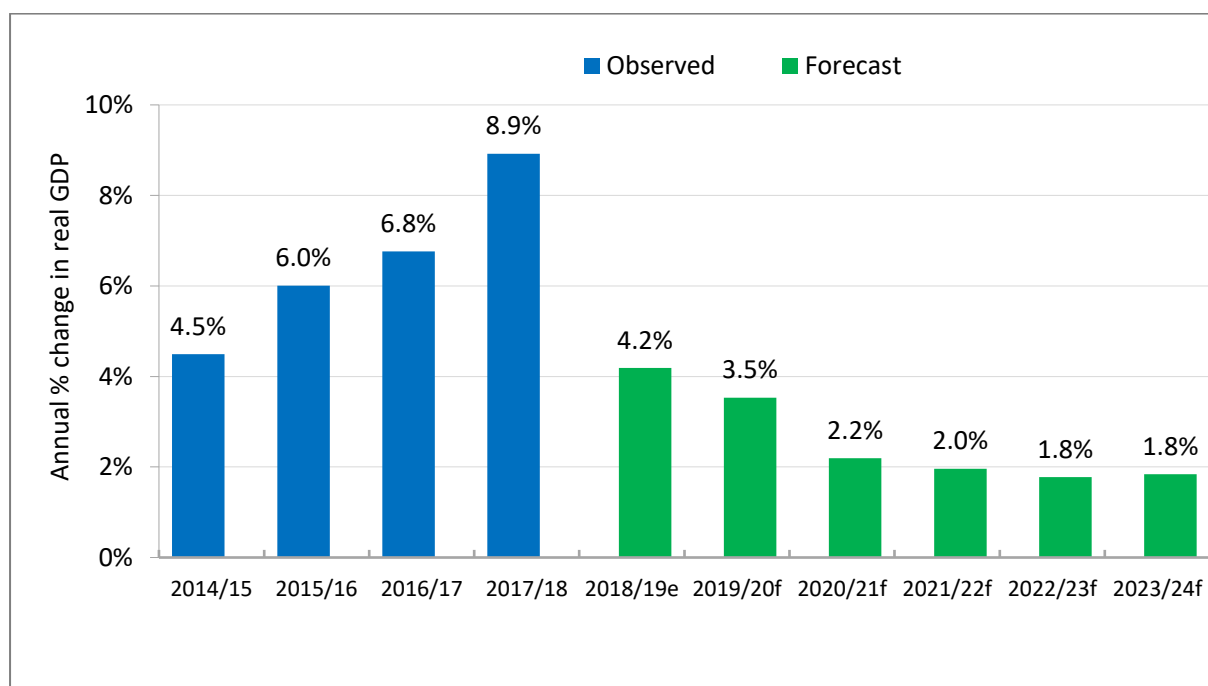
Economic growth

The basis of the MTFS is the economic forecast. Economic growth is forecast to slow over the medium-term, following estimated real GDP growth of 4.2 per cent in 2018/19. Strong economic growth in recent years has resulted in the Cook Islands experiencing a positive output gap, that is, economic growth has been larger than potential economic growth (or the level of growth above which inflation will be experienced). The result is that the Cook Islands economy is experiencing capacity constraints in many areas including labour (skilled and unskilled) and accommodation.

Due to capacity constraints, real growth is expected to decrease to an average of 2.4 per cent over the forward estimates (2020/21 to 2023/24) as it is anticipated that the constraints will place additional pressure on prices and limit the economy’s ability to experience the high growth rates of recent years.

As a result, forecast economic growth has been revised downwards in the HYEFU as compared to the 2019/20 Budget.

Figure 1-1: Forecast real GDP growth



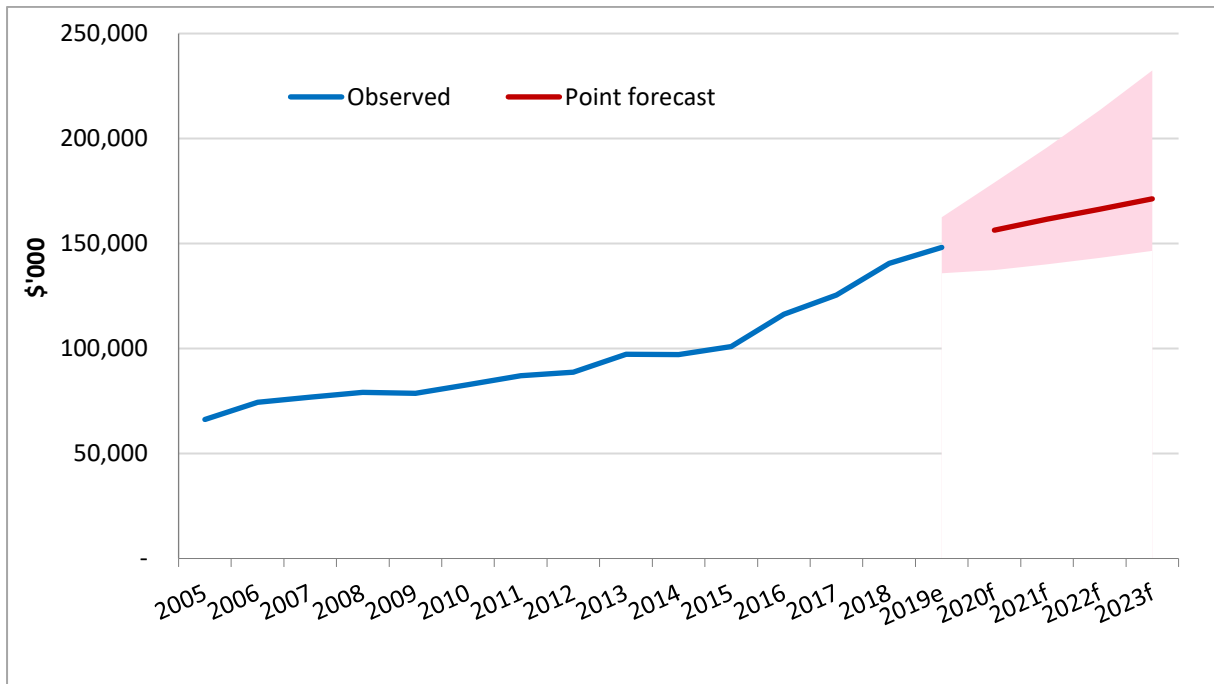
Revenue

Revenue forecasts for 2019/20 and the forward years have been revised upward from those published in the 2019/20 Budget, despite economic growth being revised downwards, for two reasons:

- Revenue forecasts undertaken during the budget process were solely based on historical revenue, using univariate techniques, without direct consideration of the forecast levels of economic growth.
- Actual revenue collected in 2018/19 was above that forecast in the 2019/20 Budget.

Forecasts are for tax revenue to remain strong over the forward estimates, averaging around 2 per cent growth over the coming four years.

Figure 1-2: Tax revenue projections



The MTFS does not propose any changes to revenue policy. A review of the Government’s revenue structure is intended to be undertaken during the 2019/20 year. In the meantime, the Government is committed to increasing revenue without increasing the tax burden on society, through economic growth and by ensuring that tax legislation is enforced in an equitable manner.

A key aspect of this commitment is to increase the Revenue Management Division’s ability to collect outstanding taxes and to enforce current legislation, for example by targeting non-conformers.

Expenditure

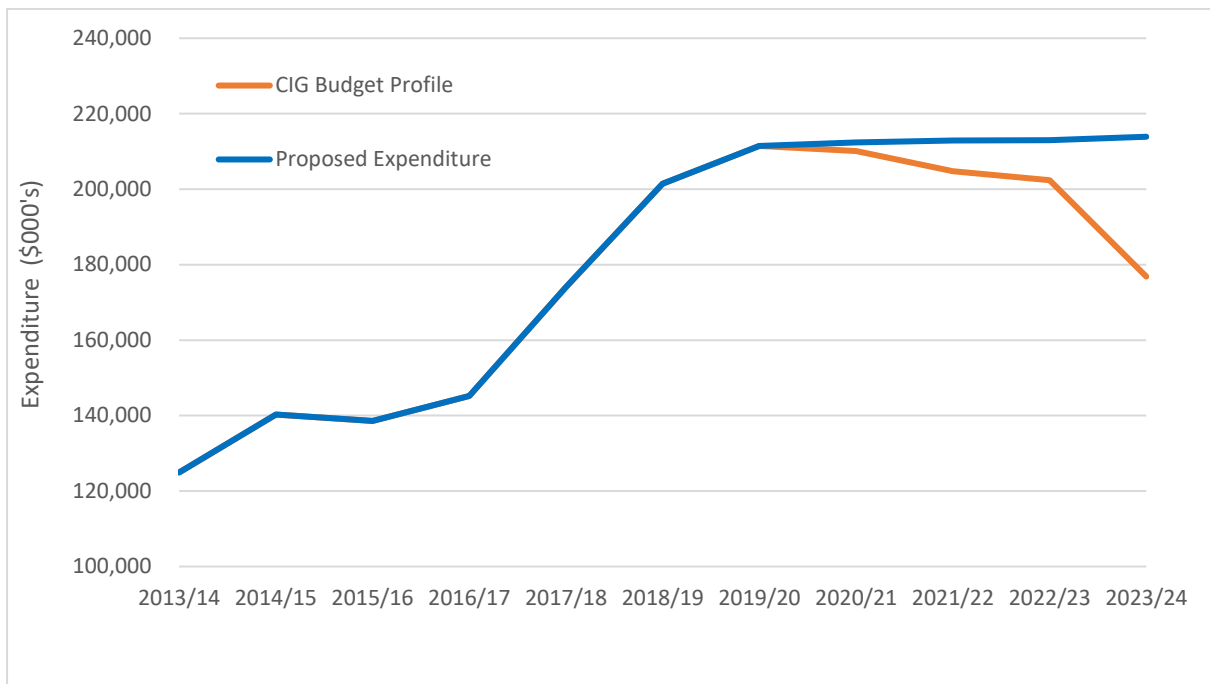
Based on forecast economic growth, revenues and the Fiscal Rules the Government agrees to the expenditure profile set out in Table 1-2.

Table 1-2: Government’s expenditure profile 2020/21 – 2023/24

\$ million	2020/21	2021/22	2022/23	2023/24
Total expenditure	212.4	212.9	213.0	213.9
Fiscal space	3.0	9.0	11.0	37.5

The expenditure profile allows for fiscal space (i.e. additional spending) in each of the forward years, largely because of the decrease in capital and operating expenditure currently appropriated in the forward years, and the slight upward revision to revenues. The changes to the expenditure profile as a result of the MTFS can be seen in Figure 1-3.

Figure 1-3: MTFS expenditure profile against the 2019/20 Budget profile



The MTFS expenditure profile fits well within the rules committed to by the Government. The focus of Government expenditure in the coming four years is investing in:

- infrastructure that will ensure the sustainability of economic growth and the resilience of the economy to climate change; and
- capabilities of Government Agencies to ensure that they are operating effectively and efficiently.

Government will be investing in infrastructure that encourages sustainable economic growth. This is largely due to the emergence of capacity constraints within the economy which have been exacerbated by strong growth in tourism arrivals. The Government is now focused on developing infrastructure that meets the level of demand that is being placed on it by the increased population.

Further, to ensure that Government Agencies have the ability to manage and undertake large infrastructure projects, and meet increasing demands in other sectors of the economy, Government reassessed baseline funding to agencies in the 2019/20 Budget and will continue to monitor and adjust funding as required. Achieving these expenditure commitments will be guided by the Medium-term National Priorities as outlined in Section 1.5.

1.3 The MTFS Expenditure Profile and the Fiscal Rules

1.3.1 Introduction

Fiscal Rules have been developed as benchmarks for the Government in its aim of achieving fiscally sustainable budgets. In forming the rules, guidance on the criteria for rule development from the IMF has been considered as follows:¹

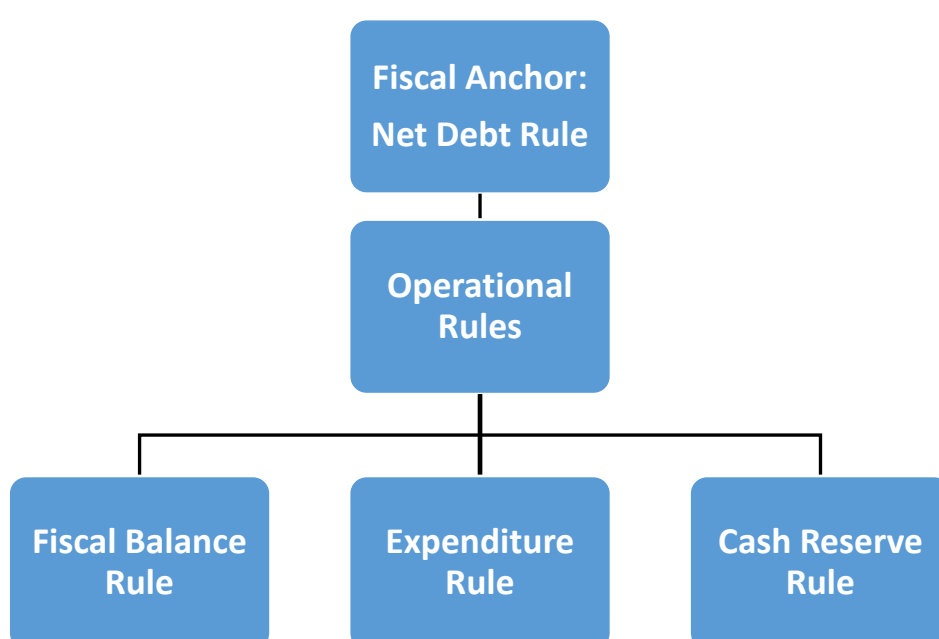
- Sustainability: compliance with the rule should ensure long-term debt sustainability.

¹ IMF, 2018a. *Fiscal Policy- How to select fiscal rules: a primer*. Fiscal Affairs Department, International Monetary Fund, Washington. March 2018.

- **Stabilisation:** following the rule should not increase (and may decrease) economic volatility. The principle of stabilisation ensures that automatic stabilisers are able to operate.
- **Simplicity:** The rule should be easily understood by decision makers and the public.
- **Operational guidance:** it should be possible to translate the rule into clear guidance in the annual budget process.
- **Resilience:** A rule should be in place for a sustained period in order to build credibility, and it should not be easily abandoned after a shock.
- **Ease of monitoring and enforcement:** compliance with the rule should be easy to verify, and there should be costs associated with deviations from the targets.

Too many rules can complicate fiscal policymaking and result in overlap and inconsistency of targets. As such, selected rules need to minimise the trade-off between the above criteria.² Based on these criteria, the rule structure set out in Figure 1-4 has been adopted.

Figure 1-4: MTFS rule structure



The Fiscal Rules are structured around the fiscal anchor which is linked to the final objective of the fiscal strategy, fiscal sustainability. This rule is used to guide the development of three operational rules. The Government agrees to adhere to the fiscal anchor and the operational rules over the medium-term. These will be frequently measured and published in both the Budget releases and the Quarterly Financial Reports released by MFEM.

Internal guides have also been developed to support the application of the rules. These are not binding and are not published, however they are used by MFEM to develop the aggregate expenditure ceiling and the MTEC.

The fiscal rules have been developed using guidance from the IMF.³ For an explanation on the development of the Fiscal Rules, including formulae, see the MTFS Technical Paper – *Fiscal Tool 2018: Explanatory note* (Technical Paper), which is available on the MFEM website.⁴

² IMF, 2018a. *Fiscal Policy- How to select fiscal rules: a primer*. Fiscal Affairs Department, International Monetary Fund, Washington. March 2018.

³ IMF, 2018b. *Fiscal policy: How to calibrate fiscal rules – A Primer*. Fiscal Affairs Department, International Monetary Fund, Washington D.C., March 2018.

⁴ <http://www.mfem.gov.ck/economic-planning>

The following assesses how the proposed expenditure profile compares with the MTFS Fiscal Rules.

1.3.2 MTFS Net Debt Rule

The Net Debt rule states that “Net debt should not exceed a soft cap of 30 per cent of GDP, and cannot exceed a hard cap of 35 per cent of GDP”.

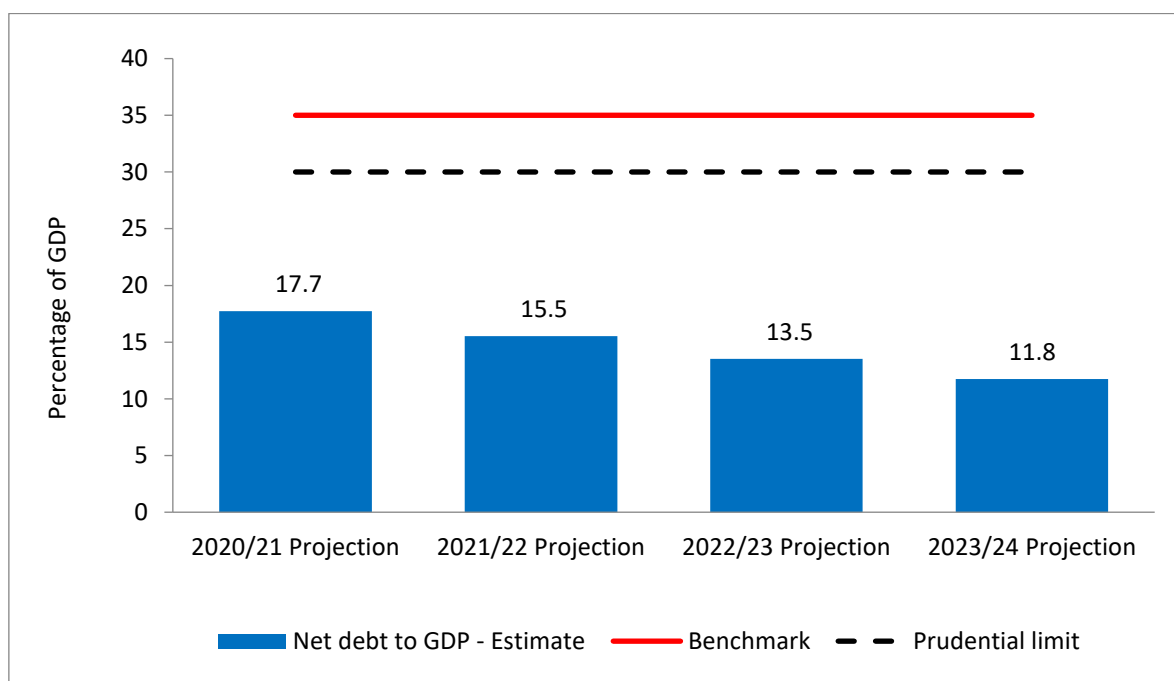
The rule has been selected as the fiscal anchor due to its ability to achieve the objective of fiscal sustainability, by providing an upper limit for fiscal slippages.

The fiscal anchor comprises of a soft and hard net debt target. In the Cook Islands context, net debt is defined as gross debt less funds held in the Loan Repayment Fund. The hard limit of 35 per cent of GDP provides a buffer for the soft target of 30 per cent, allowing space for exchange rate shocks or natural disasters.

The soft net debt target of 30 per cent of GDP has been used to develop the operational targets. This is based on evidence which suggests that debt levels greater than 30 per cent of GDP have a negative impact on economic growth in countries in the Asia-Pacific.⁵

The new expenditure profile does not require any new debt to be entered into, as such there is no change to the net debt profile as seen in Figure 1-5. Net debt is expected to decrease to 11.8 per cent of GDP by 2023/24.

Figure 1-5: Net debt projections



1.3.3 MTFS Fiscal Balance Rule

The fiscal balance rule states that the fiscal balance cannot exceed a deficit of 1.9 per cent of GDP in any one year.

This is a nominal budget balance rule and imposes a limit on the headline fiscal balance. Nominal budget balance rules can be very effective in preserving debt sustainability by constraining overall

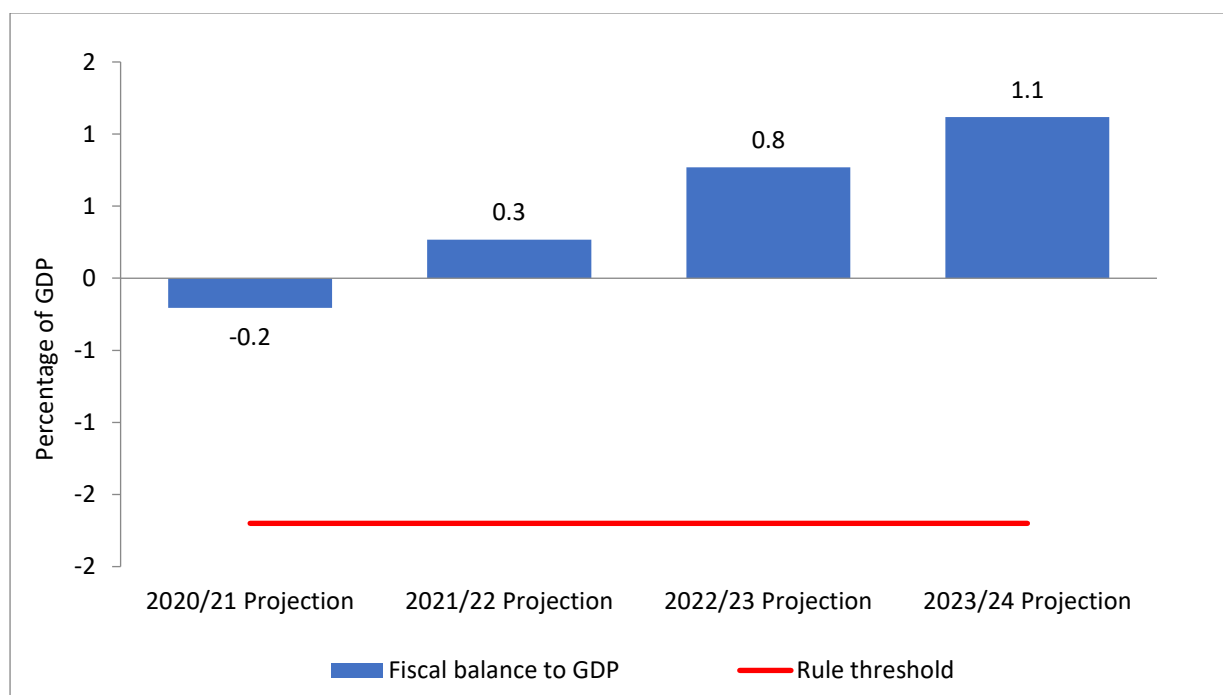
⁵ IMF, 2015. Strengthening Fiscal Frameworks and Improving the Spending Mix in Small States. Asia and Pacific Department, International Monetary Fund, Washington D.C., June 2015: p.5.

expenditure in each year. However, as they are not adjusted for the economic cycle, they are limited in their ability to foster macroeconomic stabilisation.⁶ To address this short-coming an accompanying internal operational guide has been developed to account for the economic cycle.

The fiscal balance rule is calculated so that if the Government repeatedly operated at a deficit of 1.9 per cent of GDP, over the long-term it would reach the net debt rule of 30 per cent of GDP. To avoid reaching the net debt rule, Government will aim to achieve surpluses during periods of economic growth, to allow space for borrowing in periods of economic downturn. For further information on the calibration of this rule see the MTFS Technical Paper.

The 2020/21-2023/24 MTFS results in the adherence to the fiscal balance rule as seen in Figure 1-6. New expenditure of \$3 million will result in a fiscal deficit of 0.2 per cent of GDP in 2020/21, before increasing to 0.3 per cent in 2021/22, 0.8 in 2022/23 and 1.1 per cent in 2023/24.

Figure 1-6: Fiscal balance projections



1.3.4 MTFS Expenditure Rule

The expenditure rule states that growth of total Cook Islands Government expenditure cannot exceed 4 per cent year-on-year. The 4 per cent is to be applied to total expenditure (operating and capital) appropriated in the prior year. The 2019/20 Budget total expenditure appropriation is \$211 million, therefore the maximum expenditure allowed under the rule in 2020/21 is \$219.4 million.

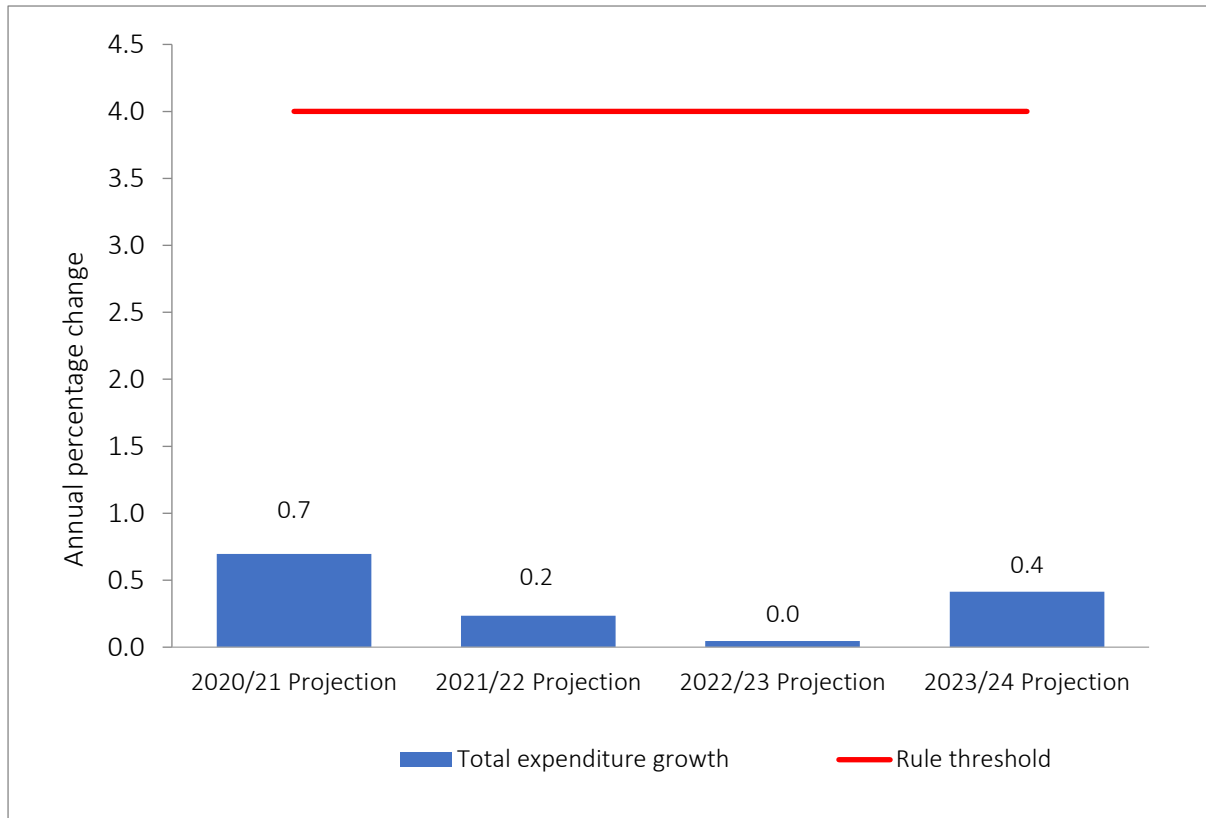
The expenditure rule is equivalent to the Cook Islands' long-run growth rate of potential GDP. This is based on the assumption that the 2018/19 Budget Appropriation is generally in line with the structural balance rule and that once in this situation, nominal expenditure should grow at the same pace as nominal potential GDP.⁷

⁶ IMF, 2018a. Fiscal Policy- How to select fiscal rules: a primer. Fiscal Affairs Department, International Monetary Fund, Washington. March 2018.

⁷ IMF, 2018b. Fiscal policy: How to calibrate fiscal rules – A Primer. Fiscal Affairs Department, International Monetary Fund, Washington D.C., March 2018.

The MTFS expenditure profile is well within the expenditure rule as seen in Figure 1-7. In accordance with the cyclically-adjusted balance, the expenditure profile is designed to provide additional expenditure space in each year, while ensuring that expenditure growth is not too strong. This acknowledges the strong economic growth that the Cook Islands is now experiencing and the need to constrain expenditure growth to prevent further pressure being placed on the economy.

Figure 1-7: Expenditure growth projections

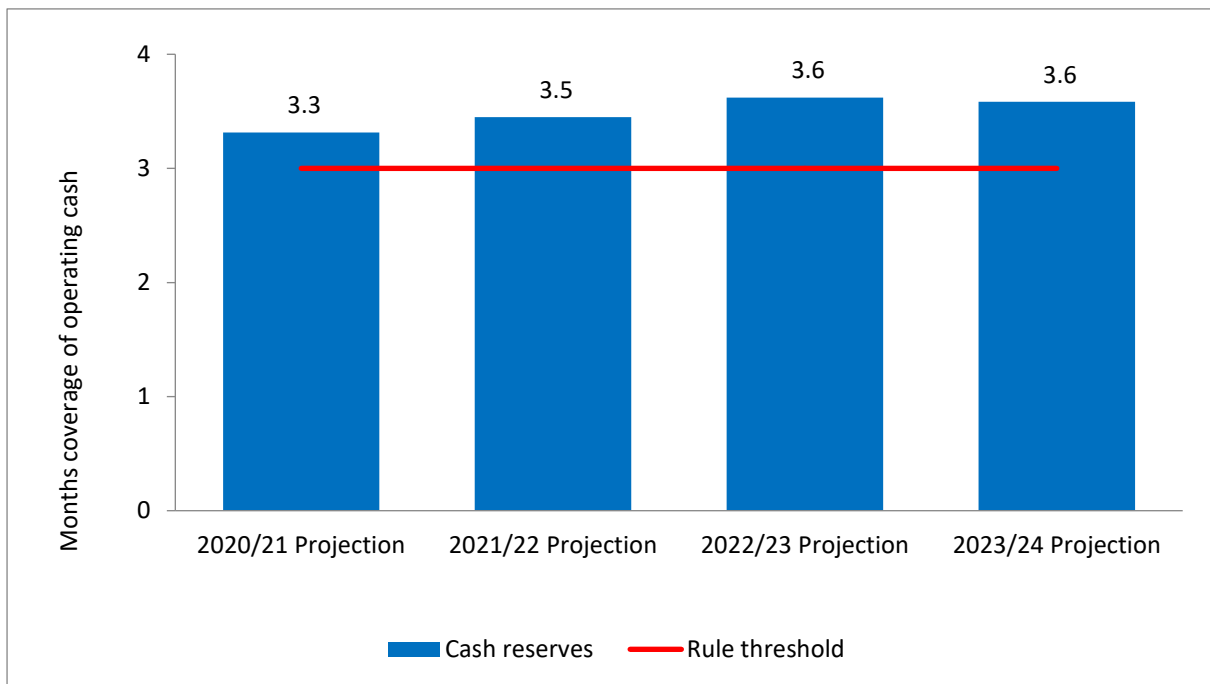


1.3.5 MTFS Cash Reserves Rule

The cash reserves rule has not been amended nor is it calibrated according to the fiscal anchor and remains at a requirement of 3 months of operating expenditure. This rule ensures quick and easy access to funds in the case of an economic shock or natural disaster, thus reinforcing the objective of fiscal sustainability.

The MTFS results in stronger cash management from Government, with cash expected to remain just above the requirement over the forward years. In the 2019/20 Budget, \$56.7 million was moved from the cash reserves into the Stabilisation Account, resulting in a large decrease in excess cash reserves. Figure 1-8 assumes additional operating cash of up to \$23.5 million will be transferred into the Stabilisation Account in 2020/21, taking the total value of cash in the Account to \$80.2 million by June 2021. This value will be finalised during the 2020/21 budget.

Figure 1-8: Cash reserves projections



Exit clause

The Government agrees to abide by the fiscal anchor and operational rules at all times, with two exceptions. The Government may breach these rules only in the event of a natural disaster (and subsequent calling of a state of emergency), or a severe economic shock (defined as real economic growth of negative 2 per cent or less).

Prudency

The Government's aim in the development of the Fiscal Rules is to ensure fiscal prudency. As such, in determining the rules, rounding has been applied to ensure that prudency is reinforced. For example, in the case of the expenditure ratio this has been rounded down from 43 to 40 per cent of GDP.

1.4 Establishment of Funds

1.4.1 Introduction

MFEM is in the process of establishing two funds to assist in achieving the objectives of the MTFs. The two funds have different aims and rules guiding the collection of contributions and their draw-downs, as outlined below.

1.4.2 Stabilisation Account

The aim of the Stabilisation Account is to ensure fiscal sustainability over the medium-term. The Account, established in July 2019, holds funds surplus to 4 months of operating requirement in periods of economic growth, which, in turn, will be used to fund government operations and investment in periods of economic contraction. At the end of September 2019 the balance in the account was \$56.7 million.

When the balance in the account exceeds \$25 million, the funds may be used to make additional repayments on current debt during periods of real economic growth greater than 4 per cent per year.

The decision to make additional repayments, as opposed to maintaining funds in the Stabilisation Account, will be guided by a Debt Management Strategy to be developed in 2019/20.

During periods of real economic contraction, defined as growth less than 1 per cent per year, funds can be drawn from the Stabilisation Account to fund government operations and investment, however the use of the funds must not breach of the fiscal rules as outlined in Section 1.3.

1.4.3 Sovereign Wealth Fund

A Sovereign Wealth Fund (SWF) will be established with the aim of ensuring that benefits from seabed minerals harvesting are kept for future generations.⁸

Revenues from seabed harvesting will be deposited into the SWF and funds only drawn down on once a minimum balance has been reached. Once this minimum has been achieved, a portion of the interest received will be paid to Government on an annual basis, as a form of income to fund future expenditure. A policy outlining the purpose and structure of the SWF will be developed in 2019/20 and publicly consulted on prior to the drafting of relevant legislation.

1.5 Medium-term National Priorities

To improve the alignment between fiscal planning and the achievement of national priorities, the MTFs incorporates the Medium-term National Priorities. This not only provides further information on the Government's intentions over the medium-term, but will help to guide the development of the Medium-term Expenditure Ceilings.

Government is committed to resolving the significant long-term challenges facing the country, including sustainable economic development, a healthy and educated population, a healthy environment, a fair society and good governance. It is committed to reducing inequality and improving the wellbeing of all Cook Islanders.

To assist this, Government agencies will work towards sector driven collaboration and planning, particularly to tackle cross cutting challenges such as connectivity, transport, data and statistical information, ICT, Information Systems, Governance (proper management of people, infrastructure, natural resources and absorptive capacity), health and education. Inclusion of the Pa Enua in tackling cross cutting challenges is crucial for sustainable development to be effective and ensuring that "no one in the tribe" is left behind.
























1.5.1 Medium Term Goal Priorities

The 2020-21 Budget is the second year of implementation of the Medium-term Goal Priorities (2019/20-2022/23) which is based on the NSDP 2016-2020. Year two sees a continued focus on the goal prioritization schedule as outlined in 2019/20, but with the addition of the goals for 2023/24 which were set based on the three annual indicator reports released to date.

The goal priorities for the forward budget years are as follows.








⁸ Exploration of the seabed for minerals harvesting is expected to commence after 2019. If successful, exploitation could commence within five years of the commencement of exploration, providing significant revenue opportunities for the Government.

Figure 1-90: Updated NSDP Goal Priorities showing 2023/24

2019/20	2020/21	2021/22	2022/23	2023/24
 Goal 9: Gender & the Vulnerable	 Goal 8: Education	 Goal 3: Waste Management	 Goal 1: Welfare & Equity	 Goal 9: Gender & the Vulnerable
 Goal 16: Good Governance, Law & Order		 Goal 6: Transport & Energy	 Goal 2: Economic Opportunities	 Goal 11: Environment & Biodiversity
 Goal 7: Health		 Goal 12: Ocean Lagoon and Marine Resources	 Goal 15: Population	
 Goal 13: Resilience and Climate Change				 Goal 7: Health
 Goal 11: Environment & Biodiversity	 Goal 10: Agriculture & Food Security	 Goal 14: Culture	 Goal 7: Health	 Goal 3: Waste Management
 Goal 5: Infrastructure & ICT				 Goal 10: Agriculture & Food Security
 Goal 4: Water & Sanitation			 Goal 8: Education	

1.5.2 2020/2021 Budget Priorities:

The key priorities for the 2020/21 Budget will be guided by the following NSDP Goals. The realization of these goals will also have positive impacts on all other NSDP goals.

	<p>Goal 4 - Water and Sanitation: Ensuring an appropriate quality and adequate supply of water for drinking purposes, and ensuring appropriate and effective sewage and sanitation systems to deal with waste water.</p>
	<p>Goal 5 - Infrastructure and ICT: Ensuring fit for purpose infrastructure in line with sustainable development and supporting the ICT sector infrastructure and workforce to deliver affordable and accessible connectivity and services.</p>
	<p>Goal 7 - Health: Improving health outcomes and healthy lifestyles. NCDs continue to be a challenge, while a greater focus is required on mental health. STIs are also increasing, requiring greater attention.</p>
	<p>Goal 8 - Education: Improving education outcomes is key to achieving sustainable development across all sectors. Literacy and numeracy rates need to be maintained and increased. Early childhood enrolment needs to be maintained to encourage long-term education outcomes. Support around vocational and tertiary qualifications need to be furthered to get the right skill set base.</p>
	<p>Goal 10 - Agriculture and food security: Working towards improved food security and nutrition, and more sustainable agriculture. In line with this is the support around biosecurity threats to crops.</p>
	<p>Goal 13 - Resilience and Climate Change: Ensuring that resilience is built in the form of infrastructure, people and communities and that effective support is provided to mitigate and adapt to the changing climate and its effects.</p>
	<p>Goal 16 - Good Governance, Law and Order: Supporting the new Ministry of Corrective Services to provide appropriate and effective services. Emphasizing the need for better data and information systems, including systems focusing on offender management and access to justice. Ensuring support for strengthened governance across the sector.</p>

1.6 Fiscal Risks

1.6.1 Introduction

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

- shocks to macroeconomic variables, such as economic growth, commodity prices, interest rates, or exchange rates; and
- calls on contingent liabilities, obligations triggered by an uncertain event, including explicit and implicit liabilities such as those created by public corporations and sub-national governments.⁹

The risk matters facing the Cook Islands are discussed below and while these have not been directly considered in the economic forecasts above, they have helped to guide the development of the MTFS.

1.6.2 Risk Categories

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

Global economic risks

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

The risk of the US dollar appreciating, should the Federal Reserve raise US interest rates over the medium-term, could impact on inflation in the Cook Islands through increased costs of imports. An oil price shock would have a similar effect on inflation.

Exchange rate variations can also impact on the Cook Islands debt portfolio as a number of loans are denominated in US dollars and other international currencies. The IMF notes that the impact of exchange rate depreciations is immediate, and can be especially strong when a large share of the debt is in foreign currency. The potential impact of exchange rate movements on the Cook Islands debt position is assessed in Chapter 5.

Domestic capacity risks

Preliminary analysis suggests that the Cook Islands economy is currently performing above its potential capacity – that is we are facing a positive output gap. There are already signs of capacity constraints appearing in the labour and housing markets. Should these constraints tighten over the forward period, due to higher than expected tourist arrivals, for example, and in turn an increase in tourism accommodation construction, this could impact on the economic forecasts by constraining the Government’s ability to execute its capital program as a result of the lack of skilled construction labour for example.

Contingent liabilities

The Government’s contingent liabilities as at December 2019 are summarised in Table 1-3. These are unchanged as at December 2019.

⁹ IMF 2009, Fiscal risks: sources, disclosure, and management. IMF Fiscal Affairs Department. See: <https://www.imf.org/external/pubs/ft/dp/2009/dp0901.pdf>.

Table 1-3: Quantifiable contingent liabilities, as at 1 December

Category	\$'000
Uncalled capital	1,755
Legal proceedings and disputes	40,000
Total	41,755

Uncalled capital

The Government holds \$1.8 million in the Asian Development Bank (ADB). This takes the form of 88 uncalled shares with a par value of USD 13,500 each, this will remain as a contingent liability until it is called by the ADB.

Legal proceedings and disputes

The total quantifiable risk to the Crown under legal proceedings and disputes is \$40.0 million.

Financial liabilities relating to Island Governments

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

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

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

State-owned enterprises

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

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

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

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

- placing all SOEs under the CIIC umbrella, with one of its principal objectives being the efficient, profitable and professional management of SOEs;
- ensuring that SOE debt falls under the broader Government debt ceiling target and new debts undergo a Debt Sustainability Analysis prior to approval, as required by the LRF Act; and
- providing for a portion of SOE debt repayments in the Loan Repayment Fund.

Natural disasters

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

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

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

1.6.3 Assessing the impact of fiscal and macroeconomic shocks

Introduction

The Cook Islands Government has developed an analytical fiscal tool – the Cook Islands Fiscal Tool 2018 – to first calibrate, and then operationalize the revised set of fiscal rules that form the core of the MTFs.

The operational part of the fiscal tool – the Fiscal & Macro Impact Model – models the interactions between fiscal policy decisions and economic output, and the fiscal impact of economic shocks, within the framework of the revised set of fiscal rules. This is accomplished by running fiscal and macroeconomic shocks through a simple version of the Cook Islands Government accounting framework using fiscal multipliers and tax impact models.

The model provides for three types of shock:

- Fiscal – change in operating expenditure, capital expenditure and/ or revenue;
- GDP – models the impact of a direct change in GDP;
- Arrivals – models the impact of a change in the number of international visitors to the Cook Islands.

This section shows the potential impact of a selected range of fiscal and macroeconomic shocks on the MTFs expenditure profile using the fiscal impact tool.

Fiscal shocks

Fiscal shocks – or alternatively government fiscal policy decisions – are evaluated in terms of their direct impact on fiscal indicators – these are the first order impacts – and their second order impacts via changes in GDP flowing through to tax revenues. The first order impacts are simply one for one changes in the baseline operating expenditure, capital expenditure or tax revenue as relevant. The second order impacts are estimated using fiscal multipliers and a simple tax impact model.

Revenue shock

Two revenue shocks are applied: low and high, using the forecast 95 per cent low and high confidence intervals.

The low revenue case, with revenues falling by about 12 to 27 per cent per year over the modelling period, is presented in Table 1-4. The fiscal balance breaches the -1.9 per cent of GDP rule in 2019/20 and does not return to within limit for the entire forecasting period.

Table 1-4: Low revenue shock

		2019/20	2020/21	2021/22	2022/23	2023/24
Change in opex (\$m)		0	0	0	0	0
Change in capex (\$m)		0	0	0	0	0
Change in tax revenue (\$m)		-20.2	-20.2	-31.0	-40.8	-45.7
Fiscal balance (% of GDP)	Base	-1.4	-0.2	0.3	0.8	1.1
	Shock	-5.0	-5.6	-6.6	-6.8	-7.2
Impact on nominal GDP (%)	%	0.1	0.1	0.3	0.4	0.5
	\$m	0.6	1.5	2.4	3.0	3.4

The high revenue case, with revenues higher by 15 to 27 per cent per year over the modelling period, is presented in Table 1-5. The key result is a significant strengthening of the fiscal balance.

Table 1-5: High revenue shock

		2019/20	2020/21	2021/22	2022/23	2023/24
Change in opex (\$m)		0	0	0	0	0
Change in capex(\$m)		0	0	0	0	0
Change in tax revenue (\$m)		20.5	29.4	30.2	34.8	39.0
Fiscal balance (% of GDP)	Base	-1.4	-0.2	0.3	0.8	1.1
	Shock	2.3	4.9	5.4	6.6	7.5

Operating shock

A higher than expected operating expenditure shock is applied, assuming a 10 per cent increase above the estimates over the forward period. The impact of the additional expenditure over the modelling period is presented in Table 1-6. The fiscal balance breaches the -1.9 per cent of GDP rule in each year until 2022/23, when it remains negative, but falls within the rule at a deficit of 1.4 per cent of GDP. There is a positive impact on GDP of about 3 per cent or \$16.7 million by 2023/24.

Table 1-6: Higher Opex Shock

		2019/20	2020/21	2021/22	2022/23	2023/24
Change in opex (\$m)		17	17	18	18	18
Change in capex (\$m)		0	0	0	0	0
Change in tax revenue (\$m)		0.8	2.1	3.3	4.4	4.4
Fiscal balance (% of GDP)	Base	-1.4	-0.2	0.3	0.8	1.1
	Shock	-4.0	-2.7	-2.1	-1.4	-1.1
Impact on nominal GDP (%)	%	1.0	2.1	2.6	2.5	2.7
	\$m	5.6	12.7	16.5	16.7	16.7

Capital Shock

A lower than expected capital expenditure shock is applied, assuming a 20 per cent reduction in the estimates over the forward period.

The impact of the reduced expenditure over the modelling period is presented in Table 1-7. The negative impact on GDP of about \$20.3 million per year by 2023/24 has a knock on effect on revenue of about \$4.8 million. The net effect on the fiscal balance is positive, with the capital expenditure reduction outweighing the fall in revenue.

Table 1-7: Lower Capex Shock

		2019/20	2020/21	2021/22	2022/23	2023/24
Change in opex (\$m)		0	0	0	0	0
Change in capex (\$m)		-8	-8	-7	-7	-8
Change in tax revenue (\$m)		-0.9	-2.3	-3.6	-4.8	-4.8
Fiscal balance (% of GDP)	Base	-1.4	-0.2	0.3	0.8	1.1
	Shock	-0.1	0.7	0.7	1.0	1.5
Impact on nominal GDP (%)	%	-1.1	-2.4	-2.9	-3.1	-3.3
	\$m	-6.6	-14.5	-18.5	-20.3	-20.3

GDP shock

A low GDP shock is applied, assuming a 5 per cent decrease on the forecast for each year of the forward period. The impact of drop in GDP is presented in Table 1-8. Tax revenue falls by about \$20.5 million per year by 2023/24 which causes the fiscal balance to deteriorate, breaching the -1.9 per cent of GDP rule in all forward years. The GDP impact in 2023/24 is minus 7.9 per cent, or a reduction of \$48.9 million.

Table 1-8: Lower GDP Shock

		2019/20	2020/21	2021/22	2022/23	2023/24
Change in opex (\$m)		0	0	0	0	0
Change in capex (\$m)		0	0	0	0	0
Change in tax revenue (\$m)		-6.7	-11.9	-16.8	-20.5	-20.5
Fiscal balance (% of GDP)	Base	-1.4	-0.2	0.3	0.8	1.1
	Shock	-2.7	-2.4	-2.8	-2.9	-2.4
Impact on nominal GDP (%)	%	-5.0	-6.9	-7.9	-7.9	-7.9
	\$m	-28.0	-40.0	-46.7	-47.8	-48.9

Arrivals shock

A low international visitor arrivals shock is applied, assuming a 5 per cent decrease on the forecast for each year of the forward period. The impact of the reduction in arrivals is presented in Table 1-9. Tax revenue falls by about \$19.7 million per year by 2023/24, which causes the fiscal balance to deteriorate, and breaches the -1.9 per cent of GDP rule in all years. The impact on GDP is substantial, with a 7.0 per cent reduction by 2023/24.

Table 1-9: Lower Arrivals Shock

		2019/20	2020/21	2021/22	2022/23	2023/24
Change in opex (\$m)		0	0	0	0	0
Change in capex (\$m)		0	0	0	0	0
Change in tax revenue (\$m)		-6.2	-11.1	-15.9	-19.7	-19.7
Fiscal balance (% of GDP)	Base	-1.4	-0.2	0.3	0.8	1.1
	Shock	-2.6	-2.2	-2.7	-2.7	-2.3
Impact on nominal GDP (%)	%	-4.4	-6.1	-7.0	-7.0	-7.0
	\$m	-24.7	-35.4	-41.4	-42.4	-43.5

Exchange rate shock

Chapter 5 sets out the Cook Islands Government current and future debt position. A key ongoing risk to the Crown's debt liability is movement in the value of the New Zealand Dollar (NZD) against the currencies in which the Crown's loans are denominated.

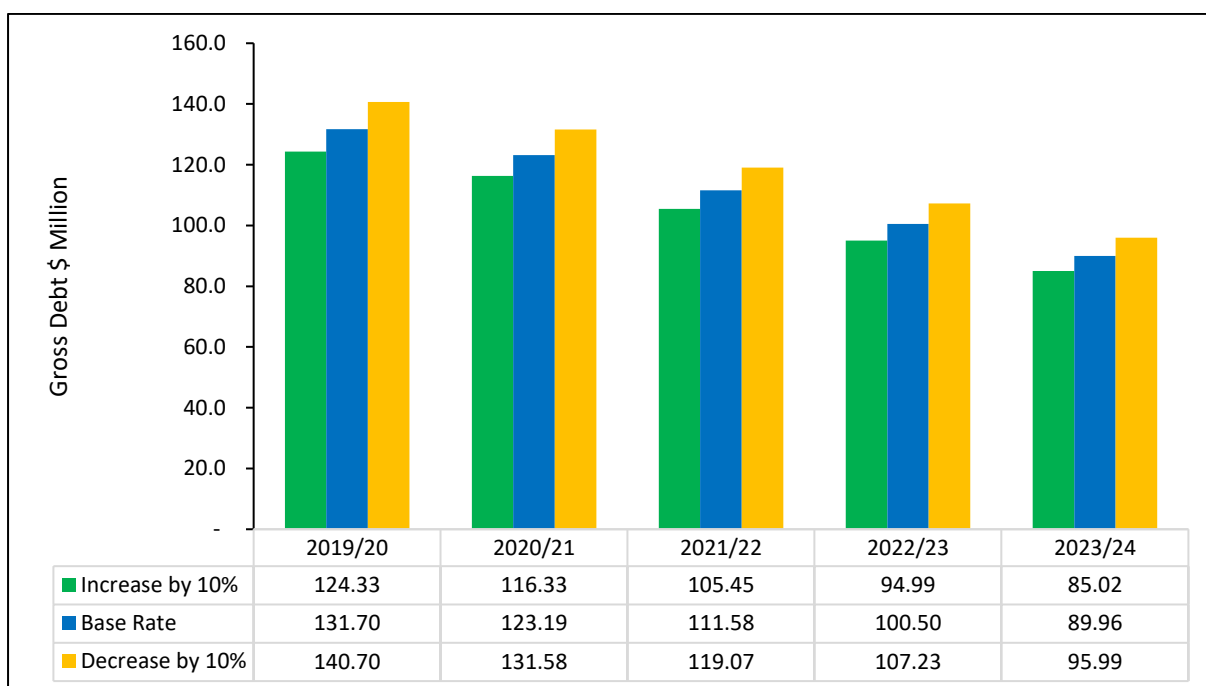
The following sensitivity analysis considers the impact of a 10 per cent appreciation and depreciation of the NZD against key currencies to determine the impact on the gross borrowings and the debt servicing cost.

Table 1-10: Exchange rates assumptions used in 2019/20 HYEFU, +/- 10 per cent

Foreign Exchange Currency	Assumption		
	-10%	rate	+10%
EUR	0.5273	0.5859	0.6445
USD	0.5697	0.6330	0.6963
RMB	4.0841	4.5378	4.9916
SDR	0.4272	0.4747	0.5222

If the relevant NZD exchange rates were to depreciate by 10 per cent against foreign currencies, Crown debt as at December 2019 would increase by an estimated \$9.0 million compared to a decrease of \$7.4 million if the NZD were to appreciate by 10 per cent. This illustrates that the Crown's gross debt level is more adversely sensitive to depreciation of the NZD.

Figure 1-10: Sensitivity of direct Crown gross debt to NZD movements



A 10 per cent decrease in the foreign currency value of the NZD would increase debt servicing costs to the LRF by \$0.5 million in the 2019/20 year.

2 Fiscal Update

2.1 Overview

The HYEPU is developed to allow necessary revisions to the fiscal forecasts that underpin the 2019/20 Budget. Since the passing of the Budget, revenue actuals for 2018/19, and the outer year forecasts have been revised upwards. Expenditure estimates (operating and capital) have increased slightly, factoring in Executive Orders and Carry Forwards approved for 2019/20.

2.2 Assumptions underlying the economic and fiscal projections

Various assumptions have been made in the 2019/20 HYEPU to forecast the Cook Islands economic outlook and the Government's fiscal performance and position in the outer years.

2.2.1 Economic assumptions

Introduction

The Cook Islands Statistics Office publishes current price and real price (2016 base year) estimates of GDP on a quarterly basis, using the production approach. GDP production estimates are disaggregated by major industry classifications, including institutional sectors. The latest data from the Statistics Office is for the March quarter 2019.

The Government has relied on an econometric time series model to forecast GDP for the 2019/20 HYEPU. MFEM has produced revised estimates of GDP production for 2018/19 and 2019/20, and forecasts for the 4-year forward budget period from 2020/21 to 2023/24.

The aggregate and component outputs of the GDP model are presented in Chapter 4.

GDP production model

A time series ARIMA modelling approach was used to forecast aggregate GDP production, in real terms. A combination forecasting method has been adopted, utilising a simple average of five quarterly time series models, one multivariate and four univariate. Nominal forecasts are then derived by applying an implicit GDP price deflator, derived using time series forecasts over the forward period. For more detailed information on the time series model, see *Cook Islands time series economic forecasting model: Working Paper No. 18/1*, available on the MFEM website.¹⁰

The GDP forecasts assume historical trends in government expenditure, rather than the current policy commitments.

Data

The key data sets used for the model are:

- Real and nominal GDP – quarterly data to March 2019;
- Trade, imports and exports – quarterly data to August 2019;
- CPI – quarterly index data to September 2019;
- International arrivals – Customs and Immigration monthly data to October 2019;
- Building approvals – quarterly data to September 2019;

¹⁰ Available at: <http://www.mfem.gov.ck/economics>.

Key economic indicator assumptions

Nominal GDP is expected to grow by (see Section 4.3 for more detail):

- 6.9 per cent in 2018/19.
- 4.1 per cent in 2019/20.
- 2.8 per cent in 2020/21.
- 2.5 per cent in 2021/22.
- 2.3 per cent in 2022/23.

Growth in prices, measured through movements in the CPI, and forecast using an econometric time series approach, is expected as follows (see Section 4.4 for more detail):

- -0.3 per cent in 2018/19.
- 1.2 per cent in 2019/20.
- 1.6 per cent in 2020/21.
- 1.8 per cent in 2021/22.
- 1.8 per cent in 2022/23.

2.3 Fiscal assumptions

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

- operating revenues are forecast on the basis of historical actuals, and one off considerations, but assume no change to the tax revenue structure;
- operating expenditure movements reflect current Government policy commitments; and
- the level of Government borrowing is based on exchange rates derived using Consensus Economics forecasts.

2.4 Fiscal Indicators and Projections

Table 2-1: Fiscal Indicators Summary

	2017/18 Actual	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEFU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Statement of Financial Performance							
Taxation Revenue (\$m)	140.6	159.1	151.6	157.0	160.2	163.4	166.6
Social Contributions (\$m)	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other Revenue (\$m)	40.1	53.2	37.1	43.0	37.2	37.3	37.3
Total Operating Revenue (\$m)	180.7	212.4	188.8	200.1	197.5	200.8	204.0
Total Operating Revenue Percentage of GDP	35.8	39.4	32.5	35.7	34.3	34.0	33.8
Tax Revenue Percentage of GDP	27.9	29.5	26.1	28.0	27.8	27.7	27.6
Total Cyclical Revenue (\$m)	15.3	24.3	16.9	21.8	16.7	16.7	16.7
Total Cyclical Revenue Percentage of GDP	3.0	4.5	2.9	3.9	2.9	2.8	2.8
Total Structural Revenue (\$m)	165.3	188.1	171.9	178.3	180.8	184.1	187.3
Total Structural Revenue Percentage of GDP	32.8	34.9	29.6	31.8	31.4	31.2	31.0
Personnel (\$m)	55.7	59.0	69.6	69.8	74.5	77.9	78.3
Percentage of Total Revenue	30.8	27.8	36.8	34.9	37.7	38.8	38.4
Percentage of Structural Revenue	33.7	31.4	40.5	39.2	41.2	42.3	41.8
Total Operating Expenditure (\$m)	152.0	157.5	170.2	173.3	173.9	178.1	176.1
Percentage of GDP	30.1	29.2	29.3	30.9	30.2	30.1	29.1
Percentage of Operating Revenue	84.1	74.2	90.2	86.6	88.1	88.7	86.3
Cash Operating Expenditure*	137.9	148.8	155.8	158.9	160.2	164.3	162.2
Operating Balance (\$m)	28.7	54.9	18.6	26.8	23.6	22.6	27.9
Percentage of GDP	5.7	10.2	3.2	4.8	4.1	3.8	4.6
Capital Expenditure	21.6	36.1	40.7	47.3	35.5	26.1	25.5
Depreciation	13.3	8.4	13.7	13.7	13.7	13.7	13.7
Non-Operating Balance (\$m)	-20.5	-43.4	-87.5	-111.5	-70.6	-62.5	-69.5
Fiscal Balance surplus/deficit (\$m) *	20.4	27.1	-8.4	-6.8	1.8	10.3	16.2
Percentage of GDP	4.05	5.0	-1.4	-1.2	0.3	1.7	2.7
Statement of Financial Position (\$m)							
Assets (\$m)	448.3	495.6	535.1	570.6	611.5	634.5	652.9
Liabilities (\$m)	152.6	152.0	166.9	167.2	154.7	141.1	128.6
Crown Balance (\$m)	295.7	343.6	368.2	403.4	456.8	493.4	524.3
Percentage of GDP	58.6	63.8	63.3	71.9	79.2	83.5	86.8
Working Capital (\$m)	142.2	162.9	58.5	92.0	85.4	86.5	93.5
Working Capital (months coverage)	12.4	13.1	4.5	7.0	6.4	6.3	6.9
Stabilisation Account	0.0	0.0	56.7	56.7	56.7	56.7	56.7
Statement of Borrowings (\$m)							
Gross Debt end of FY (\$m)	111.3	112.6	129.5	131.7	123.2	111.6	100.5
Excluding Contingency Loan	111.3	112.6	115.5	118.2	109.7	98.1	88.3
Percentage of GDP	22.1	20.9	22.3	23.5	21.4	18.9	16.6
Net Crown Debt, end of FY (\$m)	84.7	91.7	108.0	110.3	102.2	91.7	81.8
Percentage of GDP	16.8	17.0	18.6	19.7	17.7	15.5	13.5
Loan Repayment Reserves Held (\$m)	26.6	20.9	21.4	21.4	21.0	19.9	18.7
Net Debt Servicing (\$m)	10.3	7.3	7.1	7.1	8.0	9.3	9.7
Percentage of Total Revenue	5.7	3.4	3.8	3.5	4.1	4.6	4.8
Percentage of Structural Revenue	6.2	3.9	4.1	4.0	4.4	5.1	5.2
Development Partner Support (\$m)							
Grants (\$m)	39.4	19.6	57.5	57.5	28.9	14.6	3.8
Percentage of GDP	7.8	3.6	9.9	10.2	5.0	2.5	0.6
Memo item: Nominal GDP (\$m)	504.3	538.8	581.4	561.1	576.4	590.8	604.3

2.5 Movements from the 2019/20 Budget

The 2019/20 Budget classifies expenditure and revenue adjustments according to the following categories:

- Policy decisions leading to new initiatives undertaken by Government;
- Technical adjustments;
- Reclassification of expenses; and
- Parameter changes – movements that occur due to economic changes that are outside of a decision by the Government, including depreciation, movements in welfare beneficiary numbers and the impact of changes in fuel costs on the underwrite.

Table 2-2 shows the movements between the 2019/20 Budget and the 2019/20 HYEFU. These are explained in greater detail below.

Table 2-2: Reconciliation of Operating Statement (\$'000)

Statement of Government Operations	2019/20	2020/21	2021/22	2022/23
Operating balance as at 2019/20 Budget	18,487	18,459	14,181	19,377
Revenue				
<i>Revenue Parameter Changes</i>	5,414	3,846	3,912	3,980
<i>Adjustments to:</i>				
Value Added Tax (VAT)	-1,058	-2,470	-2,484	-2,496
Income tax	3,863	3,676	3,725	3,773
Import levies	-293	-298	-302	-307
Company tax	3,135	3,294	3,453	3,612
Departure tax	322	343	364	386
Withholding tax	-555	-699	-844	-988
<i>Other Revenue Changes</i>	5,836	1,292	4,575	4,595
Other revenue	5,436	1,596	4,855	4,805
Trading Revenue	0	0	0	0
Dividend	400	-304	-280	-210
Core Sector support	0	0	0	0
Total Revenue Changes to 2019/20 HYEFU	11,250	5,138	8,487	8,574
Expenditure				
<i>Expenditure Decisions by Government</i>	2,915	0	0	0
<i>Technical adjustments</i>	0	0	0	0
<i>Reclassifications of expenditure</i>	0	0	0	0
<i>Parameter changes</i>	0	27	19	13
Total Expenditure Changes to 2019/20 HYEFU	2,915	27	19	13
OPERATING BALANCE as at 2019/20 HYEFU	26,822	23,570	22,649	27,938
Capital Expenditure	47,326	35,540	26,070	25,520
Depreciation	13,742	13,742	13,742	13,742
FISCAL BALANCE - as at 2019/20 HYEFU	-6,762	1,772	10,321	16,160

The Government has increased its operating expenditures in 2019/20, with minor adjustments in the forward years. This is largely due to expenditure decisions by Government, with a minor impact from exchange rate changes on the level of debt repayments. Tax and fisheries revenue estimates have also increased, more than offsetting the increase in operating expenditure across the years.

As a result of these changes, the operating surplus in 2019/20 has been revised upwards from \$18.5 million to \$26.8 million, while the fiscal balance has also been revised upwards from a deficit of \$8.4 million, to a deficit of \$6.8 million.

2.5.1 Revenue

Since the release of the 2019/20 Budget, estimates of total revenue have been revised upwards for the 2019/20 financial year and the forward years.

As at the end of the September quarter 2019, total operating revenue was tracking 0.5 per cent below anticipated values. Taxation revenue was \$40.2 million, 4.3 per cent or \$1.7 million above that expected, offsetting slight shortfalls in other revenue lines.

Key contributors to the increased tax revenue:

- Departure tax - with tourist arrivals coming in above the originally forecast year-to-date prediction, departure tax collections were higher than expected at \$4.1 million compared to budget estimates of \$3.0 million for the first quarter.
- Withholding taxes were higher than anticipated at \$0.9 million compared to budget estimates of \$0.6 million for the first quarter. The 15 per cent withholding tax applies to dividends generated by local companies and land payments received which are subsequently repatriated overseas.

Movements in other revenues:

- Fisheries – US Treaties revenue is \$735,000 above that anticipated for the first quarter, at \$2 million.
- Fishing Licence revenue receipts to date are \$0.9 million, lower than the \$2.5 million estimated for the quarter.
- Other revenues overall are \$1.4 million below expected for the first quarter, however this can largely be attributed to variations in timing of actuals data versus forecasts.

2.5.2 Expenditure Orders since the 2019/20 Budget

Additional expenditure for 2019/20 of \$1.3 million was approved for a number of government priorities, outlined below:

- **\$60,000** for the appointment of the Marae Moana Ambassador.
- **\$318,000** for the removal of the AM Radio transmission mast which was identified as failing and creating a safety hazard.
- **\$130,000** to supplement the Atiu power upgrade.
- **\$550,000** in top-ups to the Operating Contingency Fund. The fund has been depleted to cover legal requirements (\$172,000) and MP travel requirements (\$108,000) and other unforeseen costs.
- **\$165,148** to cover additional costs for the E-Waste collection completed during 2019. Costs for this programme exceeded the budgeted amount due to extension of the collection period and very high volumes of waste delivered.
- **\$22,000** to support CISNOC and Netball Cook Islands meeting international sporting commitments.
- **\$19,381** to support Cook Islands Rugby Union meeting international sporting commitments.
- **\$65,000** to support Cook Islands Rugby League meeting international sporting commitments.

2.5.3 Carry Forwards since 2019/20 Budget

Capital expenditure by the CIG is now estimated to be \$47.3 million in 2019/20. The Government has committed to a significant infrastructure program in recent years both on Rarotonga and the Pa Enea. These programs include water, renewable energy, roads, harbour rehabilitation, cyclone centers, and telecommunications which all affect the livelihoods of Cook Islanders.

Approved capital expenditures carried forward from 2018/19 into the 2019/20 Budget totaling \$6.4 million are as follows:

- **\$87,767** for the Vaikapuangi Government Building project for work completed in 2019/20 (CIIC).
- **\$245,000** to complete works on the China Building Repairs project planned for 2018/19 (CIIC).
- **\$314,415** to complete the Hospital Construction project on Pukapuka (CIIC).
- **\$27,000** to complete the Titikaveka Backroad Rehabilitation project (CIIC).
- **\$650,000** for TMV Stage 1: Road & Pipeline easement costs (CIIC).
- **\$131,614** for To Tatou Vai Ltd Capital for completion of works (CIIC).
- **\$197,546** for the Mei Te Vai Ki Te Vai project (MFEM).
- **\$1,298,693** for the Te Mato Vai Water Upgrade project (MFEM).
- **\$84,653** for completion of the purchase of an AEOI IT System (MFEM).
- **\$388,875** for the Capital Distribution Fund (MFEM).
- **\$60,841** for the completion of an Ambulance purchase (Health).
- **\$1,184,950** for Aitutaki Renewable Energy for final payments for the contract (OPM).
- **\$1,496,210** for Pa Enea Renewable Energy contracts that have been extended (OPM).

In addition, various carry-forward requests totalling \$2.0 million were received for operating, administered and personnel funding from 2018/19 into 2019/20. Approved carry-forwards were:

- **\$109,720** for the Social Impact fund to complete payments due but pending contracts (IntAff).
- **\$23,400** for Lease Rental payments for payments due but pending legal agreement (IntAff).
- **\$60,662** for Te Kukupa Biannual Slipping pending negotiation of a revised contract (Police).
- **\$99,448** for Conduct of the Labour Force and Survey with work extending into 2019/20 (MFEM).
- **\$314,740** for costs related to Production of New Currency (MFEM).
- **\$132,695** Special Investigative and Prosecution Services (MFEM).
- **\$157,179** for Public Sector Strengthening (MFEM).
- **\$30,000** for the Infrastructure Committee for work deferred to 2019/20 (CIIC).
- **\$595,323** for the Provision for Land Rentals (CIIC).
- **\$250,000** for Land Rent Reviews, pending legal outcomes (CIIC).
- **\$171,546** for the Special Projects Unit to complete projects from 2018/19 (CIIC).
- **\$88,550** for Avaroa Cable to cover deferred costs. (CIIC).

2.6 Fiscal Rules

The Fiscal Rules outlined in Chapter 1 have been developed as benchmarks for the Government in its aim of achieving fiscally sustainable budgets. The following outlines the Government’s current progress against the Rules.

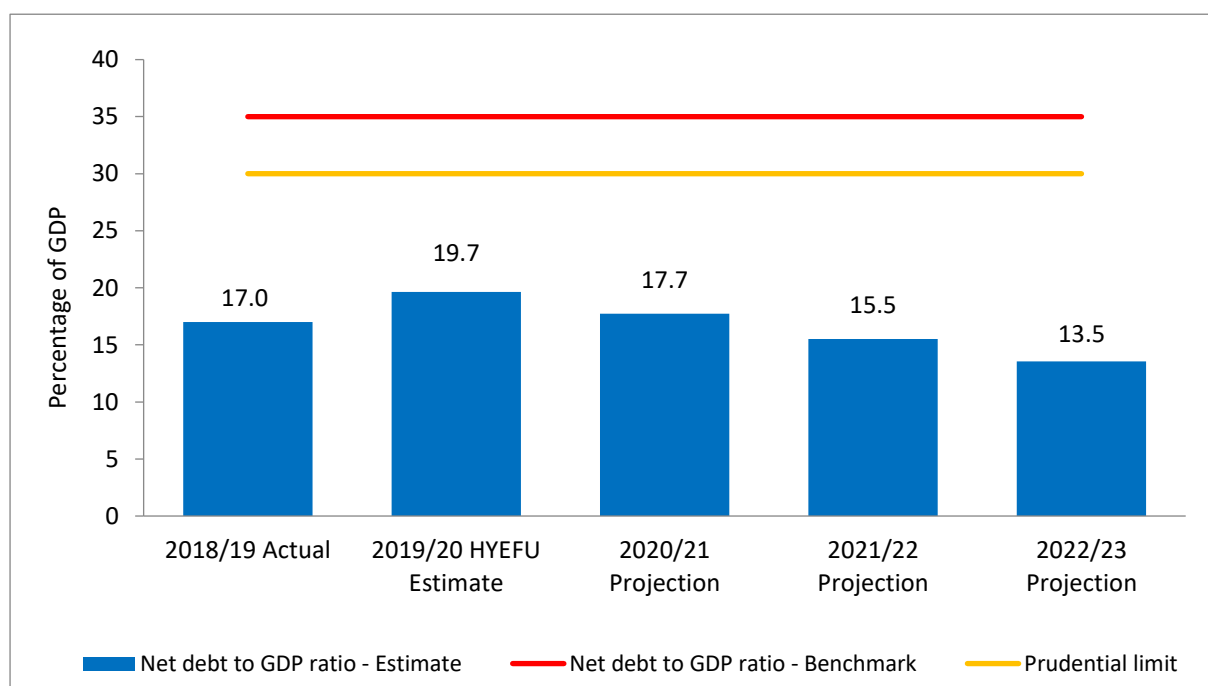
2.6.1 Net Debt Rule

“Net debt should not exceed a soft cap of 30 per cent of GDP, and cannot exceed a hard cap of 35 per cent of GDP”.

The limit agreed to by Government is to maintain net debt within 35 per cent of GDP. This would represent total borrowings of around \$196.4 million in 2019/20. The Government remains well within the net debt benchmark.

Figure 2-1 shows the 30 per cent debt soft cap that the Government is committed to staying below (equivalent to approximately \$168.3 million). As at December 2019, it is expected that Government will have a net debt ratio of approximately 19.7 per cent, well within the debt benchmarks set.

Figure 2-1: Net debt to GDP ratio, 2018/19 to 2022/23



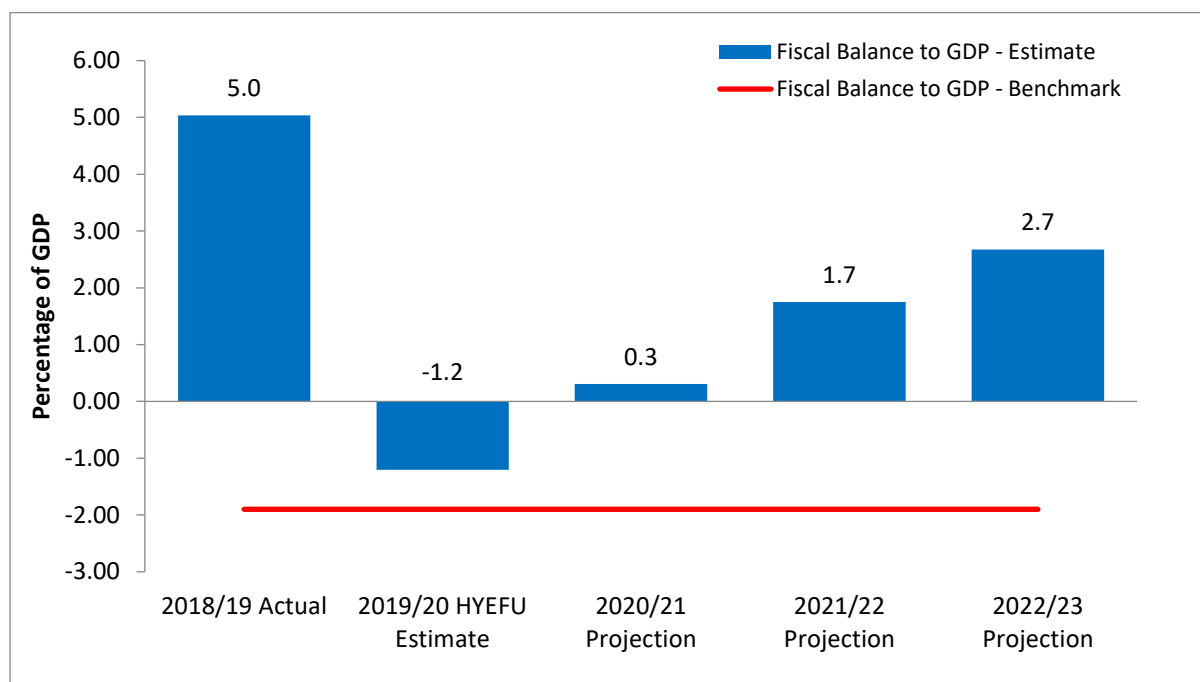
These ratios should not be looked at in isolation. Any proposal to take on additional borrowing should be looked at in the context of the whole of the Government Budget, the Crown’s ability to pay annual debt servicing and international best practice. The latter aspect includes prudential requirements set by the Crown’s lenders. Proposals to take on new loans must be assessed under transparent processes as required by the MFEM Act 1995/96 and the LRF Act 2014.

2.6.2 Fiscal balance to GDP

“The fiscal balance cannot exceed a deficit of 1.9 per cent of GDP in any one year.”

Despite the increase in capital funding, the Government’s fiscal balances for 2019/20 fall within the agreed ratio, due to increased revenue estimates. The outer years of the forward period continuing to indicate positive, that is, increasing fiscal space with surpluses forecast from 2020/21 based on the current expenditure profile.

Figure 2-2: Fiscal balance to GDP, 2018/19 to 2022/23



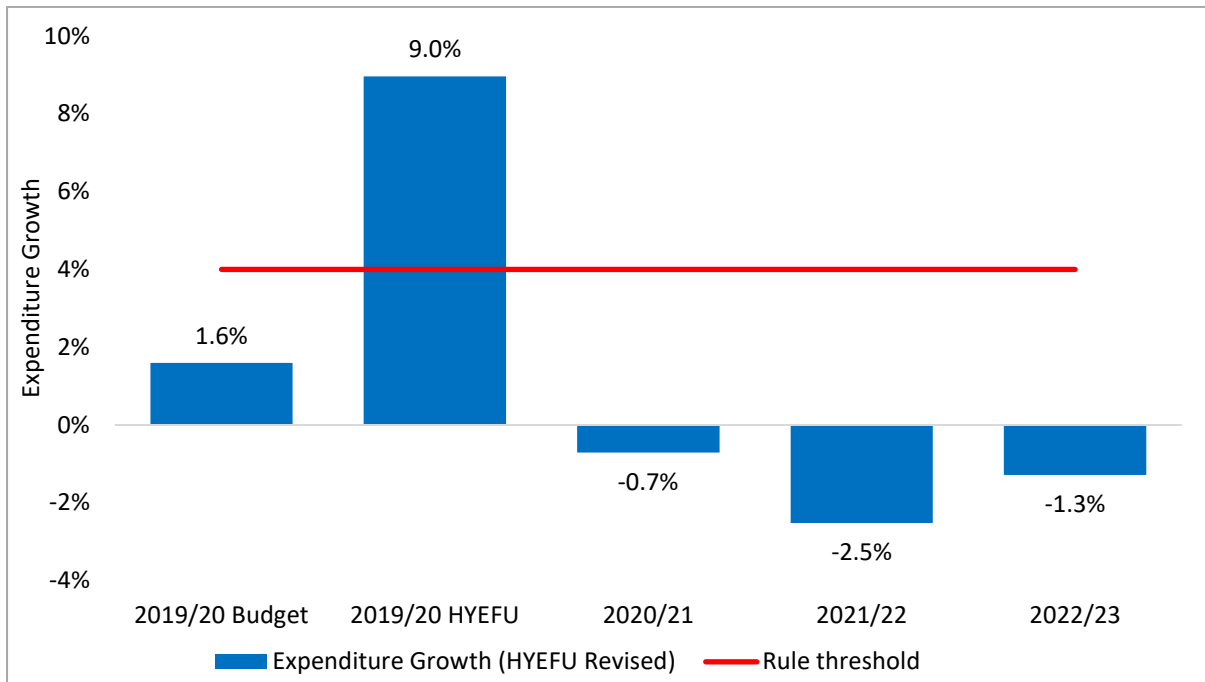
2.6.3 Expenditure rule

“Growth of total Cook Islands Government expenditure cannot exceed 4 per cent year-on-year.”

The Expenditure rule is designed to constrain Government spending changes to ensure that expenditures do not grow at a rate exceeding the long-run growth in GDP. The rule is measured from Appropriation to Appropriation.

The 2019/20 Budget fell within the Expenditure Rule, with expenditure estimated to be 1.6 per cent higher than the 2018/19 Budget Appropriation. Figure 2-3 illustrates the increase in expenditure between 2018/19 and 2019/20 once the actual expenditure in 2018/19 is considered and once 2019/20 is adjusted for Executive Orders and Carry-Forward lines. This significant growth of 9 per cent is not contrary to the rules, but rather reflects the underspends in 2018/19.

Figure 2-3: Expenditure Rule 2019/20 to 2022/23



2.6.4 Cash Reserves Rule

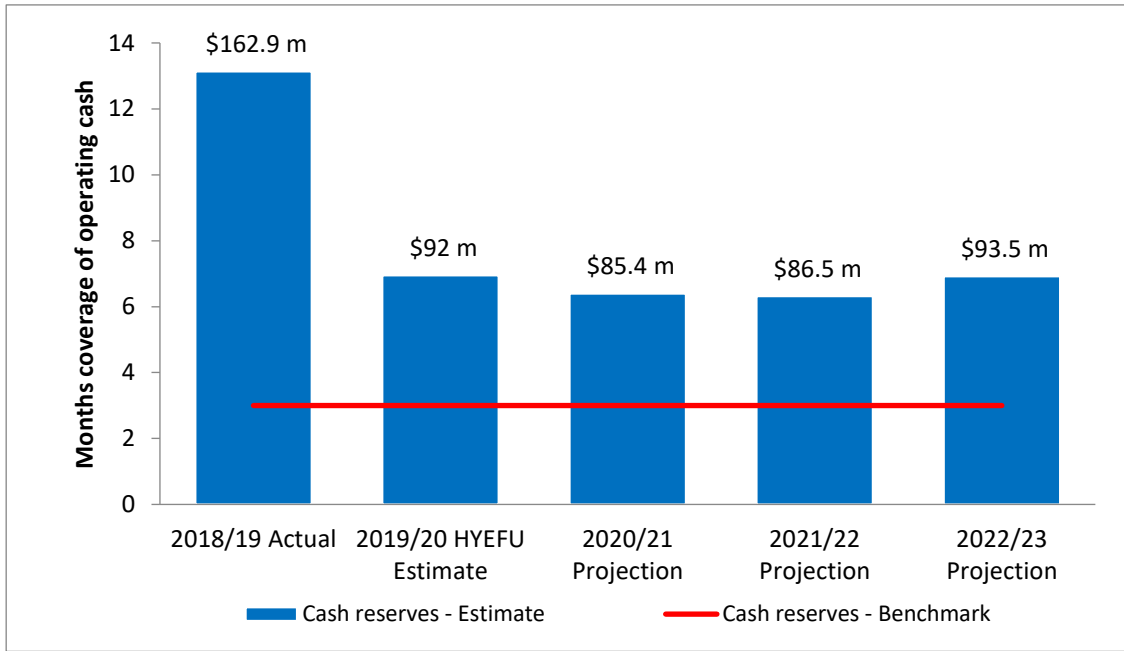
“The equivalent of 3 months of operating expenditure must be held in cash at any one time.”

For prudential reasons, the Government requires a level of cash reserves to be on hand at all times, to act as a buffer in case of a liquidity shortage. For example, if a large cyclone were to impact Rarotonga, and cause a halt to tax collections, the Government would require a level of cash to be held in reserve to cover operations.

A prudent level of cash reserves is considered to be three months of operating expenditure, which is shown in Figure 2-44. This figure shows that the Government is currently in a strong position to support any liquidity shortage when required.

Excess operating cash was transferred to the Stabilisation Account in the 2019/20 Budget. Operating cash forecasts will be reviewed annually with excess funds transferred to the Stabilisation Account.

Figure 2-4: Cash reserves to operating expenditure, 2018/19 to 2022/23



3 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 3-1: GFS Statement

Statement of Government Operations	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEFU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
REVENUE	231,999	246,320	257,570	226,377	215,372	207,829
Taxes	159,060	151,626	157,040	160,230	163,420	166,611
Social contributions	75	75	75	75	75	75
Grants	19,615	57,489	57,489	28,879	14,599	3,836
<i>Current</i>	5,851	10,396	9,629	6,120	2,599	1,836
<i>Capital</i>	13,764	47,093	47,860	22,758	12,000	2,000
Other revenue	53,249	37,129	42,966	37,193	37,277	37,307
EXPENSE	163,343	180,645	182,888	180,049	180,722	177,891
Compensation of employees	58,962	69,336	69,598	74,226	77,907	78,265
Use of goods and services	52,314	53,653	54,880	47,979	45,829	43,109
Depreciation	8,383	13,742	13,742	13,742	13,742	13,742
Interest	2,082	2,133	2,228	2,102	1,895	1,695
Subsidies	15,762	15,181	15,181	15,181	15,181	15,181
Grants	0	0	0	0	0	0
Social benefits	20,267	21,681	21,681	21,888	21,974	22,060
Other expense	5,572	4,919	5,579	4,931	4,194	3,839
NET OPERATING BALANCE	68,656	65,675	74,682	46,328	34,649	29,939
<i>Plus</i> NON CASH APPROPRIATIONS						
Depreciation	8,383	13,742	13,742	13,742	13,742	13,742
CASH SURPLUS/(DEFICIT) FROM OPERATING TRANSACTIONS	77,039	79,416	88,423	60,070	48,391	43,680
CASH TRANSACTIONS IN NONFINANCIAL ASSETS						
Net Cash Applied to the Acquisition of Fixed Assets	49,866	87,804	95,186	58,298	38,070	27,520
Gross transactions in Non-Financial Assets	58,249	101,545	108,928	72,040	51,812	41,262
Less Non Cash Transactions in Non-Financial Assets (Depreciation)	-8,383	-13,742	-13,742	-13,742	-13,742	-13,742
NET (BORROWING)/LENDING	27,173	-8,387	-6,763	1,772	10,321	16,160
CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS	20,633	2,023	3,147	-1,900	1,104	7,026
Domestic Transactions	20,633	2,023	3,147	-1,900	1,104	7,026
Foreign Transactions	0	0	0	0	0	0
CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES	6,463	-9,968	-9,907	3,623	9,167	9,083
Domestic Transactions	0	0	0	0	0	0
Foreign Transactions	6,463	-9,968	-9,907	3,623	9,167	9,083
NET CASH FINANCING TRANSACTIONS	27,096	-7,945	-6,760	1,723	10,271	16,109
<i>Statistical discrepancy</i>	-77	443	3	-49	-50	-51

3.1 GFS Net Operating Balance

The GFS net operating balance is equal to operating revenues less operating expenditure by the Government and its development partners. The GFS net operating balance for 2019/20 is \$74.7 million.

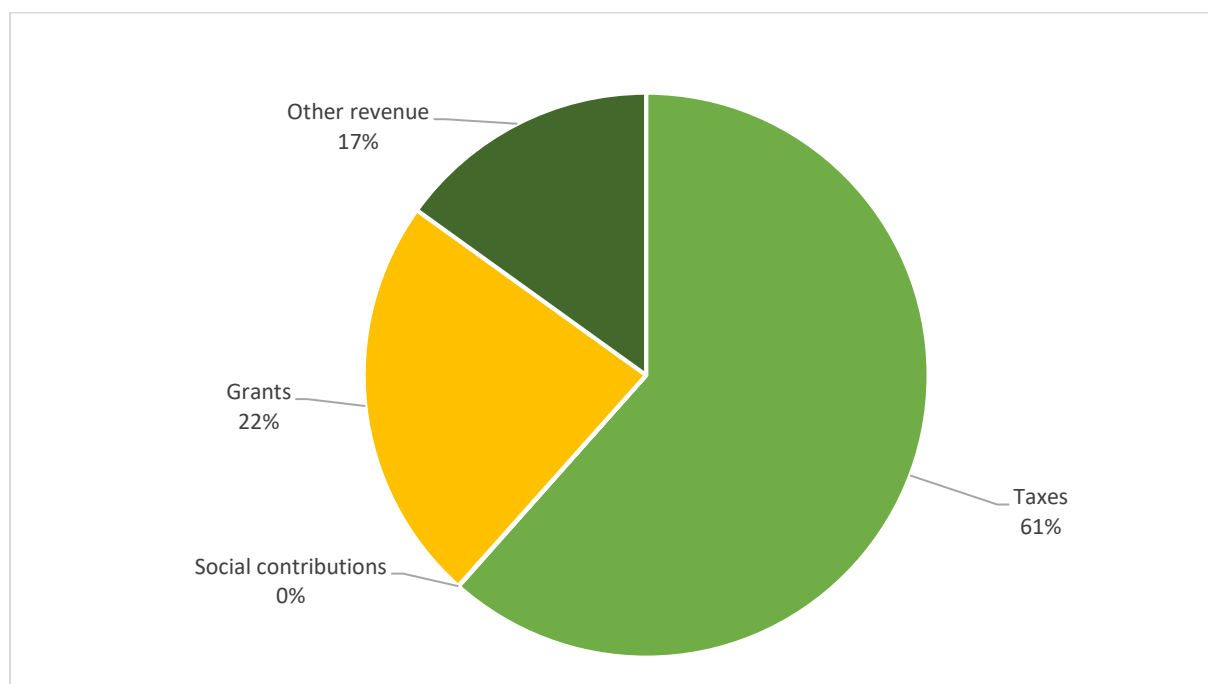
Going forward, changes in expenditure and revenue estimates are predicted to result in a \$46.3 million operating balance in 2020/21, \$34.6 million in 2021/22, and \$29.9 million in 2022/23. The decrease in the total net operating balances in the forward years are due to an anticipated reduction in grants and subsequently Cook Islands Government revenues.

Across all years, the large net operating balances are due to grant funding and Government revenues being channeled towards Crown and ODA funded capital projects. Even without the impact of grant revenues, the Crown runs sizeable operating surpluses in all years, with these operating surpluses being used to fund the overall fiscal balance (which includes capital).

3.1.1 GFS operating revenue

As shown in Figure 3-1, operating revenues are made up of taxation receipts (61 per cent in 2019/20), grants from other governments (22 per cent) and other revenues, which include agency trading revenues, interest and dividend receipts (17 per cent). These revenue streams are used to finance the on-going operational expenditure of Government, with surpluses used for investing activities such as infrastructure development projects or accumulated in reserves.

Figure 3-1: GFS operating revenue by source in 2019/20



GFS operating revenues in 2019/20 are estimated to total \$257.6 million, of which \$157 million is expected to be collected in taxes alone.

In 2020/21, operating revenue is expected to decrease to \$226.4 million, with tax revenue estimated to be \$160 million. The estimated decrease in operating revenues from 2019/20 is due to a decrease in foreign grants and other revenues.

3.1.2 GFS Operating Expenditure

Total gross operating expenditure is estimated at \$182.9 million in 2019/20. This decreases slightly over the forward years to \$177.9 million in 2022/23. After excluding the expenditure of ODA funds, Crown operating expenditure is anticipated to be \$173.3 million in 2019/20, an increase of \$15.8 million compared to 2018/19 actuals.

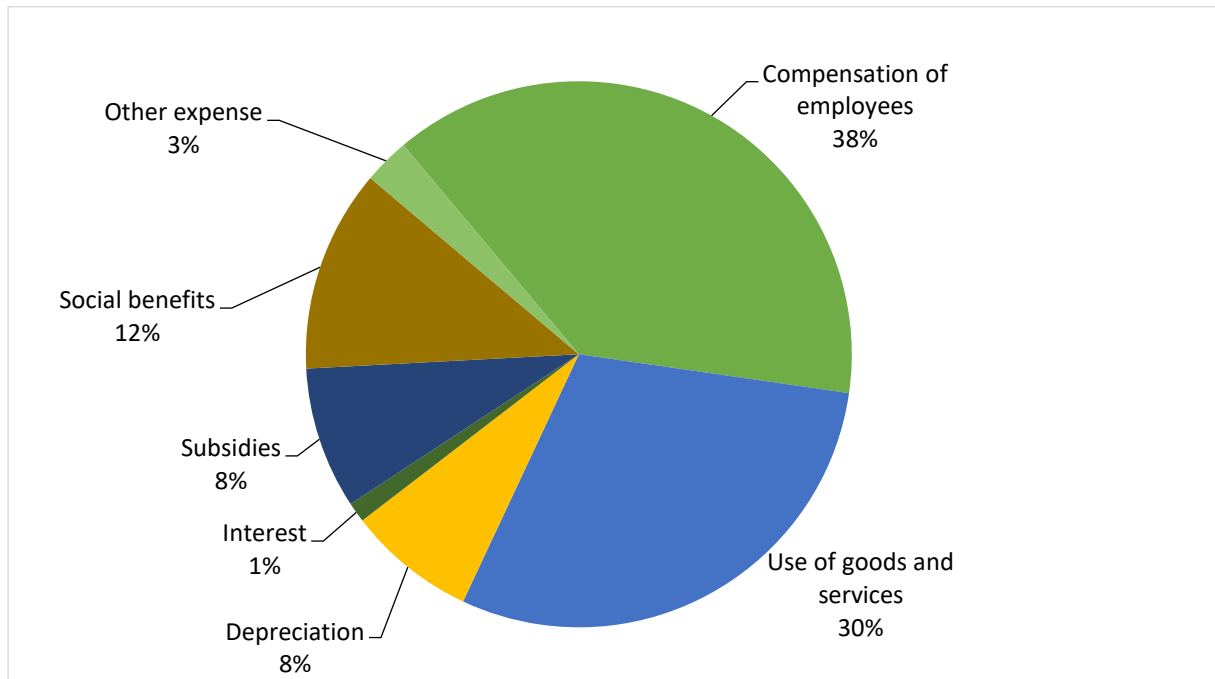
Expenditure on 'compensation of employees' is estimated to increase from \$69.6 million in 2019/20 to \$78.3 million in 2022/23. This is offset by decreases in 'use of goods and services' over the same period.

Table 3-2: Total GFS expenditure from 2018/19 to 2022/23 (\$'000)

	2018/19 Actual	2019/20 Budget	2019/20 HYEFU	2020/21 Projection	2021/22 Projection	2022/23 Projection
Compensation of employees	58,962	69,336	69,598	74,226	77,907	78,265
Use of goods and services	52,314	53,653	54,880	47,979	45,829	43,109
Depreciation	8,383	13,742	13,742	13,742	13,742	13,742
Interest	2,082	2,133	2,228	2,102	1,895	1,695
Subsidies	15,762	15,181	15,181	15,181	15,181	15,181
Grants	0	0	0	0	0	0
Social benefits	20,267	21,681	21,681	21,888	21,974	22,060
Other expense	5,572	4,919	5,579	4,931	4,194	3,839
Gross Expenditure	163,343	180,645	182,888	180,049	180,722	177,891
Less Current ODA	5,851	10,396	9,629	6,120	2,599	1,836
Underlying Expenditure	157,493	170,249	173,259	173,929	178,123	176,055

As shown in Figure 3-2, operating expenditure is made up of compensation of employees (38 per cent in 2019/20), use of goods and services (30 per cent), social benefits (12 per cent), subsidies (8 per cent), depreciation (8 per cent), other expenses (1 per cent), and interest expenses (1 per cent).

Figure 3-2: GFS operating expenditure by type, 2019/20



Debt Servicing Payments

Debt interest contributions to the Loan Repayment Fund (LRF) are estimated to be \$2.2 million in 2019/20, an increase of \$0.1 million from 2018/19 due to changes in exchange rates. As the current stock of debt is expected to decline over the forward years, the level of interest expense also declines.

Readers should refer to Chapter 5 for more information; which also includes the estimated movements in the LRF over the next four years.

3.2 GFS Non-Operating Items

Cash transactions in non-financial assets outlines the transactions relating to capital, including public works, purchase of plant and equipment and investments in ICT, by both the Crown and foreign donors.

Total purchases of non-financial assets (excluding depreciation) is estimated to rise to \$95.2 million in 2019/20 following lower than anticipated actuals in 2018/19. This reduces in the forward years as current large projects wind up and new projects commence.

3.2.1 Net Borrowing / Lending and Cash Financing Transactions

The Net Borrowing/Lending Requirement outlines the amount of financing required to fund both operating and capital balances, with these funds being sourced from either assets (predominantly accumulated cash reserves) or liabilities (predominantly loan finance).

The net borrowing requirement is \$6.8 million in 2019/20, serviced by a combination of cash and debt financing. The net borrowing requirement decreases over the forward periods, resulting in a net lending position as a result of a decrease in capital projects, at the same time as revenues are increasing.

There are some smaller movements not captured in the GFS schedules, with most of these relating to the classification of reserves in the financial schedules. Most of the statistical discrepancy shown in the GFS Operating Statement relates to timing issues between when projects are executed and when their funding is received into the Crown account. The sum of the statistical discrepancy across the years shown is not considered to be significant.

3.3 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 3-3 classifies the Budget to the sub-functional level for both Cook Islands Government spending and ODA – operating and capital.

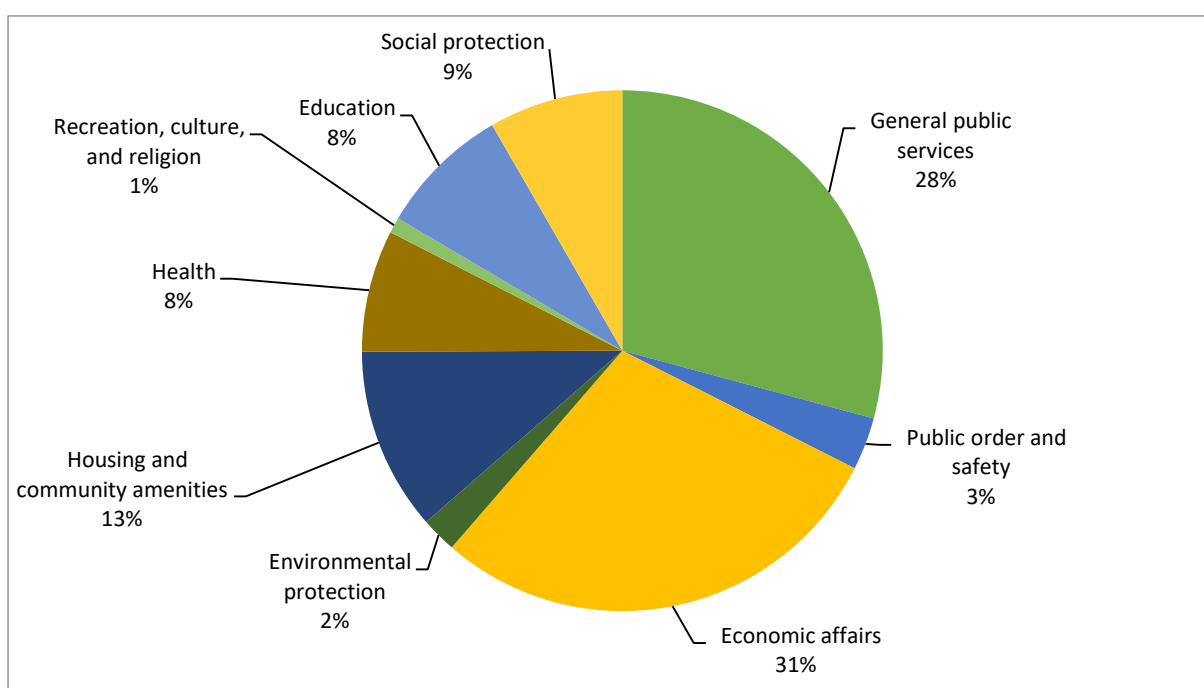
Table 3-3: Classification of Functions of Cook Island Government (\$000's)

Function of Government	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEFU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Cook Islands Government (CIG) Expenditure						
General public services	37,423	40,874	43,933	43,930	50,790	50,262
Executive, legislative, financial, external affairs	27,452	29,744	31,488	33,095	39,346	39,596
Foreign economic aid	0	0	0	0	0	0
General services	7,036	8,311	9,427	7,911	8,582	7,832
Basic research	0	0	0	0	0	0
R&D General public services	0	26	26	26	26	26
General public services	853	659	764	795	941	1,113
Public debt transactions	2,082	2,133	2,228	2,102	1,895	1,695
Transfers of a general character between different levels of government	0	0	0	0	0	0
Defense	0	0	0	0	0	0
Public order and safety	9,147	8,954	10,250	10,242	10,191	10,426
Police services	5,006	5,445	5,506	5,575	5,425	5,425
Fire protection services	0	0	0	0	0	0
Law courts	3,395	3,135	4,025	3,905	3,958	4,124
Prisons	745	374	719	761	808	877
Economic affairs	46,823	66,933	70,077	63,688	55,116	56,093
General economic, commercial, and labor affairs	6,478	8,961	8,961	8,923	8,948	8,923
Agriculture, forestry, fishing, and hunting	2,603	3,913	3,913	4,286	4,348	4,349
Fuel and energy	4,220	2,124	4,935	1,645	1,645	1,645
Mining, manufacturing, and construction	1,076	9,765	10,010	7,896	307	307
Transport	22,056	31,549	31,549	30,318	29,532	30,532
Communication	303	783	872	783	383	383
Other industries	0	0	0	0	0	0
Hotel and Restaurants	0	0	0	0	0	0
Tourism	9,491	9,330	9,330	9,330	9,445	9,445
Multi-purpose development projects	0	0	0	0	0	0
R&D Economic affairs n.e.c.	476	379	379	379	379	379
Economic affairs n.e.c.	120	128	128	128	128	128
Environmental protection	2,113	3,561	3,924	3,557	3,557	3,557
Waste management	672	796	796	846	846	846
Waste water management	52	1,000	1,198	1,000	1,000	1,000
Environmental protection n.e.c.	1,239	1,583	1,583	1,488	1,488	1,488
Housing and community amenities	34,895	24,883	27,804	20,439	13,816	12,462
Housing development	0	0	0	0	0	0
Community development	1,199	3,100	3,418	3,100	1,600	600
Water supply	25,324	13,049	15,156	8,330	3,205	2,850
Housing and community amenities n.e.c.	8,371	8,734	9,229	9,009	9,011	9,012
Health	16,891	18,485	18,861	21,490	20,090	19,990
Medical products, appliances, and equipment	941	595	656	1,795	595	495
Outpatient services	1,913	1,989	1,989	2,531	2,531	2,531
Hospital services	12	1,791	2,106	1,252	1,052	1,052
Public health services	0	0	0	0	0	0
R&D Health	0	0	0	0	0	0
Health n.e.c.	14,025	14,110	14,110	15,912	15,912	15,912
Recreation, culture, and religion	4,807	2,149	2,149	2,250	4,273	2,273
Recreational and sporting services	98	173	173	79	79	79
Cultural services	4,709	1,977	1,977	2,172	4,195	2,195
Education	20,234	20,630	20,630	20,779	23,165	23,225
Pre-primary and primary education	2,193	2,753	2,753	2,743	2,743	2,743
Secondary education	856	0	0	0	0	0
Postsecondary non-tertiary education	0	0	0	0	0	0
Tertiary education	1,840	2,077	2,077	2,157	2,157	2,157
Education not definable by level	0	0	0	0	0	0
Education n.e.c.	15,345	15,799	15,799	15,879	18,266	18,326
Social protection	21,263	22,847	22,957	23,094	23,195	23,286
Sickness and disability	91	575	575	576	577	578
Old age	13,048	12,931	12,931	13,017	13,102	13,186
Survivors	0	0	0	0	0	0
Family and children	5,860	6,879	6,879	6,879	6,879	6,879
Unemployment	0	0	0	0	0	0
Housing	79	79	79	79	79	79
Social exclusion n.e.c.	14	36	36	43	43	43
R&D Social protection	0	0	0	0	0	0
Social protection n.e.c.	2,170	2,347	2,457	2,500	2,514	2,520

Total CIG Expenditure	193,595	209,316	220,585	209,469	204,193	201,575
Official Development Assistance (ODA) Expenditure*						
General public services	7,316	31,462	31,462	23,533	11,924	1,606
Economic affairs	1,927	12,639	12,639	1,188	475	30
Environmental protection	101	2,493	2,493	1,420	0	0
Housing and community amenities	5,846	6,272	6,272	200	200	200
Health	0	2,290	2,290	2,000	2,000	2,000
Recreation, culture, and religion	401	506	506	0	0	0
Education	243	1,827	1,827	538	0	0
Social protection	3,781	0	0	0	0	0
Total ODA Expenditure	19,615	57,489	57,489	28,879	14,599	3,836
TOTAL PUBLIC EXPENDITURE	213,209	266,806	278,074	238,347	218,792	205,411

Figure 3-3 classifies the combined Cook Islands Government and ODA spending in the 2019/20 HYEFU at the 10 main functional levels.

Figure 3-3 Classification of Functions of Cook Island Government, 2019/20



Economic affairs is now the largest area of public expenditure at 31 per cent of total public spending, driven by tourism spending through the Cook Islands Government appropriation, and energy infrastructure in the ODA spend.

General public services accounts for 28 per cent of the total spending, with the Cook Islands Government administration costs being the main driver.

Housing and community amenities (which includes general community infrastructure) is the third largest area of spending at 13 per cent.

4 Economic Update

4.1 Summary

4.1.1 Performance

The Cook Islands economy continues to perform at the macro level – the economy grew by 8.9 per cent in 2017/18 in real terms and is expected to grow by 4.2 per cent in 2018/19. Growth is expected to moderate to 3.5 per cent in 2019/20, falling further to 1.8 per cent by 2023/24.

Over a period of three years, tourist arrivals rose by an average of nearly 11 per cent per year, from 121,772 in 2014/15 to 164,800 in 2017/18. In the year to June 2019, visitor arrivals in the Cook Islands reached a new high of 166,874, but only 1.3 per cent higher than the year to June 2018. Preliminary MFEM estimates show total visitor expenditure rising from \$368 million in 2018/19 to \$377 million in 2019/20, an increase of 2 per cent.

The total value of Cook Islands building approvals in the year to September 2019 increased by 3.4 per cent to \$23.0 million from \$22.2 million the previous year. This is due to an increase in residential and community approvals, which more than offset the decrease in tourist accommodation approvals, while commercial approvals (excluding tourism) remained steady.

Analysis by the Government suggests that the Cook Islands economy continues to perform above its potential level – that is the Cook Islands continues to face a positive output gap. While there is little sign of the economy overheating in the leading economic indicator, the Consumer Price Index, there are increasing signs of capacity constraints emerging in the labour and housing markets, and the construction sector.

This strong economic performance has resulted in the upcoming graduation of the Cook Islands from the Organisation for Economic Cooperation and Development's (OECD) Official Development Assistance (ODA) eligibility list from January 2020. The graduation may result in some decreases in foreign aid and require internal budget allocations for projects previously financed by ODA. Preliminary MFEM estimates suggest that the impact of graduation on the economic growth will be approximately 0.4 per cent of GDP.

4.1.2 Outlook

In summary, the outlook for Cook Islands economy is positive, albeit at lower levels than seen in recent years, with average annual growth over the 4-year forward period from 2019/20 to 2022/23 forecast to be 2.4 per cent.

With a mildly expansionary fiscal stance over the forward budget period, the capacity constraints alluded to above are expected to tighten in the medium-term. Further pressure on the domestic housing market is likely, potentially with wage-price pressure flowing from an increasing shortage of skilled workers and an increase in the minimum wage in 2019/20 from \$7.25 to \$7.60 per hour and the further increase to \$8.00 scheduled to take effect in July 2020. Along with imported inflation should the New Zealand dollar depreciate, this is expected to result in inflation rising from an estimated minus 0.3 per cent in 2018/19 to 1.2 per cent in 2019/20 before rising further to about 1.8 per cent per year over the forward budget period.

Table 4-1 provides a summary of the key indicators for the budget appropriation year and the three forward years of the 2019/20 budget cycle.

Table 4-1: Summary of Economic Indicators

	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
	Act.	Est.	Proj.	Proj.	Proj.	Proj.
Economic Activity						
Nominal GDP (\$'000)	504,258	538,819	560,951	576,436	590,829	604,339
Percentage change (YOY)	10.3	6.9	4.1	2.8	2.5	2.3
Real GDP (2016 prices, \$'000)	504,258	525,683	544,245	556,173	567,067	577,134
Percentage change (YOY)	8.9	4.2	3.5	2.2	2.0	1.8
Inflation						
Percentage change (YOY)	0.4	-0.3	1.2	1.6	1.8	1.8
Construction/Capital Investment						
Commercial Building Approvals (\$'000)	7,968	7,084	7,084	7,084	7,084	7,084
Residential Building Approvals (\$'000)	11,993	15,351	13,240	13,240	13,240	13,240
Productive Sector Indicators						
Visitor Arrivals	164,800	166,874	170,611	174,292	176,610	179,324
Percentage change (YOY)	6.2	1.3	2.2	2.2	1.3	1.5
Estimated Visitor Expenditures (\$'000)	357,432	368,355	377,034	387,973	394,699	403,568
Agriculture value-added (\$'000)	10,734	10,446	10,446	10,446	10,446	10,446
Fisheries value-added (\$'000)	1,466	1,529	1,529	1,529	1,529	1,529
External Sector						
Merchandise Trade Balance (\$'000)	-190,678	-192,812	-194,958	-201,587	-204,614	-204,614
Services Trade Balance (\$'000)	357,432	368,355	377,034	387,973	394,699	403,568
Exchange Rate (USD/NZD Average)	0.71	0.69	0.63	0.66	0.67	0.68

4.2 The global economy

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

New Zealand

In August 2019, the Reserve Bank of New Zealand (RBNZ) reduced its official cash rate by 50 basis points to 1 per cent to 'continue to meet its employment and inflation objectives' in the face of slowing GDP growth and rising growth headwinds. This rate was maintained at its November 2019 meeting.

The RBNZ Monetary Policy Statement August 2019 reports annual GDP growth slowing to 2.1 per cent in the June 2019 quarter, lower than expectations thanks to softening growth in business investment, with inflation remaining below its 2 per cent target.

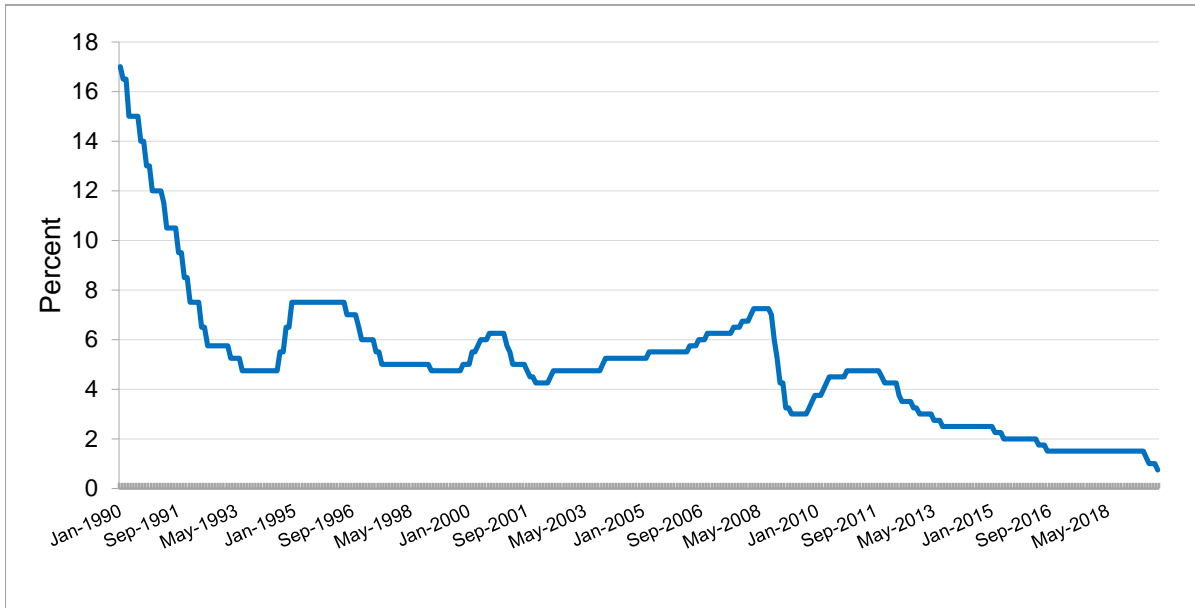
The RBNZ expects weak global conditions to continue, with declining trade and heightened uncertainty contributing to lower trading partner growth. Factoring in low interest rates and increased government stimulus in New Zealand, the RBNZ expects a pick-up in local demand over the coming year, with business investment expected to rise, along with increased construction activity.

Australia

In October 2019, the Reserve Bank of Australia (RBA) lowered its cash rate to a historical low of 0.75 per cent. This followed two consecutive 25 basis points reductions in June and July 2019 (Chart 1).

In its Statement on Monetary Policy August 2019, the RBA reported GDP growth expectations of 2.5 per cent in 2019, rising gradually to 3 per cent by 2021, supported by lower interest rates and recent tax measures.

Figure 4-1: Australian cash rate



Source: RBA, 2019.

United States

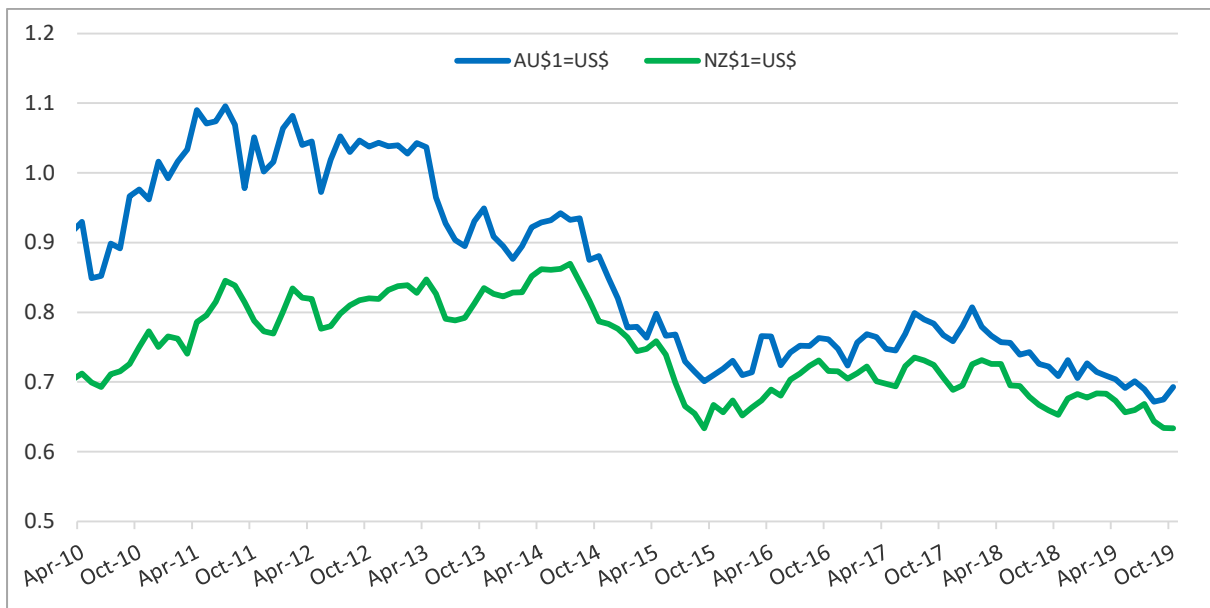
The International Monetary Fund’s (IMF) World Economic Outlook (WEO) October 2019 expects United States’ GDP growth to fall from 2.9 per cent in 2018 to 2.4 per cent in 2019, before moderating slightly to 2.1 per cent in 2020 with the unwinding of fiscal stimulus. The downward revision to 2019 growth according to WEO reflects the *weak business confidence amid growing tensions between the United States and China on trade and technology. As the reach of US tariffs and retaliation by trading partners has steadily broadened since January 2018, the cost of some intermediate inputs has risen, and uncertainty about future trade relationships has ratcheted up.*¹¹

The US Federal Reserve cut the Federal Funds rate in July and September and ended its balance sheet reduction.

The lower US interest rates have counterintuitively led to a broad-based appreciation of the US dollar, including against commodity currencies such as the Australian and New Zealand dollars. Figure 4-2 shows the steep decline in the New Zealand dollar from 73.1 cents in February 2018 to 65.3 cents in October 2018, followed by a further drop to 63.3 cents by October 2019.

¹¹ World Economic Outlook, October 2019, IMF.

Figure 4-2: US dollar exchange rate, New Zealand and Australia



Asia Pacific – outlook remains robust despite trade tensions

The Asian Development Bank’s (ADB) September 2019 *Asian Development Outlook 2019 Update* expects growth to moderate but remain robust. As global trade slows and investment weakens, the ADB has revised its regional growth forecasts down by 0.3 percentage points for 2019 and 0.1 points for 2020. Expansion in the region is projected to slow from 5.9 per cent in 2018 to 5.4 per cent in 2019, recovering slightly to 5.5 per cent in 2020. The revisions reflect gloomier prospects for international trade—in part because of re-escalation in the trade conflict between the United States and China—and evidence of slowing growth in the advanced economies and China, as well as in India and the larger economies in East and Southeast Asia.

The ADB expects economic growth in the Pacific to rebound from near stagnation in 2018 at 0.4 per cent, to 4.2 per cent in 2019 mainly because gas production in Papua New Guinea has outpaced projections, but also with higher than expected construction expenditure in the Solomon Islands and Samoa, and Nauru suffering less economic decline than predicted. The ADB lowered its growth projections for the Cook Islands to 4.2 per cent in 2019 and 4.5 per cent in 2020, citing a ‘tourism downturn’.

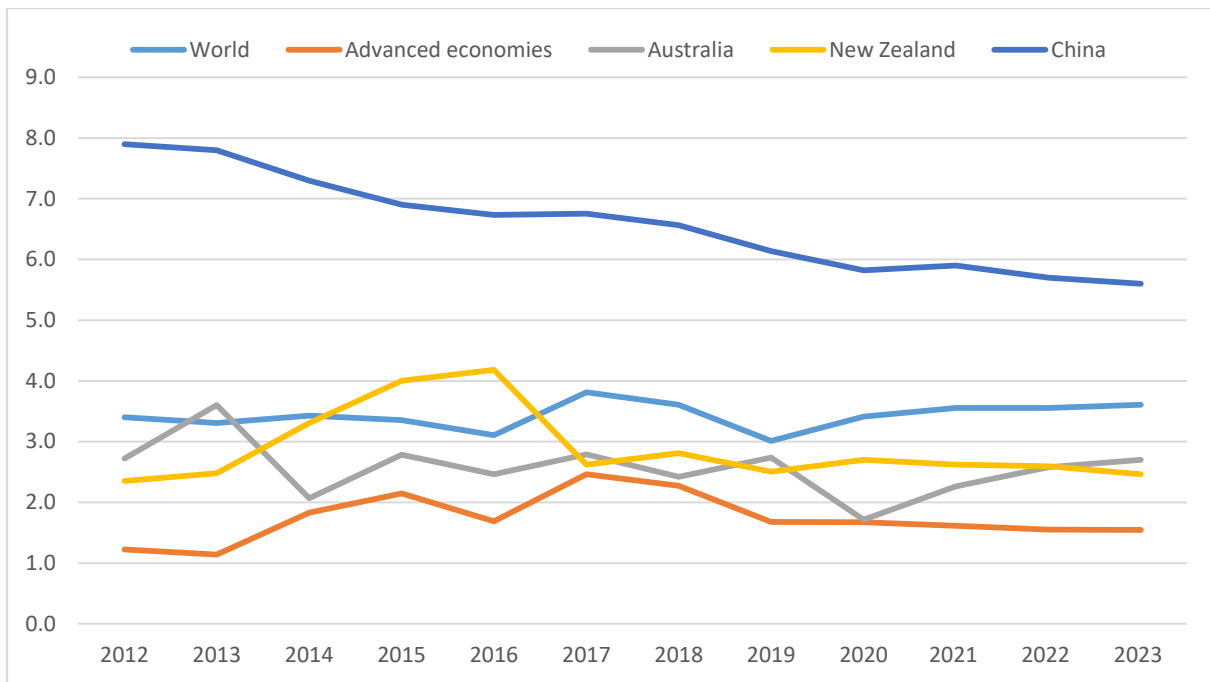
Global — IMF downgrades global growth forecasts

The International Monetary Fund (IMF) in its October 2019 *World Economic Outlook* presents a dimmer view of global growth prospects — ‘the global economy is in a synchronized slowdown, with growth for 2019 downgraded again—to 3 per cent—its slowest pace since the global financial crisis.’

The IMF expects global growth in 2020 projected to improve modestly to 3.4 percent, a downward revision of 0.2 per cent from their April projections. The IMF notes this recovery is not broad based and is precarious. The IMF cites several reasons for its downward growth revision including rising trade barriers, elevated uncertainty surrounding trade and geopolitics and structural factors, such as low productivity growth and aging demographics in advanced economies.

Beyond 2020, the IMF expects growth to stabilise at around 3.6 percent, bolstered mainly by growth in China and India and their increasing weights in world income (see Figure 4-3).

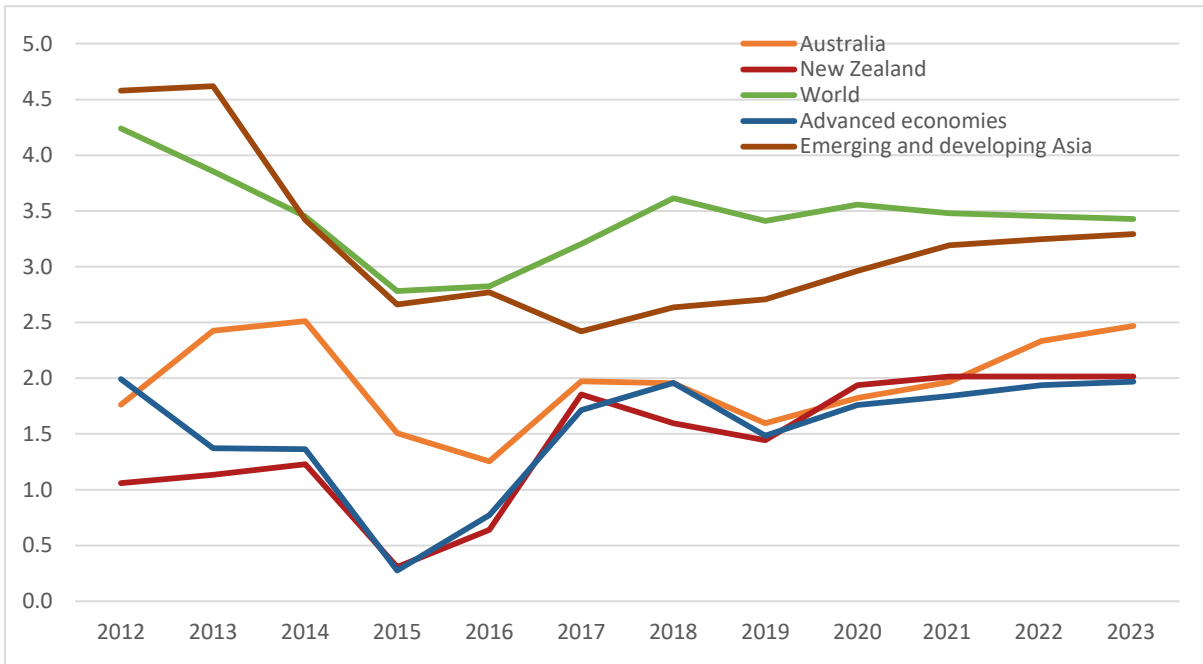
Figure 4-3: IMF GDP growth estimates, selected countries



The IMF notes that while the overall outlook remains benign, there are many downside risks. This includes trade policy tensions that could play out in other areas, such as the automotive industry, with large disruptions to global supply chains. Growth in China could also surprise on the downside, and the risks surrounding Brexit remain heightened.

Bearing in mind these downside risks, while the outlook for return to 3.4 per cent growth in 2020 is positive news for the Cook Islands' economy given its reliance on tourism, it does pose a risk of increased inflation. Consistent with the softer outlook for commodity prices and the expected moderation in growth, the IMF expects inflation to decline to 1.5 per cent in 2019 in advanced economies, from 2.0 per cent in 2018. Inflation in emerging market and developing Asia economies, while stable across most regions, is expected to pick up to 2.7 per cent in 2019 from 2.6 per cent in 2018, reflecting increasing capacity constraints. Inflation is then set to advance to about 3.3 per cent over the medium term (see Figure 4-4).

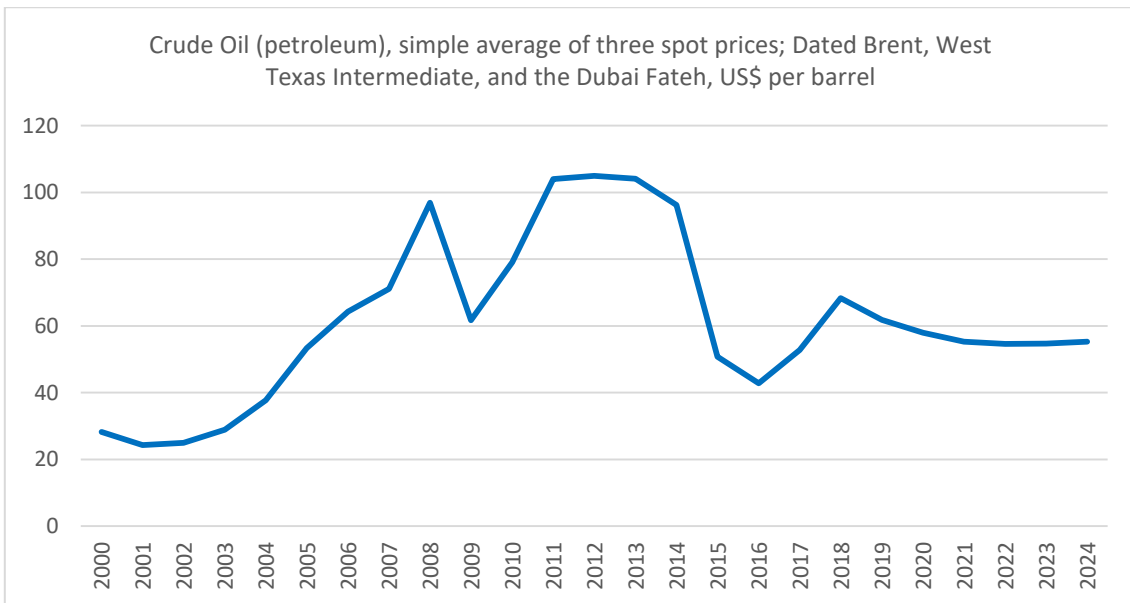
Figure 4-4: IMF inflation estimates, selected groupings and countries



The IMF notes that oil prices increased to more than US\$80 a barrel in early October 2018, attaining their highest level since November 2014 as United States sanctions against oil imports from Iran loomed. In the last months of 2018 and first half of 2019, however, oil prices declined sharply (13 per cent price decline since the April 2019 WEO) as a result of record production growth in the United States and the issuance of waivers for most of the countries that import oil from Iran.

Based on oil futures contracts, the IMF projects average oil prices at US\$61.78 in 2019 and US\$57.94 in 2020. Oil prices are expected to remain in that range, oscillating around \$55 a barrel in 2023, consistent with subdued medium-term demand prospects and offsetting production adjustments that avoid large excess supply (see Figure 4-5).

Figure 4-5: IMF oil price estimates, 1992 to 2024, US\$/barrel



4.3 Cook Islands Economic Output

4.3.1 Performance

As shown in Figure 4-6, the Cook Islands experienced real Gross Domestic Product (GDP) growth of 8.9 per cent in 2017/18, rising from \$463.2 million to \$504.5 million. The economy (Gross Domestic Product or GDP) is estimated to grow in real terms by 4.2 per cent in 2018/19, increasing to \$526 million. This is lower than the estimate of 6.3 per cent in the 2019/20 Budget, largely due to historical revisions to the GDP data series. Although expanding at a much slower rate than the 8.9 per cent recorded in 2017/18, this continues a strong run of annual economic growth since 2014.

Figure 4-6: Real GDP growth, annual percentage change

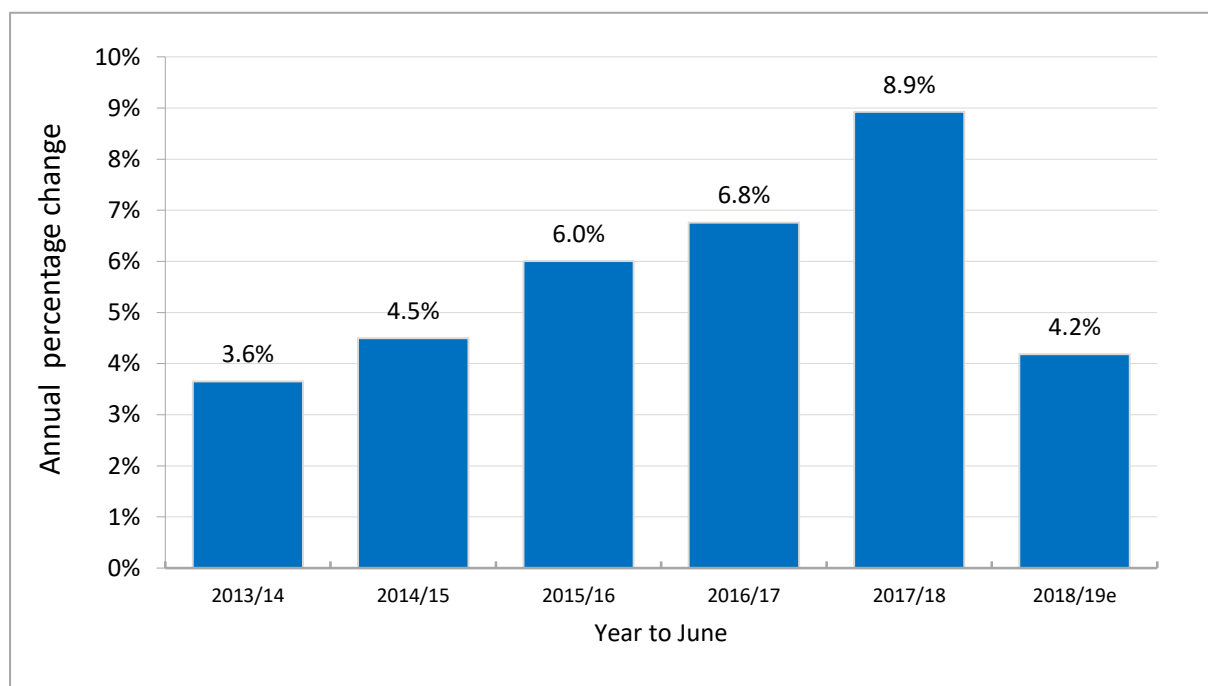
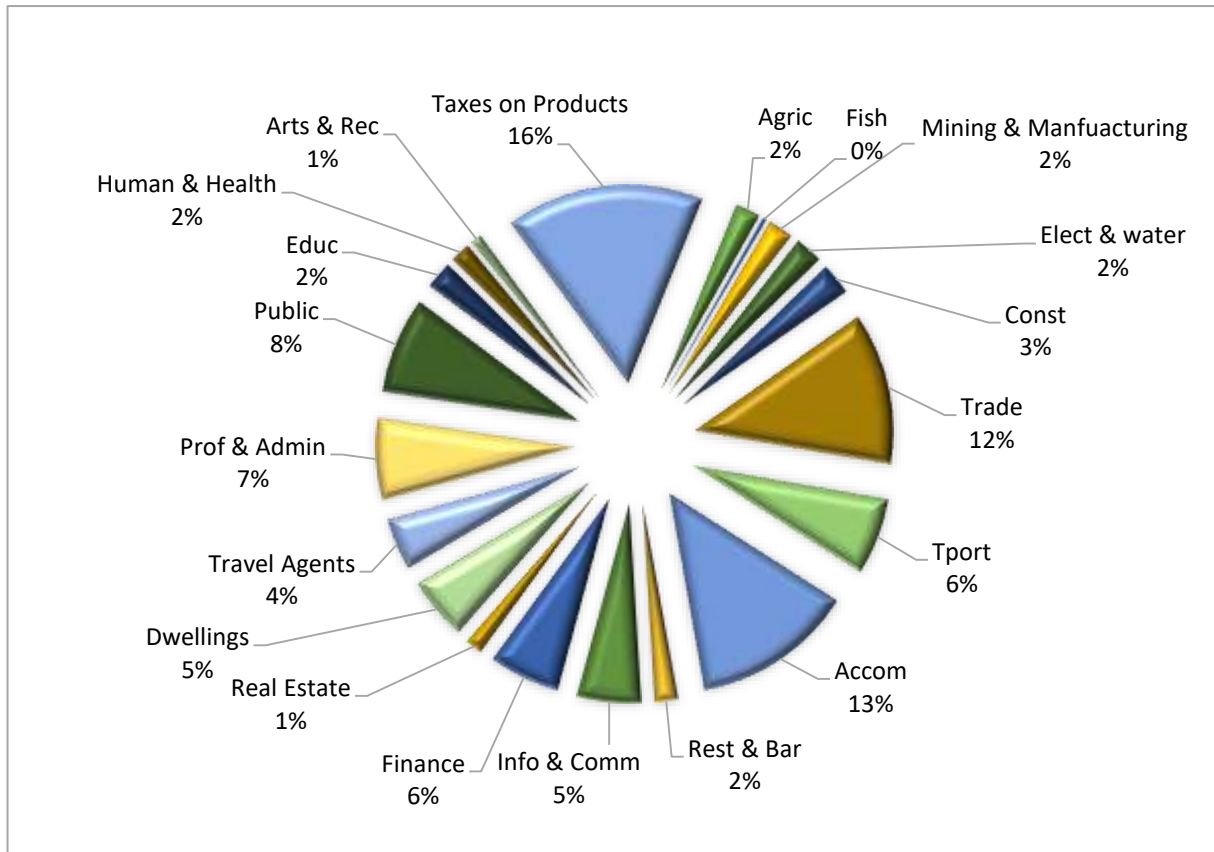


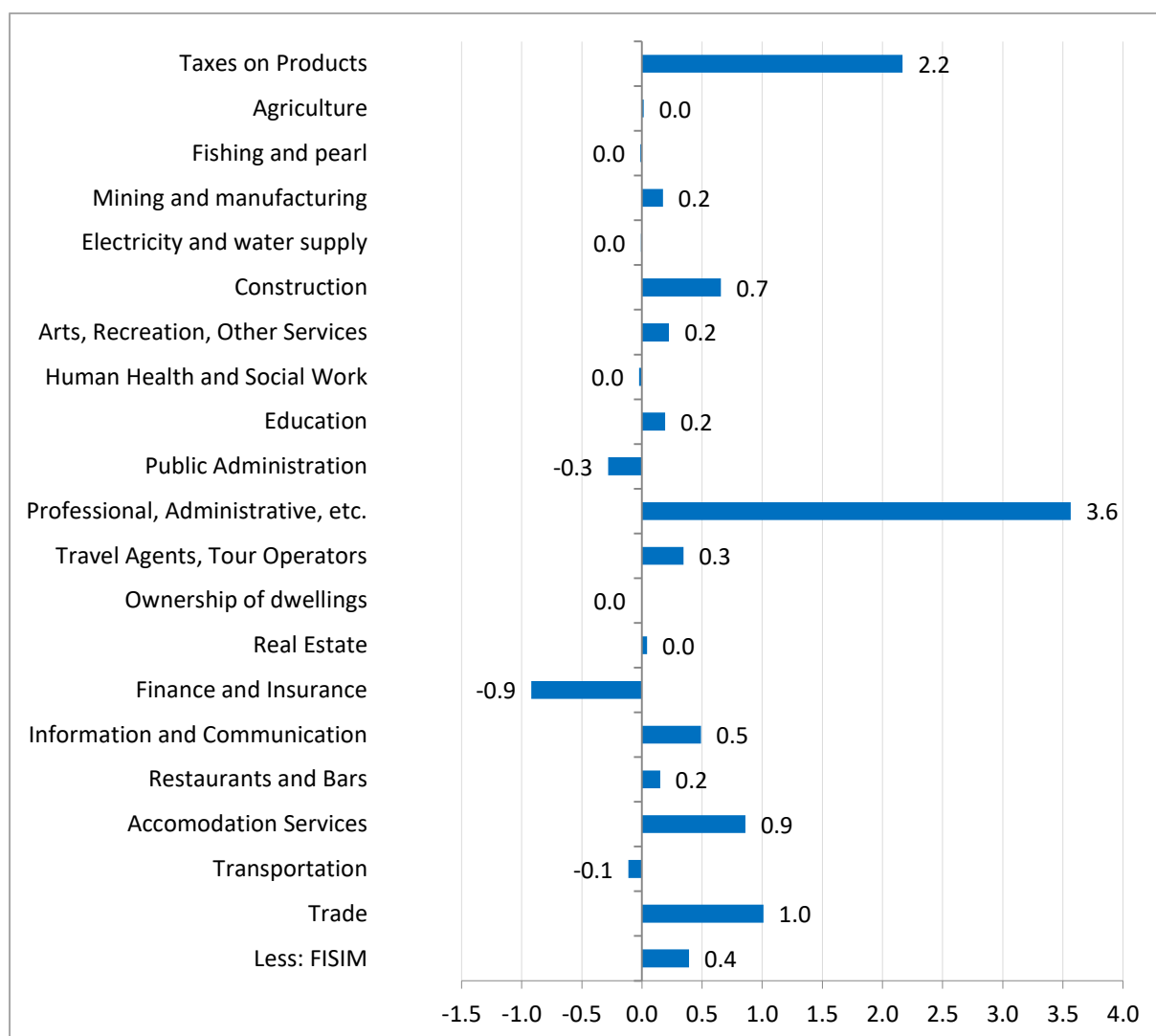
Figure 4-7 shows the breakdown of the Cook Islands economy by industry in 2017/18, the latest year of actuals data. The economy is dominated by the tertiary or services sector, accounting for about 77 per cent of the total economy in 2017/18, with the two largest tertiary industries, trade and accommodation services accounting for more than a quarter of total economic output.

Figure 4-7: Cook Islands economy by industry, 2017/18



In 2017/18, high tourist arrivals drove strong growth in the economy along with Government use of professional consulting services, with the tertiary sector contributing 5.5 percentage points to real economic growth (see Figure 4-8). The strongest industry contributions were from professional and administrative services (3.6 percentage points) and trade (1 percentage points). During this period, professional and administrative services grew by 91 per cent from \$18.2 million to \$35 million and trade rose by 8 per cent from \$60 million to \$65 million. Several industries contracted in 2017/18, including finance and insurance and public administration.

Figure 4-8: Contribution to 2017/18 real growth (percentage point)



4.3.2 Outlook

Forecast growth over the period 2019/20 to 2022/23 is shown in Figure 4-9 growth is expected to moderate to 3.5 per cent in 2019/20. This compares to the 3.8 per cent forecast in the 2019/20 Budget. Growth is expected to fall further to 1.8 per cent by the end of the forecast period. Annual average growth over the 5-year period is forecast at 2.3 per cent. This more conservative outlook than that presented in June 2019 reflects three things: GDP historical data revisions, a flatter growth profile for tourist arrivals, and lower global growth expectations amid mounting trade-related uncertainty.

Figure 4-9: Annual change in real GDP (percentage)

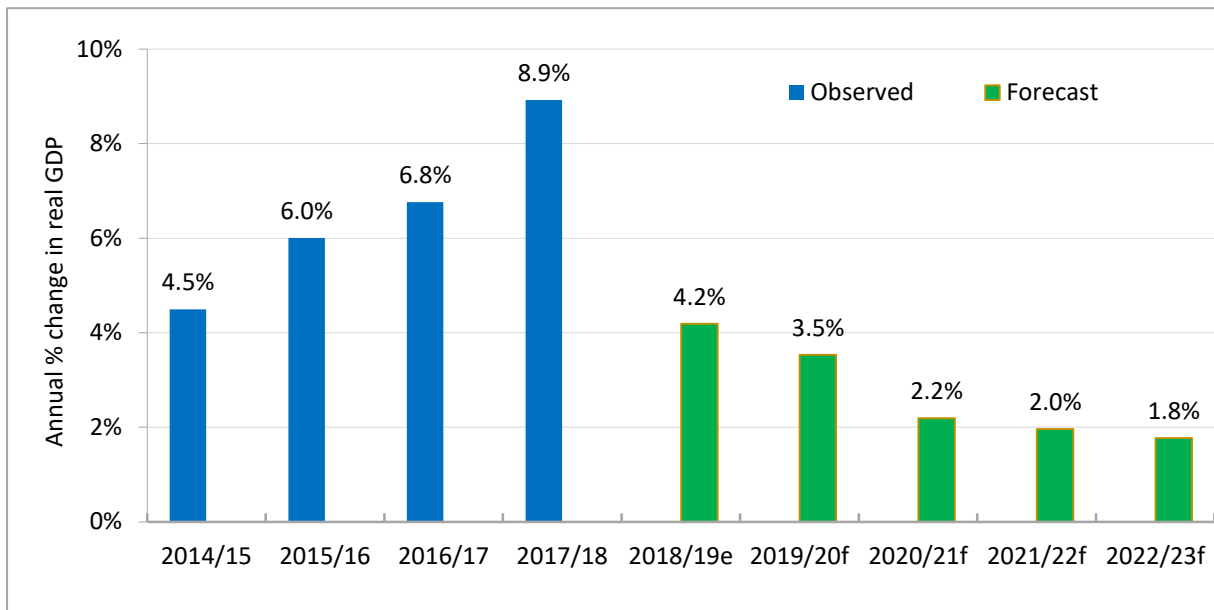
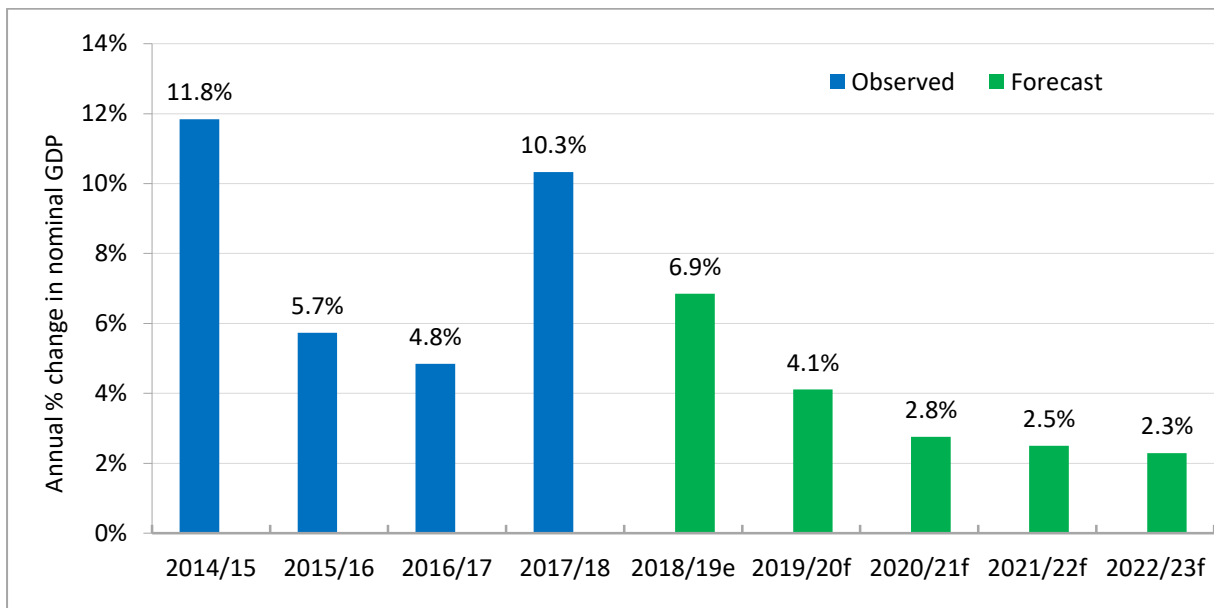


Figure 4-10 shows the forecast percentage change for nominal GDP. A growth rate of 6.9 per cent is estimated in 2018/19, with growth forecast to fall to 4.1 per cent in 2019/20, averaging 2.5 per cent per year over the 4-year forward period.

Figure 4-10: Annual change in nominal GDP (percentage)



In summary, as shown in Table 4-2, nominal and real GDP growth is expected to remain robust in the coming years, albeit at lower levels than in the recent past, due to continued but slower growth in tourism and investment, both public and private.

Table 4-2: Annual GDP growth summary

	2017/18	2018/19e	2019/20f	2020/21f	2021/22f	2022/23f
Nominal GDP growth (%)	10.3	6.9	4.1	2.8	2.5	2.3
Real GDP growth (%)	8.9	4.2	3.5	2.2	2.0	1.8
Implicit GDP deflator (index)	99.9	102.5	103.1	103.6	104.2	104.7

4.4 Consumer price index

4.4.1 Annual average performance to 2018/19

Inflation in the Cook Islands is measured by the consumer price index (CPI), which is reported on a quarterly basis by the Cook Islands Statistical Office. Aggregate inflation has fallen steadily since about 2011/12, from 2.8 per cent per year then, to -0.1 per cent in 2016/17. In 2017/18, CPI rose slightly to an average of 0.4 per cent over the year only to resume its downward trend to -0.3 per cent in 2018/19 (Figure 4-11).

Figure 4-11: CPI, year average, 2005/06 – 2018/19 (percentage change)

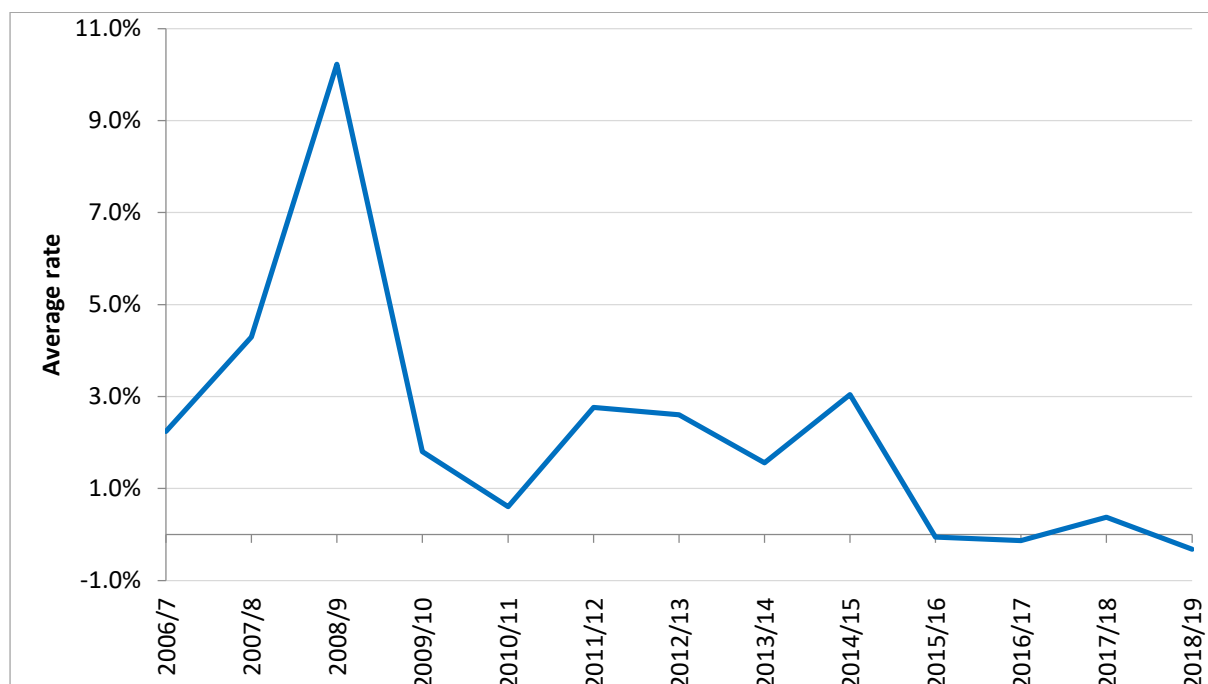
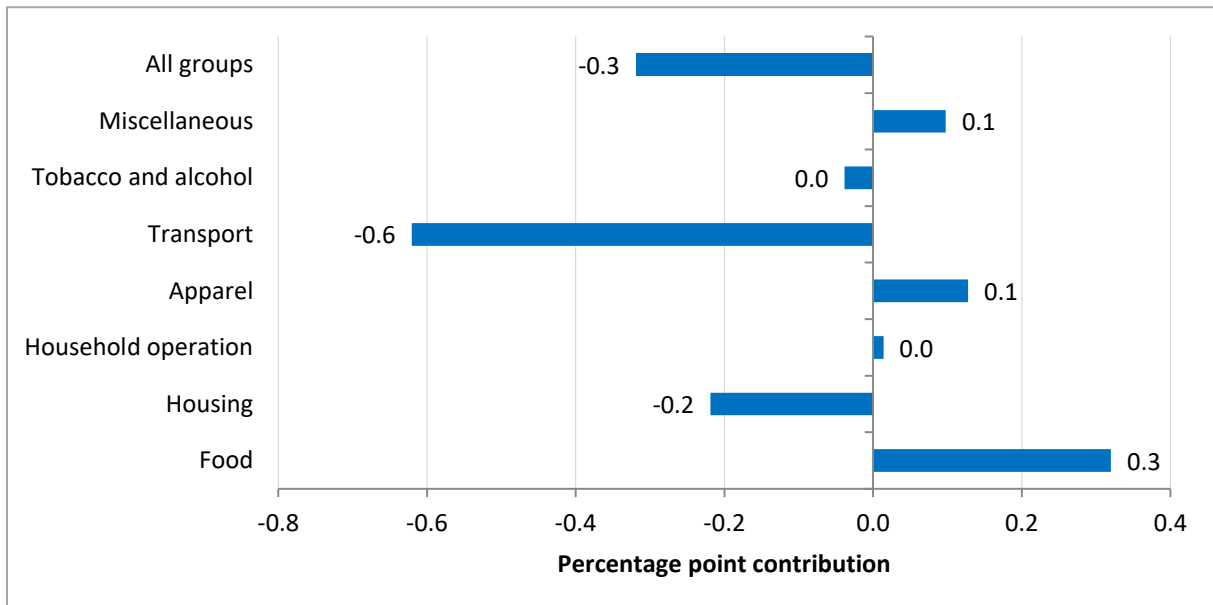


Figure 4-12 shows the contribution to aggregate inflation in 2018/19 by major category. In 2018/19, rises in the Food, Apparel and Miscellaneous groups were more than offset by a significant fall in the Transport and Housing groups.

Figure 4-12: Contribution to 2018/19 average inflation (percentage point)



4.4.2 Year to September 2019 performance

The CPI for the September quarter 2019, the most recent data available, shows an increase of 1.28 per cent compared to the September quarter 2018, as shown in Figure 4-13.¹² Over this period, rises in food and tobacco and alcohol were the largest contributors to the overall CPI rise.

Figure 4-13: CPI, year to September, (percentage change)

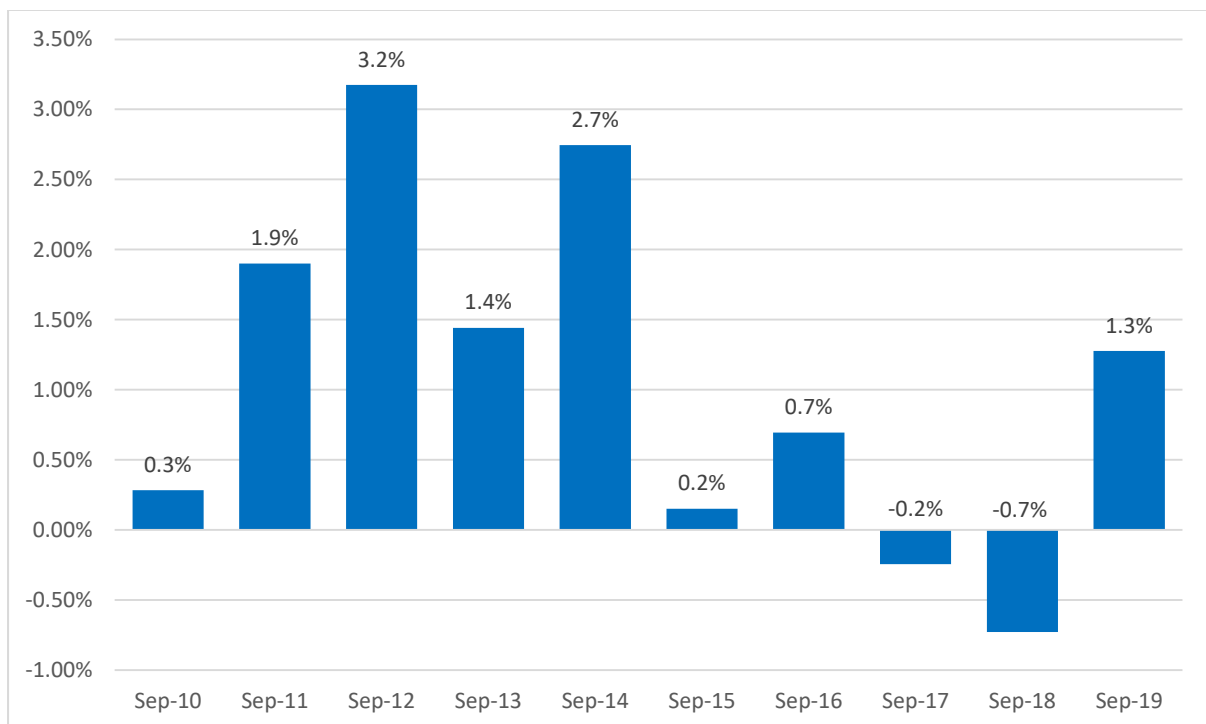
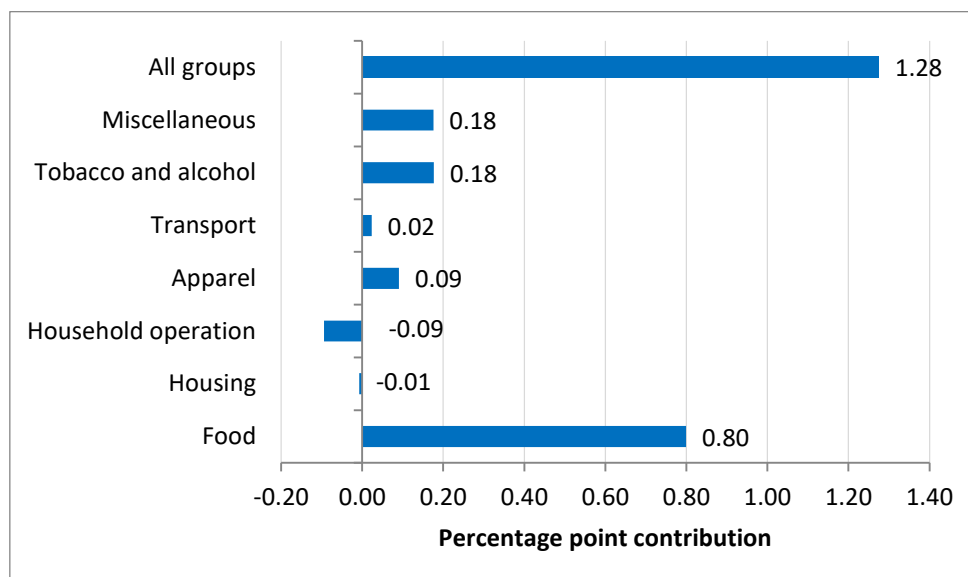


Figure 4-14 shows the contribution to aggregate inflation in the year to September 2019 by major category. The key driver of the increase was the food category at 0.8 percentage points, with the other categories contributing marginally.

Figure 4-14: Contribution to year to September 2019 inflation (percentage point)



4.4.3 Inflation forecasts

The IMF October 2019 World Economic Outlook noted that market sentiment has been volatile in 2019, reflecting additional US-China import tariff imposition from both sides, uncertainty over Brexit, as well as geopolitical strains. As a result, financial conditions across advanced economies have softened causing major central banks' policies to become more accommodative.

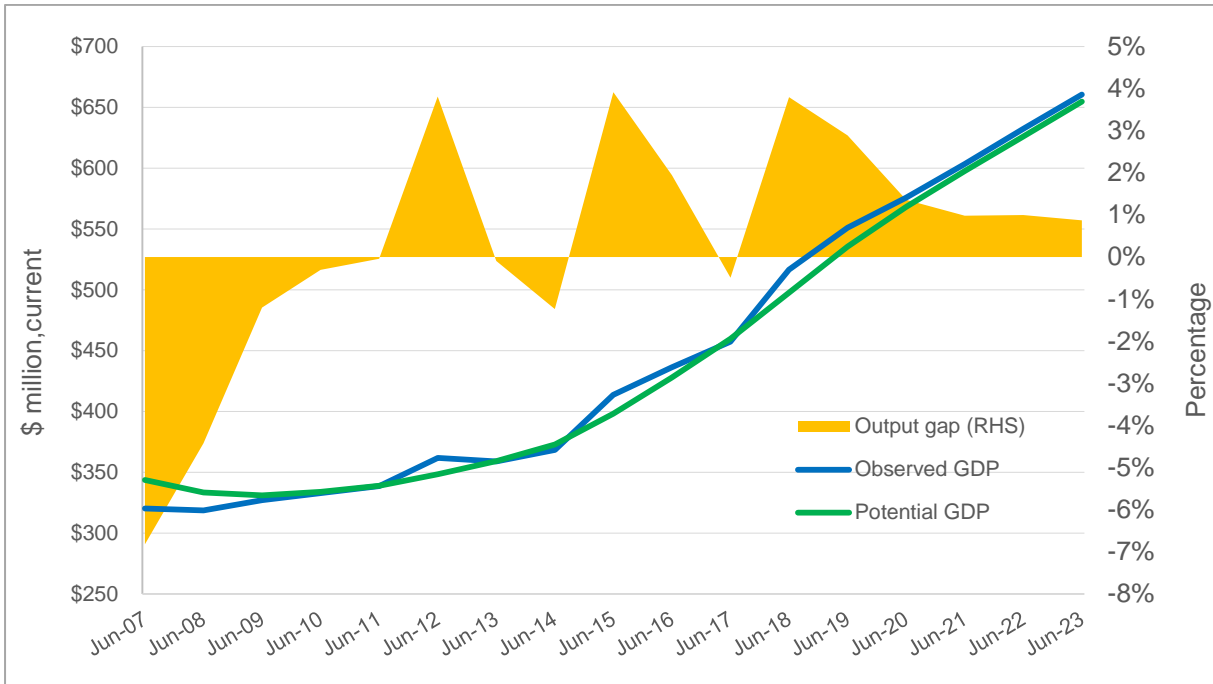
The US Federal Reserve cut its Federal Funds rate in July and again in September and ended its balance sheet reduction. The European Central Bank reduced its deposit rate in September and announced a new round of quantitative easing.

Analysis of the Cook Islands real output gap, using a multivariate Kalman filter approach (Figure 4-15), suggests that the Cook Islands is currently confronting a positive output gap.¹³ While there is no evidence of overheating showing up in the Consumer Price Index (CPI) data at present, should the positive output gap continue for an extended period of time, capacity constraints such as labour and skills shortages are likely to strengthen, resulting in inflationary pressure. Forecasts of the nominal output gap indicate that the positive gap will persist over the forward budget period, but decline in magnitude over time.

¹² Note that when comparing the September quarter 2019 to the September 2018 quarter, this is a year on year rather than average across the year measure.

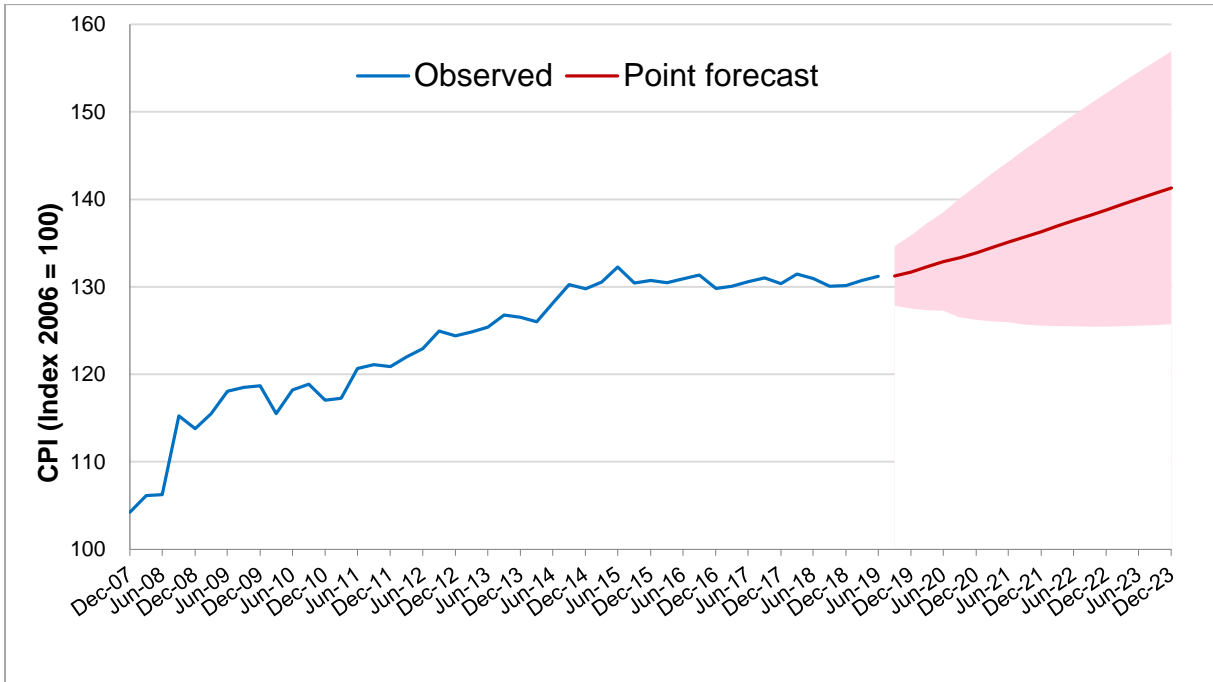
¹³ For more information, see *Estimating the output gap in the Cook Islands – preliminary analysis: Working Paper No. 18/2*, available at: <http://www.mfem.gov.ck/economics>.

Figure 4-15: Nominal output gap, univariate Kalman filter forecast



Observed and forecast quarterly CPI from December 2007 to December 2023 is shown in Figure 4-16. A 95 per cent high and low confidence interval has also been computed and is displayed as the shaded area either side of the point forecast time series.

Figure 4-16: CPI, quarterly index, 2007 to 2023



Overall, as shown in Figure 4-17 and Table 4-3, inflation was -0.3 per cent in 2018/19, and is estimated to pick up to 1.2 per cent in 2019/20 before rising further to about 1.8 per cent per year over the forward budget period.

Figure 4-17: Annual average change in CPI (percentage)

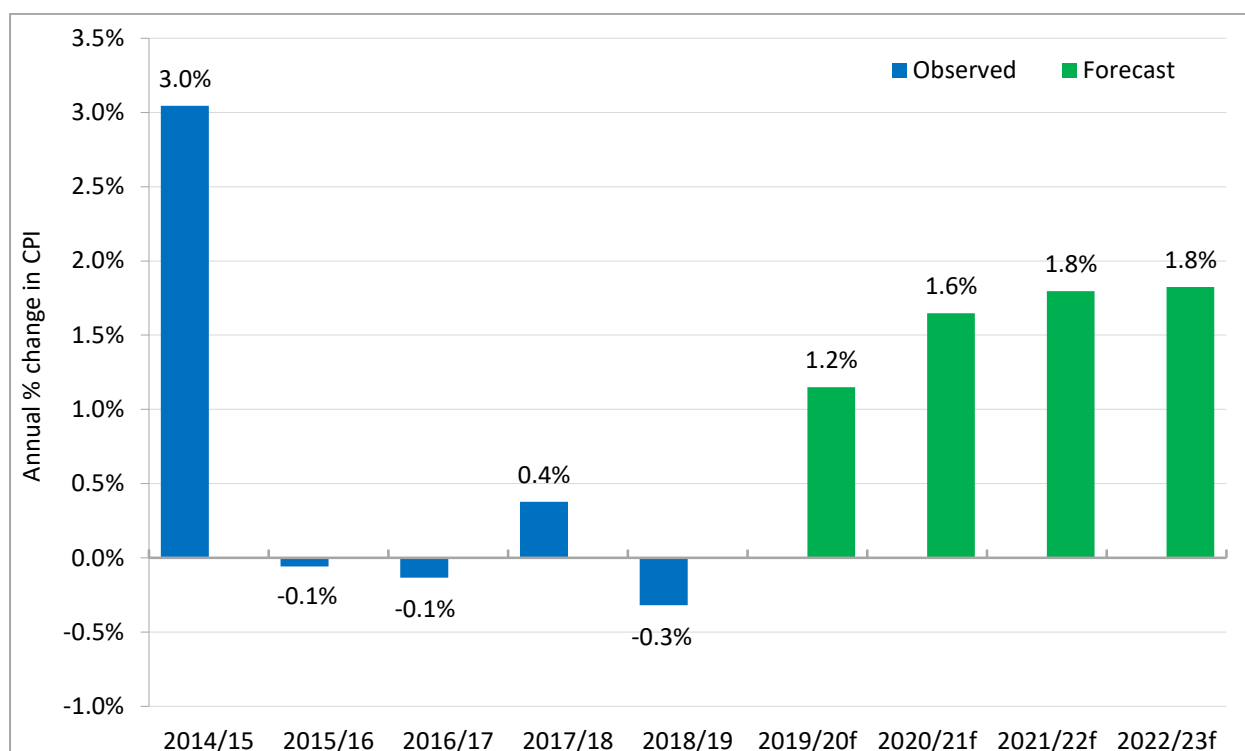


Table 4-3 Annual CPI forecast summary

	2017/18	2018/19	2019/20e	2020/21f	2021/22f	2022/23f
CPI average annual index	130.9	130.5	132.0	134.2	136.6	139.1
CPI average annual percentage change	0.4	-0.3	1.2	1.6	1.8	1.8

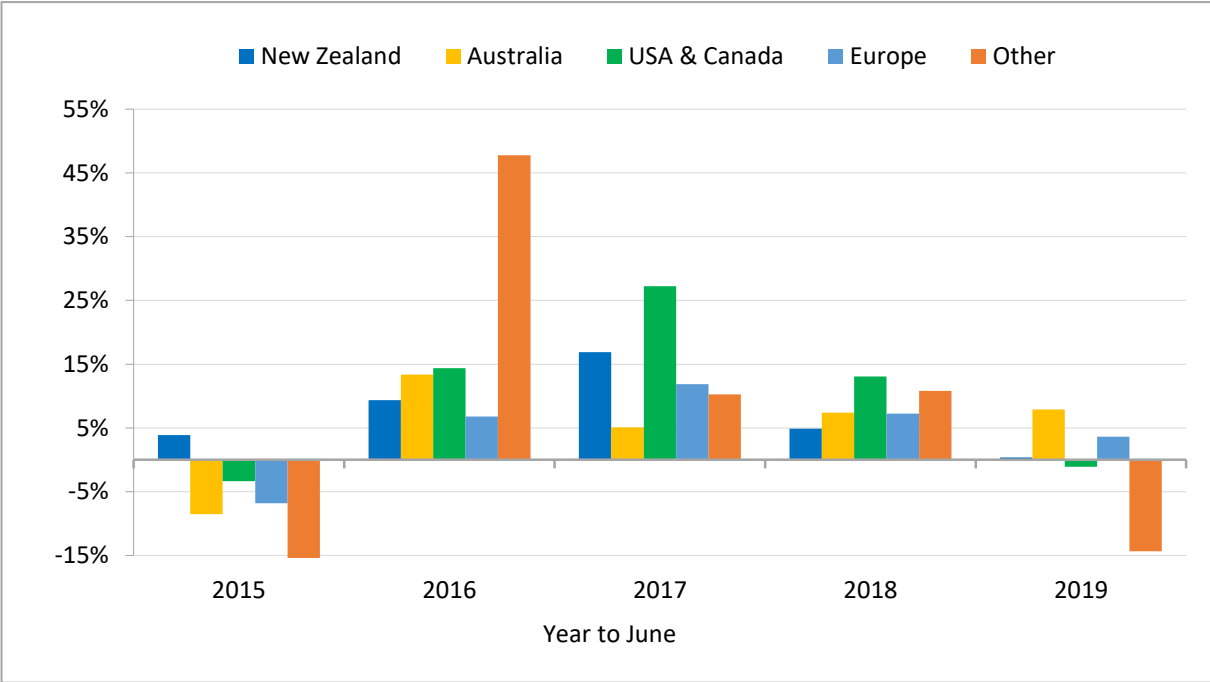
4.5 Tourism

4.5.1 Aggregate visitor activity

Aggregate tourist arrivals

In the year to June 2019, visitor arrivals in the Cook Islands reached a new high of 166,874, however this was only 1.3 per cent higher than the year to June 2018. New Zealand visitor numbers were flat over this period, with Australia recording the highest visitor growth rate with an 8 per cent rise on the previous year's 26,398 visitors to 28,482 (Figure 4-18). European visitor numbers also showed a healthy increase, with North American visitor numbers falling slightly.

Figure 4-18: Visitor arrivals, country of residence (annual percentage change)



Total arrivals for 2019/20 are estimated to be about 170,611, 2 per cent higher than the 166,874 seen in 2018/19. This expected rise on the 2018/19 growth rate largely reflects a strong start to 2019/20. July 2019 saw a new overall record of 18,612 visitors, and three consecutive months after, through October 2019, each saw record number of visitors for the respective month. As shown in Figure 4-19, growth is expected to fall to about 1 per cent per year by 2023/24. This forecast is subject to a number of downside risks, including global growth concerns and uncertainty over future decisions by Virgin Australia on its Pacific routes.

Figure 4-19: Total visitor arrivals, quarterly, 2008 to 2023

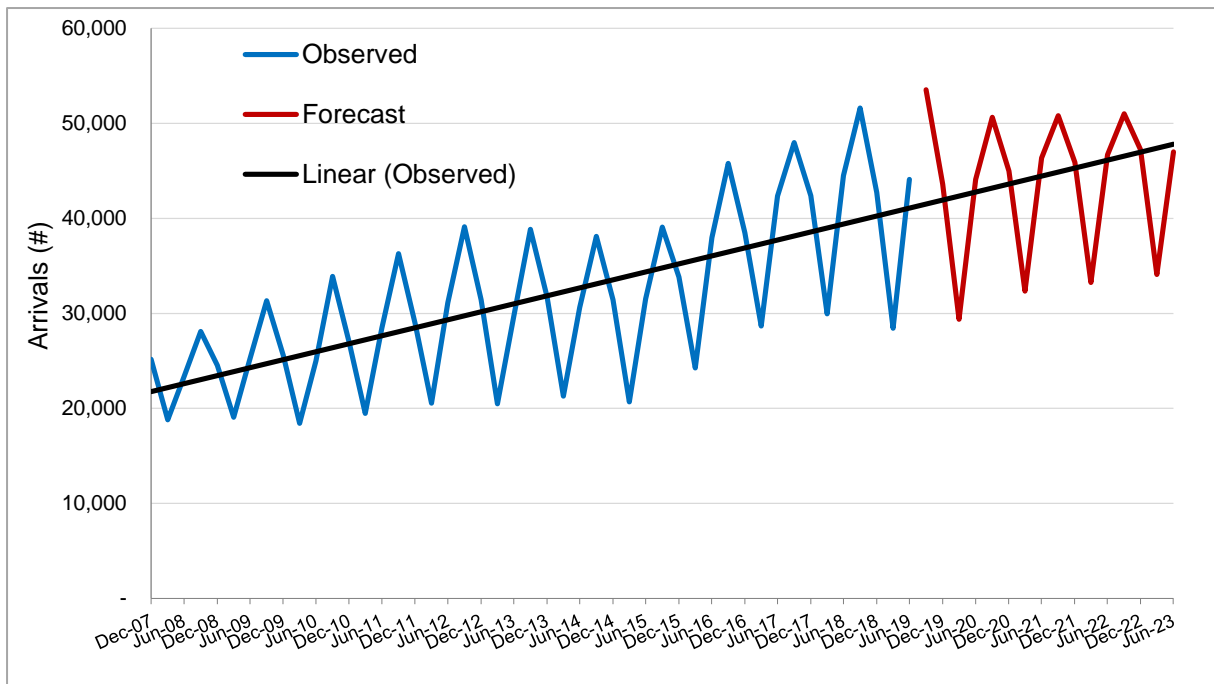
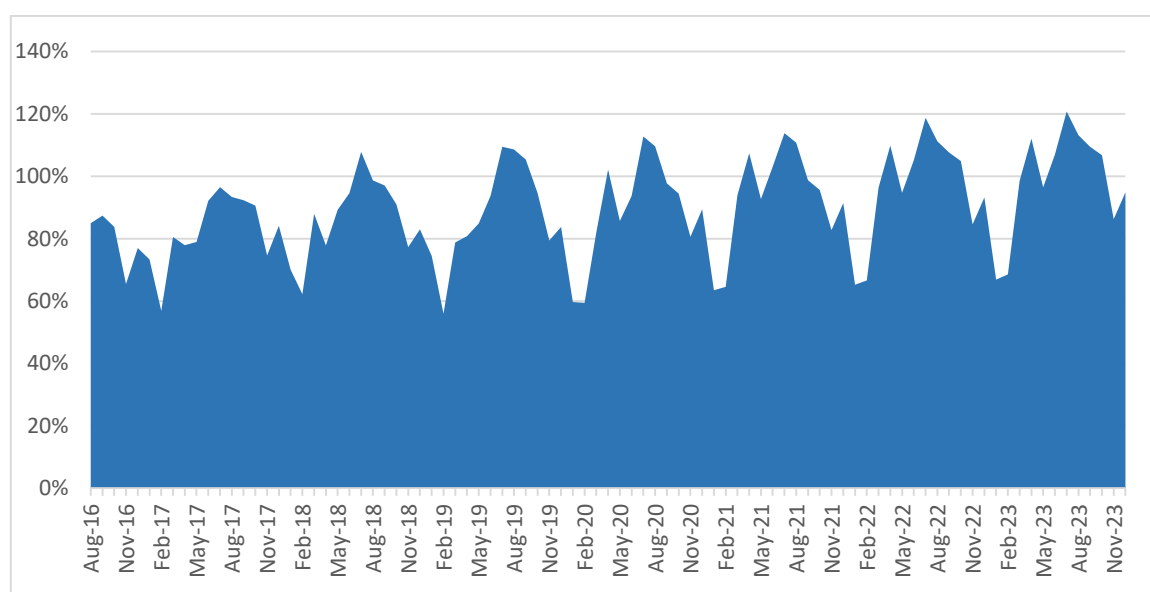


Table 4-4 Estimated total arrivals, quarterly, 2018/19 to 2022/23

Quarters	2017/18	2018/19	2019/20e	2020/21f	2021/22f	2022/23f
September	47,977	51,608	54,989	50,616	50,789	51,000
December	42,389	42,718	43,106	44,966	45,867	47,228
March	29,949	28,451	28,654	32,348	33,255	34,096
June	44,485	44,097	43,862	46,362	46,699	47,000
Annual total	164,800	166,874	170,611	174,292	176,610	179,324

The visitor arrivals forecasts in this chapter take account of industry capacity constraints. The highest number of tourists that the country has received is 18,612, in July 2019. The economic forecasts are based on a more conservative maximum of 17,000 per month. Table 4-4 indicates that the September quarter (July to September) is the busiest time for tourists. Figure 4-20 highlights the capacity limitations experienced in the Cook Islands, by month. During the remainder of 2019/20, maximum capacity is expected to be reached in the month of April, with visitor numbers expected to reach 102 per cent of capacity. This situation worsens in 2020/21 with over 100 per cent capacity expected during 4 months of the year, and again, during 4 months the following year.

Figure 4-20: Tourism capacity utilisation, monthly, 2019 to 2023



4.5.2 Major markets

Introduction

The major tourism markets for the Cook Islands are New Zealand with 66 per cent of total arrivals in 2018/19, followed by Australia with 17 per cent and Europe and the USA and Canada at 7 per cent each. Other markets including Asia and French Polynesia make up the remaining 2 per cent. Table 4-5 shows the aggregate tourist arrivals forecasts broken down by major market, by financial year.

Table 4-5 Forecast total tourism numbers, by major market, 2016/17 to 2022/23

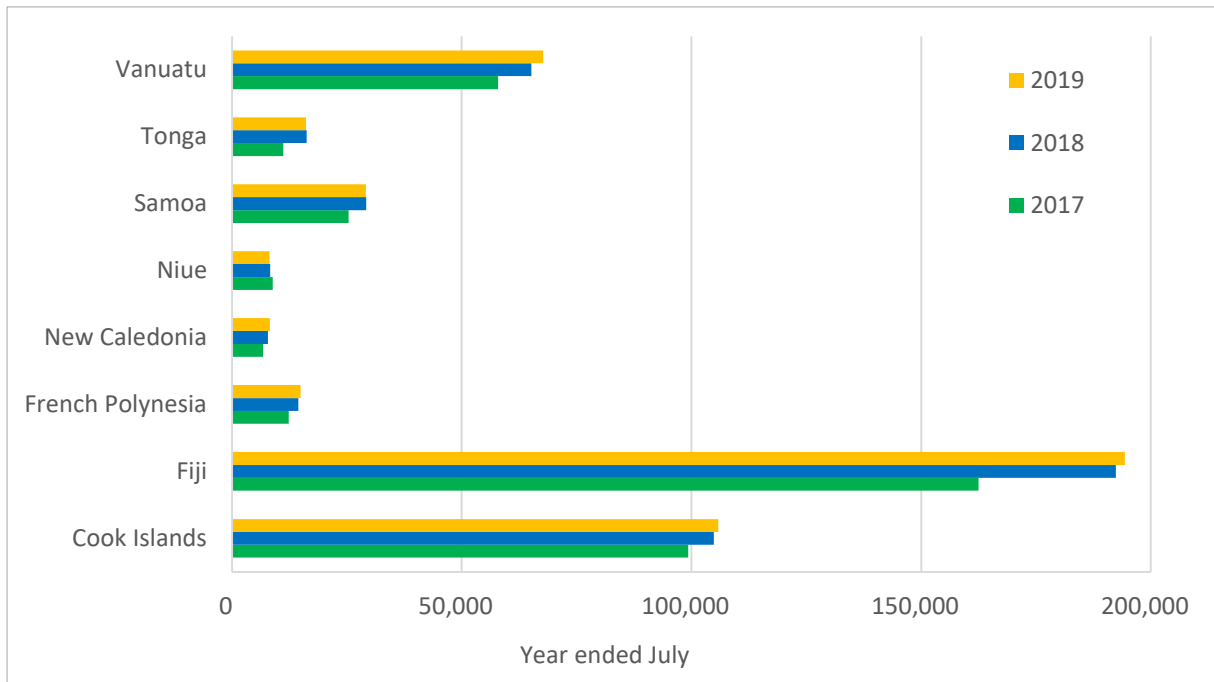
Markets	2016/17	2017/18	2018/19	2019/20e	2020/21f	2021/22f	2022/23f
New Zealand	105,072	110,227	110,607	112,301	114,746	115,124	116,654
Australia	24,578	26,398	28,482	29,864	30,092	30,850	31,199
USA & Canada	10,100	11,418	11,291	11,395	11,867	12,287	12,571
Europe	11,122	11,928	12,358	12,591	13,098	13,747	14,239
Other	4,358	4,829	4,136	4,460	4,488	4,602	4,662
Total	155,230	164,800	166,874	170,611	174,292	176,610	179,324

New Zealand

New Zealand visitors continue to make the strongest contribution to tourist arrival numbers. New Zealand arrivals reached 114,021 in the year to October 2019, a virtually unchanged number over the previous year.

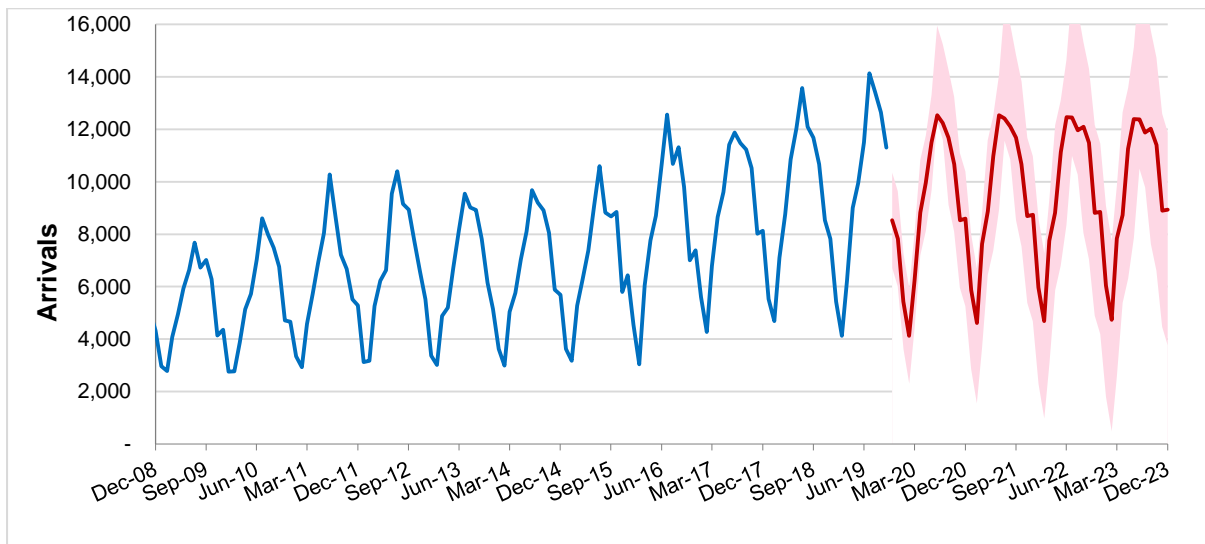
Growth in tourism numbers from New Zealand shows the signs of strain in comparison to the general growth in New Zealand outward tourists to the Pacific, which has increased steadily in recent years. The Cook Islands is receiving a declining share of New Zealand tourists to Oceania, dropping from 6.3 per cent in the year to July 2018 to 6.2 per cent in the year to July 2019, behind Australia and Fiji.

Figure 4-21: New Zealand Pacific resident arrivals, by main country visited



Arrival numbers for New Zealand visitors to the Cook Islands are expected to continue to increase going forward, but at slower rates than in recent years (see Figure 4-22). Growth is estimated at 0.3 per cent in 2018/19, rising to 2 per cent in 2019/20, averaging 1 per cent over the forward budget period.

Figure 4-22: New Zealand arrivals, quarterly, 2008 to 2023

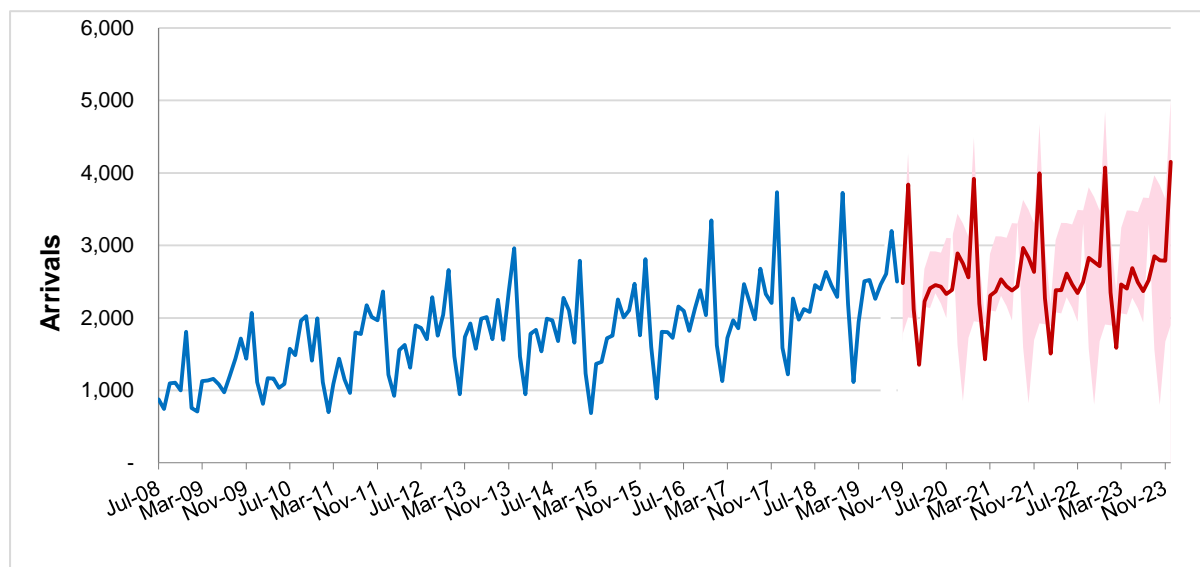


Australia

Australia is the second largest tourism market for the Cook Islands. The Cook Islands has seen significant growth in Australian visitors over the past ten years, with growth averaging about 9 per cent per year. This is off the back of strong growth in Australian outbound tourism (8 per cent from the year to June 2018 to the year to June 2019) and the increase in flights from New Zealand to Rarotonga which has increased interconnection options from Australian cities. Tourism Australia forecasts that outbound tourist numbers will continue to grow in Australia, increasing by an annual average of 3.9 per cent to 2026/27.

Arrival numbers for Australian visitors to the Cook Islands are expected to moderate going forward. Growth is estimated at 5 per cent in 2020/21, before falling further to about 2 per cent by 2022/23 (see Figure 4-23). Australian visitors are expected to increase from about 27,853 to 31,817 over this period.

Figure 4-23: Australia arrivals, quarterly, 2008 to 2023



Other markets

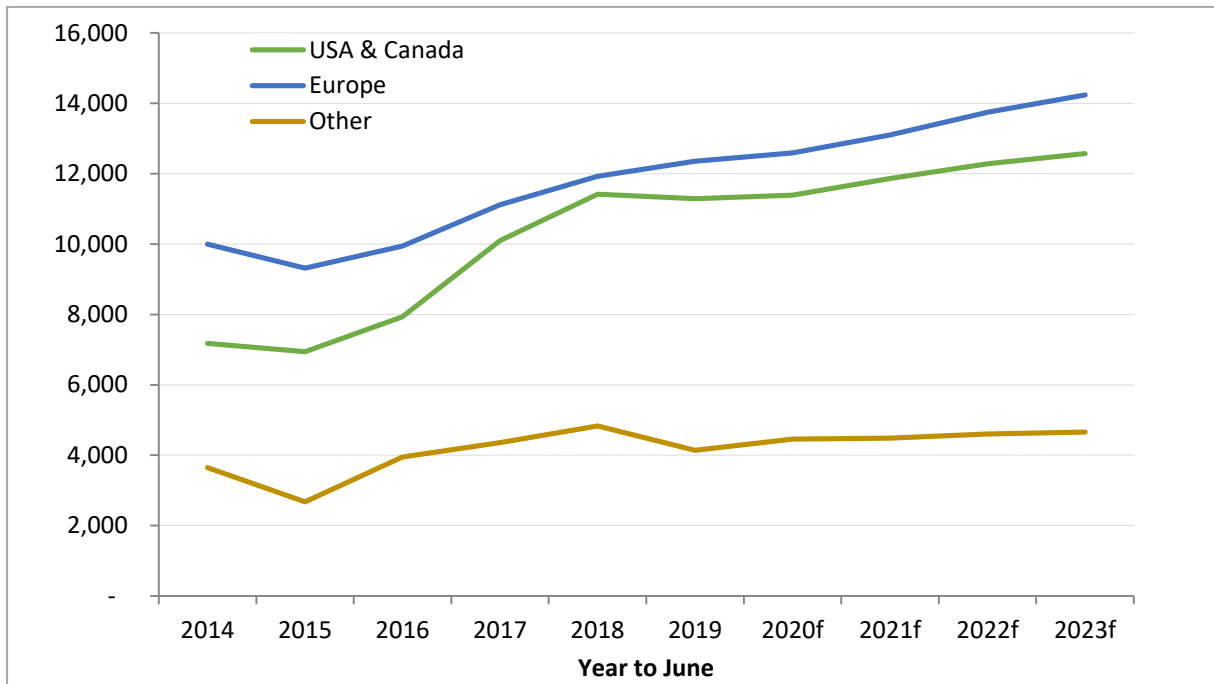
The year to October 2019 has shown weak results for the other Cook Islands tourism markets.

Arrivals from the United States and Canada, the North American market, fell by 3.7 per cent from 11,552 in the year to October 2018 to 11,129. Growth is expected to recover in 2019/20 to 1 per cent, and then stabilize at about 2 per cent by the end of the forward budget period (see Figure 4-24). Any further strengthening US dollar could have a positive impact on tourist numbers.

Visitor numbers from Europe saw slight negative growth in the year to October 2019, from 12,209 in the previous year to 12,142. The growth in previous months of the year was positive, providing a basis for positive trend going into the next year. Growth is expected to be 2 per cent in 2019/20, thereafter averaging about 4 per cent over the forward budget period.

Following strong growth in recent years, arrivals from Asia and French Polynesia fell by 11 and 9 per cent, respectively in the year to October 2019. Average growth of about 1.8 per cent per year is expected over the forward budget period.

Figure 4-24: Other major markets arrivals, 2013/14 to 2022/23

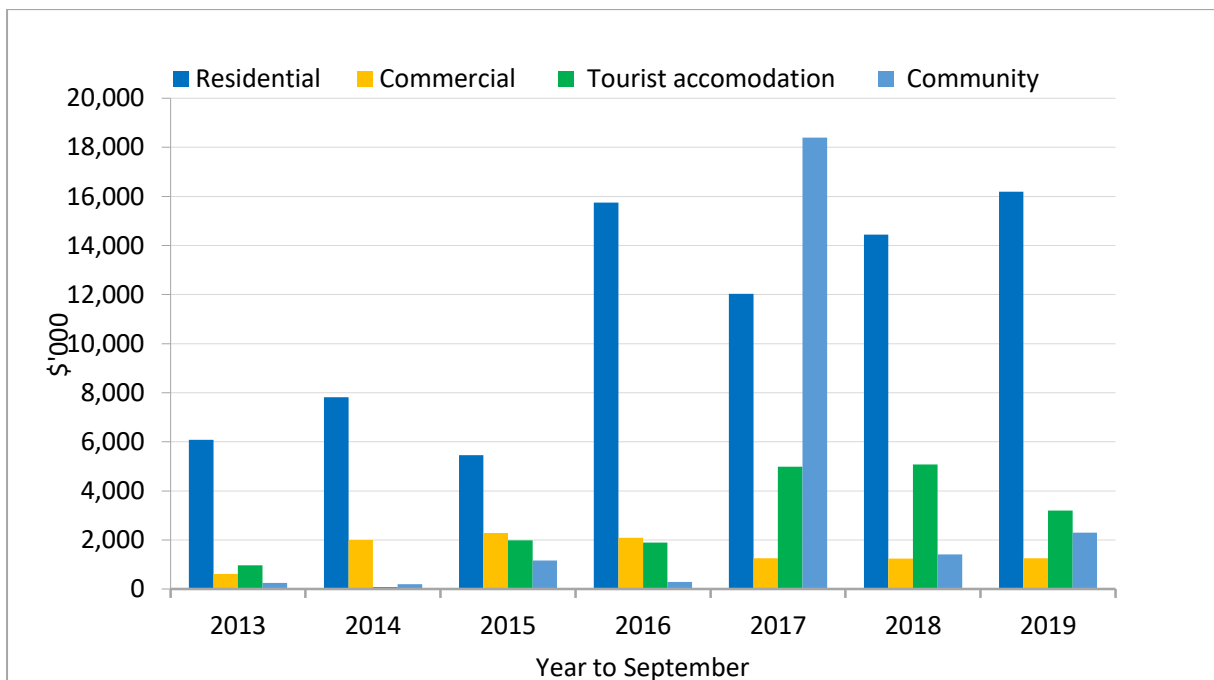


4.6 Housing and construction

4.6.1 Performance

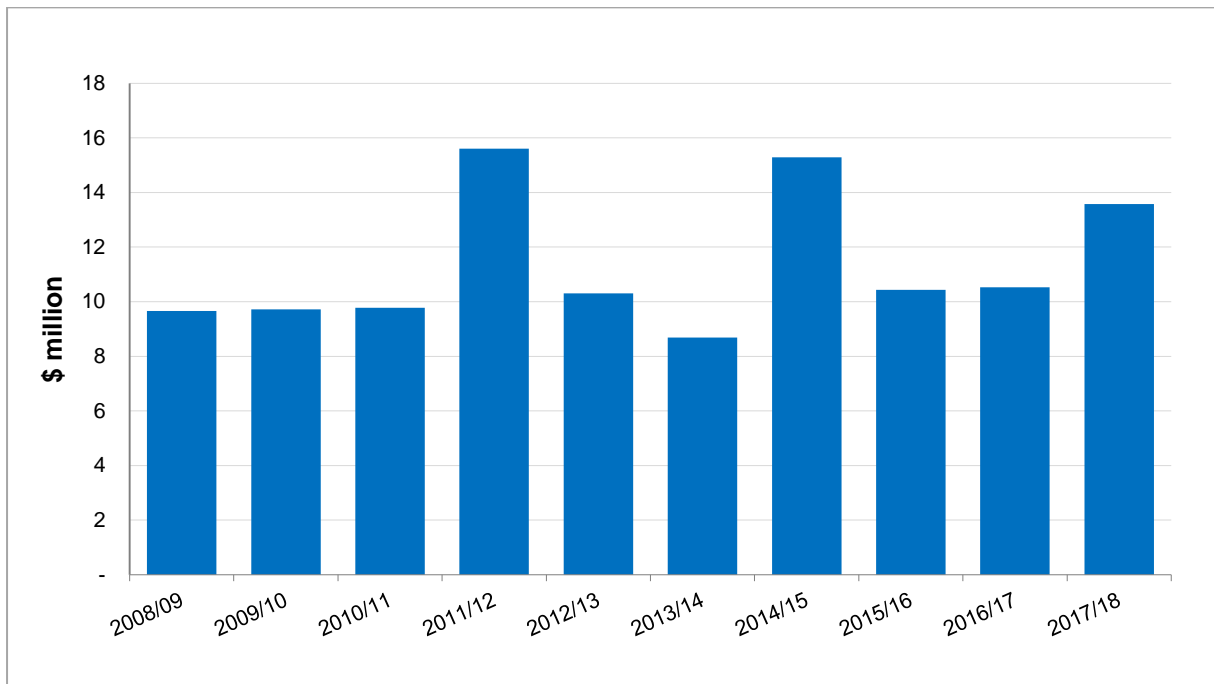
The total value of Cook Islands building approvals in the year to September 2019 rose by 3 per cent to \$23.0 million from \$22.2 million the previous year. A 12 per cent rise in the value residential approvals accounted for the bulk of the increase, along with a 62 per cent increase in the value of Community approvals (Figure 4-25). Together, these rises more than offset a 37 per cent reduction in Tourist accommodation approvals.

Figure 4-25: Building approvals, \$'000, 2013 to 2019



The high level of the value of building approvals in recent years is reflected in the performance of the construction sector of the Cook Islands economy. The construction sector's contribution to GDP, shown Figure 4-26, has risen from \$10.4 million in 2015/16 to \$13.6 million in 2017/18.

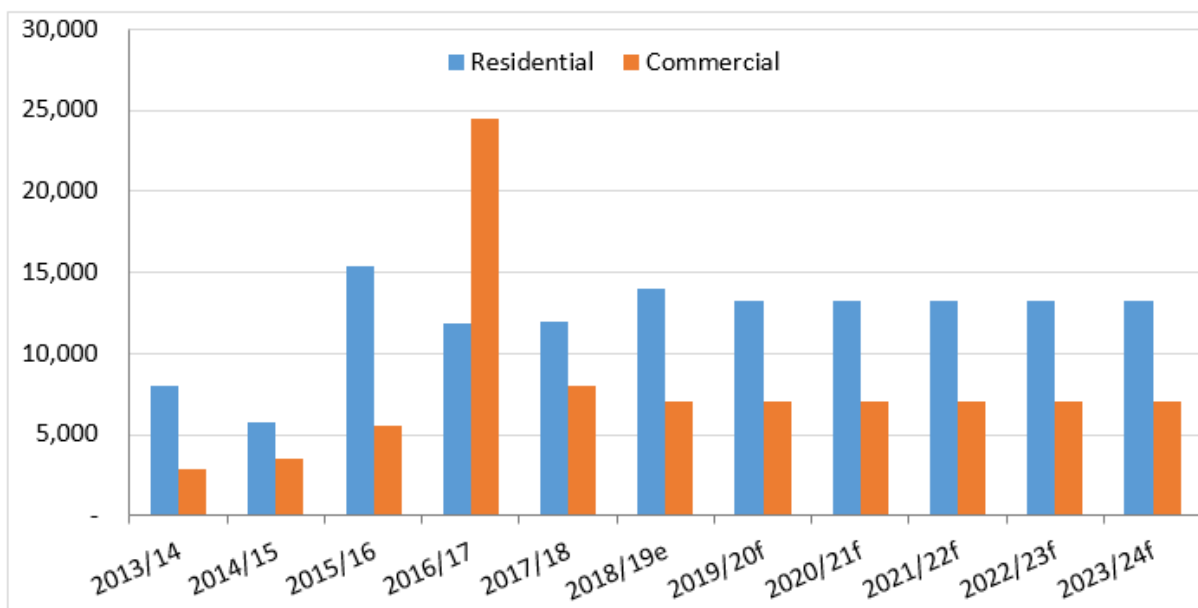
Figure 4-26: Construction sector contribution to real GDP, 2008/09 to 2017/18 (\$'000)



4.6.2 Outlook

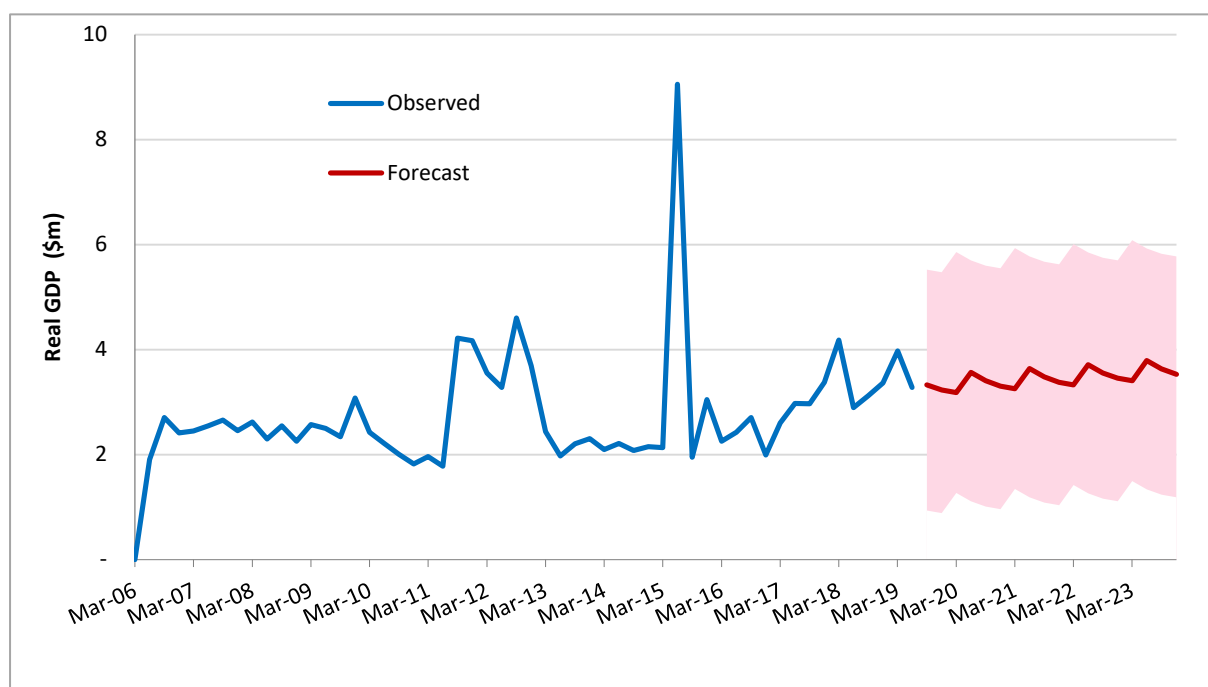
Going forward it is expected that both residential and commercial building approvals will stay at similar levels to those seen in 2018/19, reflecting the expected level of construction activity to service the tourism market, and continuation of government expenditure on a wide range of capital projects (see Figure 4-27).

Figure 4-27: Value of building approvals, 2013/14 to 2023/24 (\$'000)



The expected level of building approvals over the forward budget period is reflected in the steady state medium-term forecast for the construction sector as a whole shown in Figure 4-28.

Figure 4-28: Construction sector forecast, 2006 to 2023 (\$ million real)



4.7 Marine resources

4.7.1 Fishing

The main benefit to the Cook Islands Government from fishing activities is revenue from treaty arrangements, license fees and the sale of catch quotas. The provisional revenue estimate for 2019/20 is \$17.7 million.

Under the Quota Management System (QMS) there is a total allowable catch of 9,750 metric tonnes (MT) of albacore tuna and 3,500 MT of bigeye tuna per calendar year. The quota system was implemented in January 2017, with revenue returns in 2019 of around \$3.7 million, exceeding previous licensing arrangements which returned around \$2.4 million per year.

A significant portion of revenue comes from the purse seine fishery, where the Cook Islands Exclusive Economic Zone (EEZ) has a total limit of 1,250 fishing days in accordance with management measures implemented by the Western Central Pacific Fisheries Commission (WCPFC).

During 2016, the US and Pacific Island states negotiated a new US Multilateral Treaty with a six year term. Under the agreement the Cook Islands will commit 350 fishing days annually before the start of the calendar year. In 2019 the United States acquired 327 fishing days under this pool. In addition, the US fishing industry also entered into bilateral arrangements for up to 200 additional fishing days for vessels which have not acquired pooled days or who require additional days.

In January 2018, the Government renewed licenses for two Spanish purse seine fishing vessels under the European Union (EU) Sustainable Fisheries Partnership Arrangement. Under the 8 year agreement there is a 4 year protocol for fisheries access allowing up to 7,000 MT per year to be fished by EU Purse Seiners. This arrangement accounts for approximately 158 of the 1,250 vessel days assigned annually by WCPFC.

For the 2019 calendar year, the price for a fishing day ranged between \$13,500 to \$14,500, as determined by exchange rates which affect the US Treaty; and the EU fisheries partnership, and vessel days charged at a rate of US\$9,500 per day. Projected fisheries revenue for 2019/2020 is about \$17.7 million. The sources of revenues include:

- \$3.5 million from the longline licensing, development fees and quota management system;
- \$1.2 million from the US Treaty equal shares;
- \$4.4 million from the US Treaty annual pool;
- \$1.5 million from the US Treaty bilateral arrangements;
- \$6.4 million from other bilateral arrangements
- \$400,000 from the EU Sustainable Fisheries Partnership Agreement (SFPA) fishing authorisations.

The figures above exclude ODA of US\$156,000 from the US Treaty Project Development Fund, and EUR350,000 for EU SFPA fisheries sectoral support. Fisheries revenue is expected to remain relatively stable. Purse seine related revenue are largely dependent on annual fishing patterns influenced by climatic conditions i.e. El Nino, and therefore experience year on year fluctuations. Fisheries management arrangements and differences in pricing for purse seine vessel days will also influence where and when fleets choose to fish.

Fishing activities

The Cook Islands EEZ is divided into the northern and southern fishery grounds (delineated at 15°S latitude), with most of the fishing activity taking place in the northern fishery which is more stable and productive.

The longline albacore fishery catch is generally unloaded or transshipped in Apia, Samoa or Pago Pago, American Samoa with some unloading in Papeete, French Polynesia.

Longline catch peaked at 15,500 MT in 2012 when exploratory fishing for bigeye tuna was conducted. This experience helped to inform the setting of catch and effort levels that could be maintained to support both biological and economic objectives of the fishery, which are about where current levels are and should be maintained.

Since then, catch has declined to 3,945MT in 2019 (provisional estimates) as the fishery has reverted to its reduced regulated albacore catch limits. Over the same period purse seining has become the dominant fishery in the Cook Islands, in terms of both catch and value, expanding from 476 MT in 2010 to a peak of 30,273 MT in 2018.

The Quota Management System applies to two species caught in the longline fishery. This is implemented through the Marine Resources (Large Pelagic longline Fishery and Quota Management System) Regulations 2016 (QMS) which came into force on 1 January 2017, by placing quota limits on albacore (ALB) and bigeye tuna (BET) in Cook Island waters.

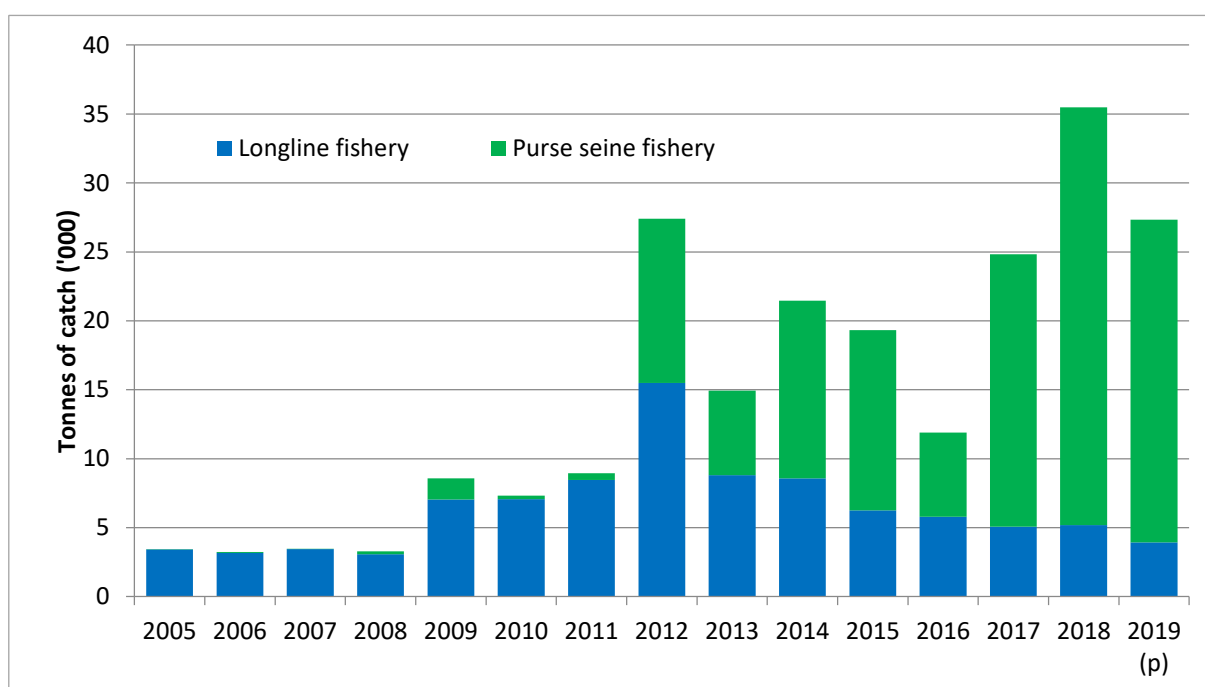
The QMS Regulations placed a commercial quota limit or total allowable commercial catch (TACC) and total allowable catch (TAC) for each of the species as follows:

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

In 2019 a total of 9,200 MT of ALB was purchased accounting for 95.9 per cent of the ALB TACC, and a total of 1,275 MT BET was purchased accounting for 51 per cent of the BET TACC.

Provisional commercial catches for all pelagic fishing sectors is 27,330 MT in 2019, a decrease from 35,607 in 2018, however an increase from 25,695 in 2017.

Figure 4-29: Fishery catch in the Cook Islands EEZ (MT)



The Cook Islands artisanal and sports fishing game charter operators reported catch of 150 MT in 2018. Provisional 2019 catches are 91 MT.

Provisional catch estimates indicate albacore and yellowfin tuna together account for around 81 per cent of species caught by longline in 2019, with a decrease in yellowfin compared to 2018 (Table 4-6). Increases in purse seining result in skipjack being estimated as the dominant catch species in 2019, with approximately 22,245 MT accounting for 95 per cent of the total catch.

Table 4-6: Fishery catches in the Cook Islands EEZ by species (MT)

	2017			2018			2019(p)		
	Longline	Purse Seine	Local	Longline	Purse Seine	Local	Longline	Purse Seine	Local (P)
Albacore	3,315	0	0	3,697	0	1	2,657	0	3
Bigeye	259	439	0	254	256	1	294	290	0.5
Yellowfin	902	1,767	150	775	1,068	87	536	729	49
Skipjack	76	18,202	23	13	28,949	5	11	22,245	4
Other	506	0	56	445	0	56	447	0	35
Total	5,058	20,408	229	5,184	30,273	150	3,945	23,398	91

In 2019, a total of 132 licensed vessels were managed by the Ministry of Marine Resources (MMR). These include 62 long liners, 51 purse seiners, 2 high-seas trawlers, 1 bottom pot/trap vessel, 2 transshipment carriers and 14 bunker vessels. In addition, there were 238 local artisanal and game charter fishing boats reporting catches to the MMR (Table 4-7).

Table 4-7: Number of active fishing vessels

Licensed and active vessels	2014	2015	2016	2017	2018	2019e
Long liner	36	38	47	55	40	62
Purse seiner	18	65	33	16	36	51
Other commercial	5	5	10	8	13	19
Total	59	108	90	79	89	132
<i>Local artisanal and game fishery</i>	302	301	285	273	238	238

One domestic commercial fishing company, with three Cook Islands' flagged longline vessels, operates in the southern Cook Islands waters, and offloads its catch to Avatiu port catering for the domestic market and export markets such as Japan. For Cook Islands domestic vessels that unload in Rarotonga, 183 MT was unloaded in 2018 compared to 286 MT in 2017. This decrease in catch volume can be attributed to the reefing of one of the domestic vessels operating out of Rarotonga in 2018. The volume of exports decreased from 25 MT to 8 MT over this period.

Landed frozen catch by foreign flagged vessels in Rarotonga totaled nearly 400 MT in 2016, up from 363 MT in 2015. There was no landed catch by foreign vessels in Rarotonga for 2017 and 2018. In 2019 two series of transshipments were conducted, one in Rarotonga and one in Pukapuka with a total of 1,500 MT being trans-shipped.

Table 4-8: Catch landed at Avatiu Port (MT)

	2015	2016	2017	2018	2019 (p)
Cook Islands flagged vessels					
Fresh catches offloaded	188	179	286	173	145
Fresh catches to be exported by airfreight	115	125	25	8	0
Chinese flagged vessels					
Frozen by-catch sold locally	0	0	0	0	0
Frozen catches to be exported by sea freight	363	399	0	0	1,500
Total	666	703	311	181	1,645

The small-scale fishery remains an important economic activity for game-charter operators and artisanal fishermen. Improvements in catch data by island is expected in the near future, a result of incentivised reporting as part of a fuel subsidy program instituted by MMR.

MMR, in conjunction with the South Pacific Community (SPC), continues to upgrade its fisheries information management capacity and capabilities through the integration of coastal monitoring and data collection methods, and the streamlining of this process through the use of electronic reporting mediums, such as the android 'Tails' application. This has resulted in improved data coverage in artisanal data collection.

A significant outcome is the use of technology that can operate with limited internet connectivity, providing a solution for geographically isolated islands with limited infrastructure, and reducing administrative and resource costs related to data management and processing.

A fisheries development fee of \$10,000 is charged to each foreign fishing license. In 2018, \$300,000 was made available through administrative payments to support the local fishers comprising of \$100,000 for the Cook Islands Fishing Association, \$150,000 in small grants to individuals and \$50,000 for the fishing clubs of the Pa Enea Tokerau (Northern Group).

The FAD program remains a top priority for MMR under the inshore and aquaculture division. From January to October 2019, a total of 11 successful Fish Aggregating Device (FAD) deployments were conducted in both the northern and southern group islands. A total of 32 FAD's are active and are serviced and maintained by Fisheries Officers on each island, with assistance from some local fishers. A number of projects complement national budgetary allocations to maintain the FAD program. This includes the Fisheries Development Facility, Ridge to Reef and EU-SFPA.

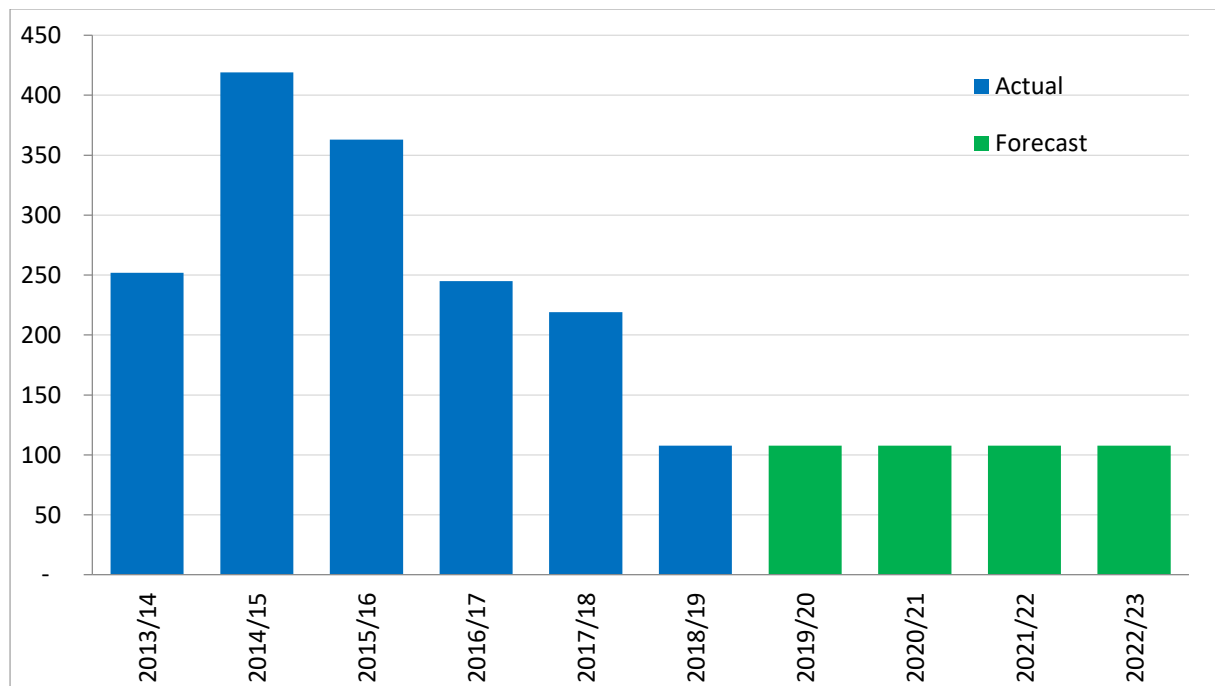
4.7.2 Black pearls

The pearl industry in the Cook Islands has declined markedly over the past 15 years. Total pearl exports reached an all-time high in 2000 at just over \$18 million, however unregulated farming practices, poor oyster health conditions and disease, along with increased competition in the international market has resulted in continued declines in exports.

In 2018/19, the value of pearl and pearl shell exports fell to \$108,000, down from \$219,000 in 2017/18 (Figure 4-35). In the Cook Islands there has been a distinct shift by major farmers investing in vertically integrated business models, with a focus on visitors and sales on the domestic market. As a result, export values are no longer representative of levels of production.

French Polynesia continues to be the major supplier of raw and finished black pearl products to the international market, keeping prices relatively low. Anecdotal information indicates increased imports of black pearl products from French Polynesia to the Cook Islands.

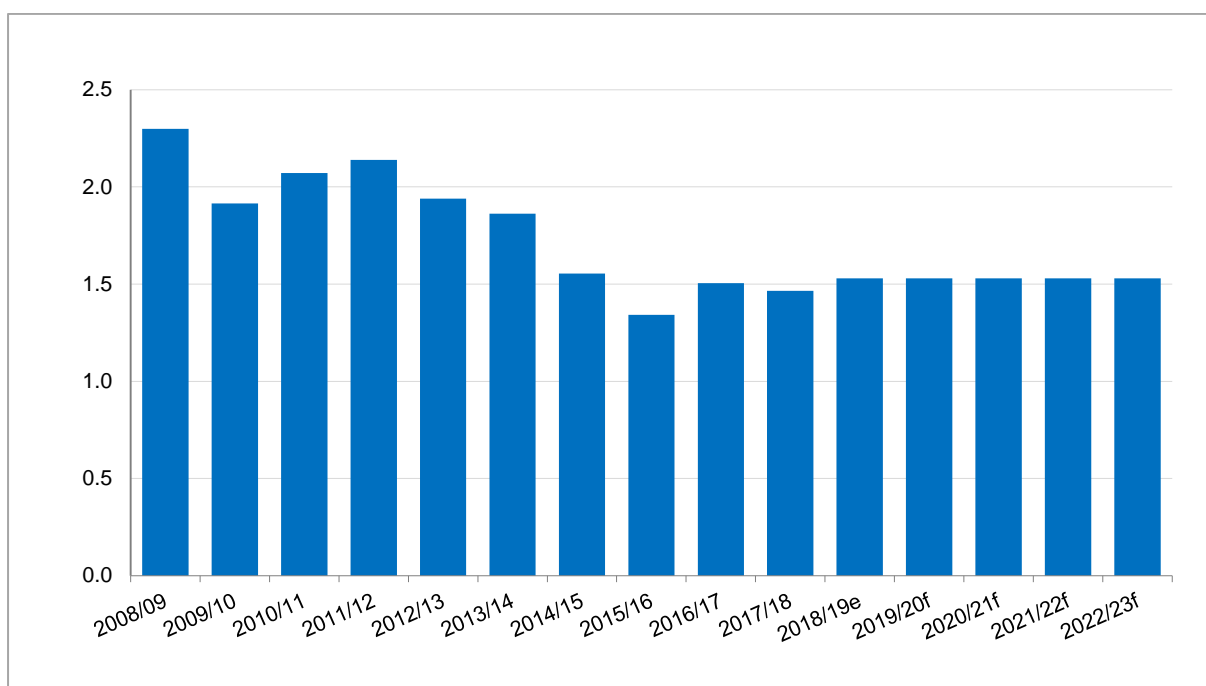
Figure 4-30: Pearl exports, 2013/14 -2022/23 (\$'000)



4.7.3 Economic contribution

The Fishing and Pearl sector which accounted for less than one per cent of real GDP in 2017/18, contracted by 4 per cent from \$1.54 million the previous year to \$1.48 million, in real terms. A slight rebound is expected in 2018/19, rising to about \$1.53 million. The outlook for the sector over the budget forecast period is steady, as shown in Figure 4-31.

Figure 4-31: Fisheries contribution to GDP, annual, 2008/09 to 2022/23 (\$m real)



4.8 Agriculture

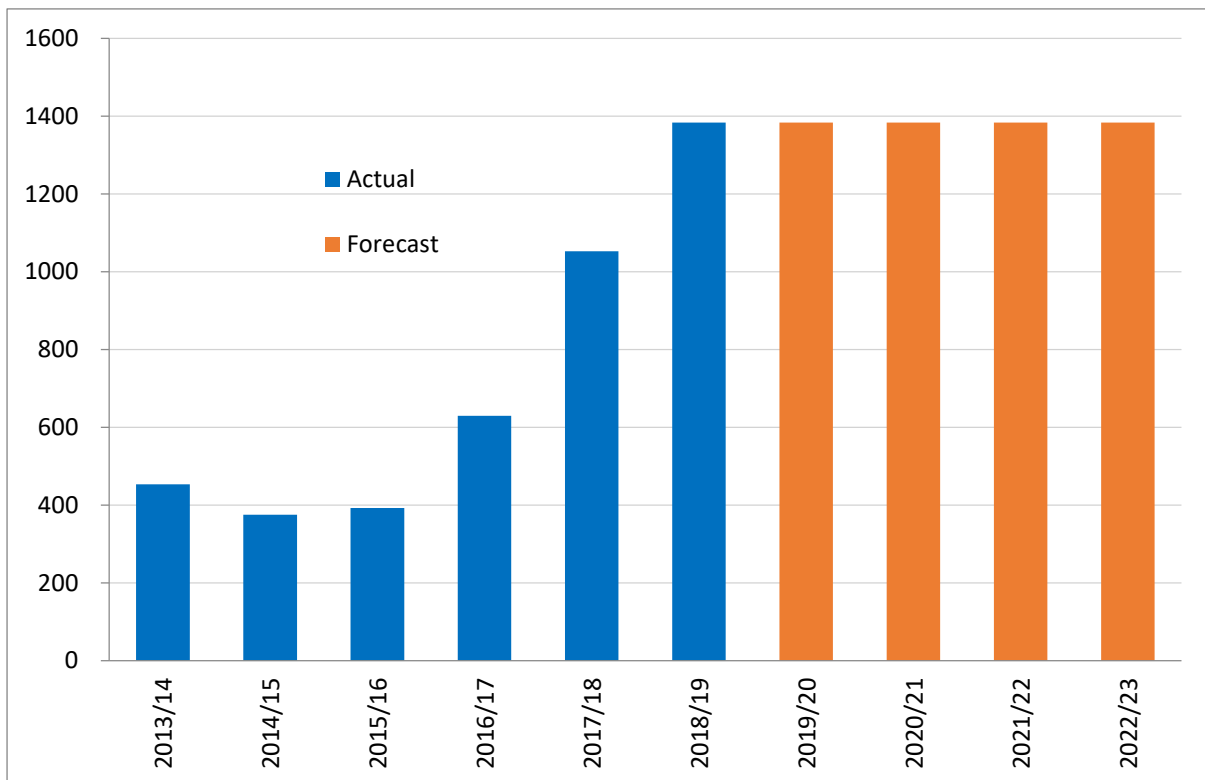
4.8.1 Agricultural activity and exports

The Agricultural sector accounted for about 2 per cent of real GDP in 2017/18, growing by about 1 per cent in 2017/18 from \$10.58 million to \$10.64 million in real terms.

This growth was underpinned by a significant expansion in agricultural exports in 2016/17 and 2017/18, following a decrease in 2015/16. Noni Juice remains the main export commodity product from the Cook Islands, with the primary export markets in Japan, China and, more recently, South Korea.

Total agricultural exports, almost entirely comprised of Nono, rose from \$630,000 in 2016/17 to just over \$1 million in 2017/18, an increase of 67 per cent (see Figure 4-32). In 2018/19 agricultural exports further increased to \$1.7 million.

Figure 4-32: Agriculture exports 2013/14 to 2022/23 (\$'000)



The Ministry of Agriculture continues to support commercial farmers and home gardeners on Rarotonga and the Pa Enua through their regular vegetable and fruit tree seedling propagation program, technical advice and supply of selected farm inputs including organic pesticides and slow-release compound fertilizers.

Between July and early November 2019, an estimated 28,400 seedlings of tomatoes, capsicums and cucumbers were supplied to more than 18 commercial farmers on Rarotonga. Many more seedlings of leafy and fruit crops including watermelons, courgette and papaya were distributed to some of the same commercial farmers and other part-time commercial farmers. If planted at recommended spacing, and the adequate management is provided, the three crops of tomatoes, capsicums and cucumbers would cover an estimated 5.56 acres with an estimated gross value of \$323,176.

The relocation of an officer to Mangaia in September 2019 has assisted the Ministry with the collation of produce data from the open market, including those sold through the local stores and produce exported to Rarotonga. During the month of October, the value of produce sold at the Mangaia market was estimated at \$6,049 while produce sold through the shops and directly from the home were estimated at \$2,060 and \$3,140, respectively. Most of the produce sold direct from the homes comprised of mainly root crops. The market data also included the value of processed products including Tiromi (pounded Taro), Banana and Cassava pudding. There is a regular weekly supply of an estimated 25kg of Capsicums and Tomatoes by a single commercial farmer to Prime Foods.

The nursery seedlings program will continue to play a significant role in ensuring a continuous supply of fresh produce to the shops, supermarkets, hotels, restaurants and the Punanga Nui marketplace. Food production in the Pa Enua has continued to develop over the years, at a rather slow pace, to mainly cater for the needs of the local population. This trend is expected to continue in the next 2-3 years, as only a small proportion of the population is engaged in mainly part-time farming activities.

The Ministry of Agriculture continues to work with farmers in the southern Pa Enua with regards to their programs in planting. A few crops were selected such as tomatoes, capsicum, ginger, turmeric

and broccoli for farmers to supply Rarotonga while also planting other crops favored by their respective islands, such as watermelon. Resourcing these farmers with small equipment and advisory tips to reduce inputs and maximize outputs were the key areas focused on to ensure a consistent supply to the market.

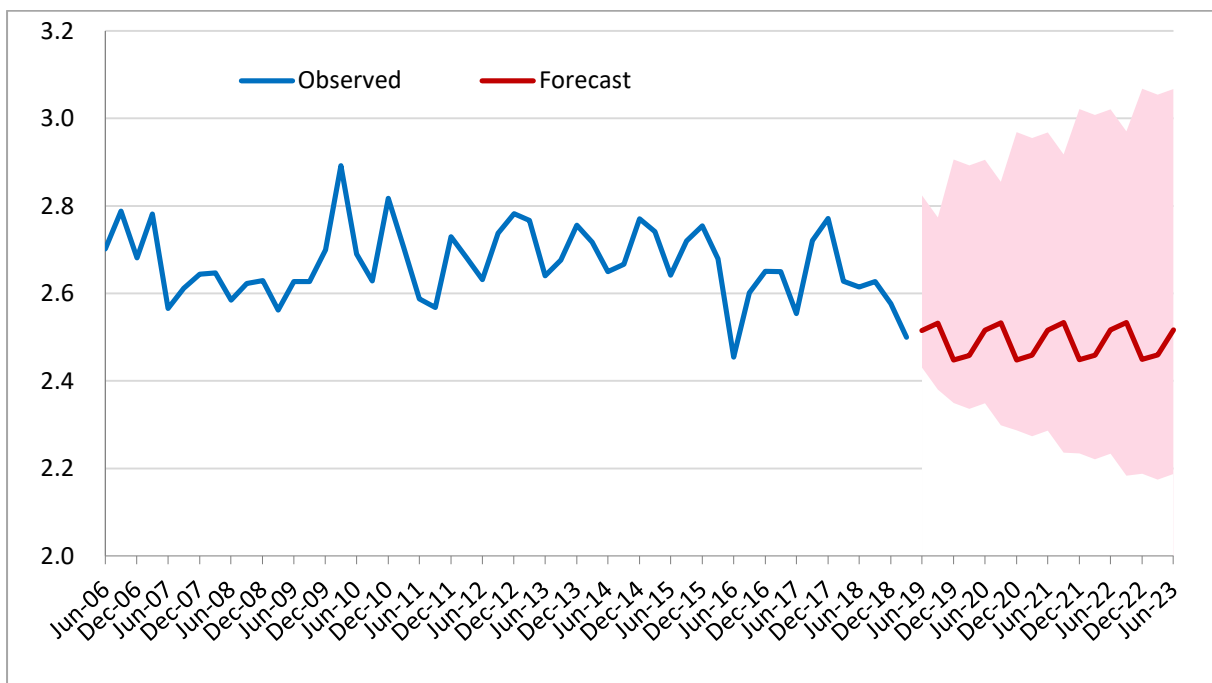
Two islands are supplying Prime Foods weekly or when flight cargo space permits. Mauke has two out of five consistent vegetable farmers supplying Rarotonga while three out of eight consistent farmers in Mangaia are supplying Rarotonga (AgINTEL, 2019). We expect data from AgINTEL to further verify their supply of produce as the farmers have agreed to provide data to the Ministry for better recording and planning purposes. Local produce planted and sold has increased by 0.5% from 2018 to 2019 and is expected to increase further by the end of 2019. This shows a further positive indicator as we have not reached our peak season for planting. (AgINTEL, 2019).

In 2018/19, it was estimated that 4,289kg to 4,324 kg of local food crops were sold at Punanga Nui market on a monthly basis (AgINTEL, 2019). These survey results show a slight increase in local food production to meet local demand in 2019, particularly on Rarotonga. It is anticipated that the Cook Islands will continue to rely on imported produce to supplement local food supply. This is further augmented with the significant decline of arable land suitable for agricultural purposes, and slow interest of young people in this trade/vocation. The MOA, with its new Advisory Services Division continues to work on its educational programs to promote and increase awareness and interest in this area to the schools and youth.

4.8.2 Economic contribution

A steady economic outlook for the agriculture sector is expected over the budget forecast period, as shown in Figure 4-33.

Figure 4-33: Agriculture contribution to GDP, quarterly, 2006/07 to 2022/23 (\$ million real)



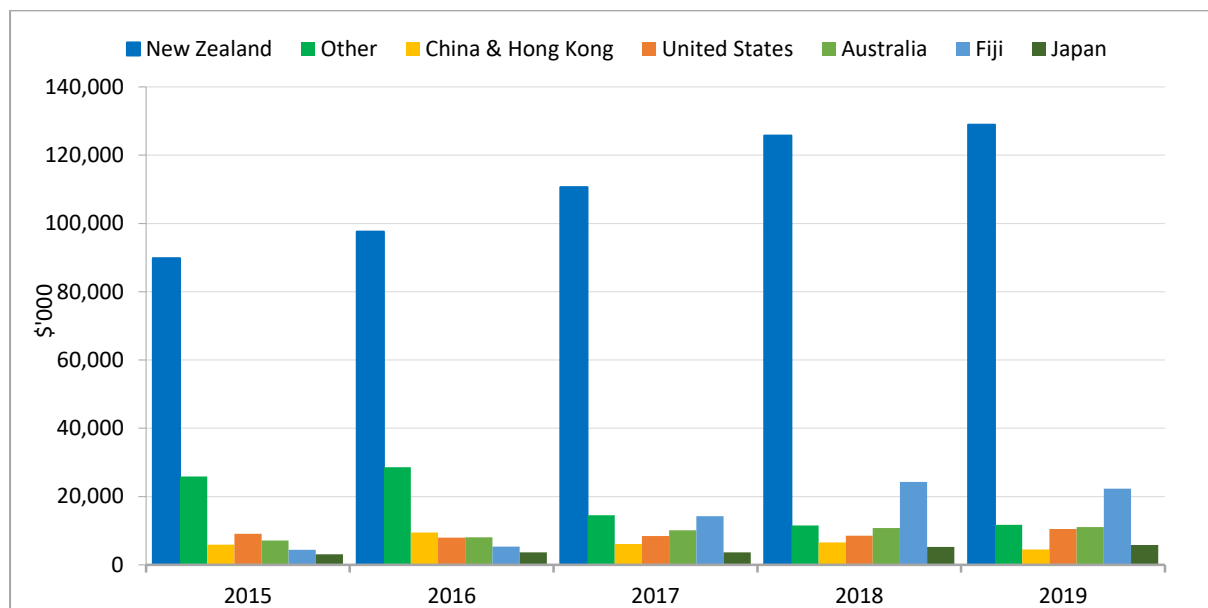
4.9 Goods imports and exports

4.9.1 Goods imports

Due to the size and geography of the Cook Islands, the country is highly reliant on the import of goods.

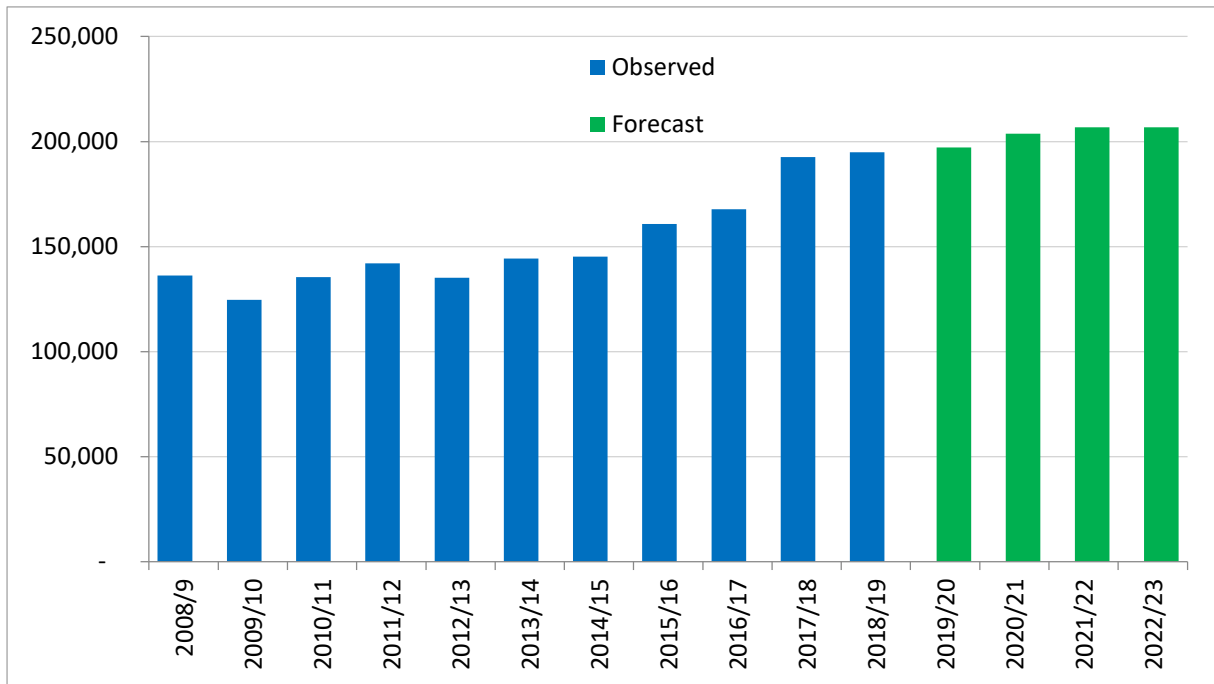
In the year to August 2019, the total value of imports into the Cook Islands held relatively steady, registering a minor decline from \$197.4 million to \$196.7 million. The latest quarterly data, through June 2019 shows a 1.2 per cent increase in imports, driven mostly by a 2.5 per cent growth of imports from New Zealand (see Figure 4-34).

Figure 4-34: Import value by country of origin, year to June (\$'000)



Looking forward, import growth is expected about 2.3 per cent per year for two reasons: the first relates to the maturation of the current large capital projects, which will further reduce the importation of machines, transport and equipment. The second is the expected slowdown in the growth of tourism arrivals which should drive lower growth in the importation of food.

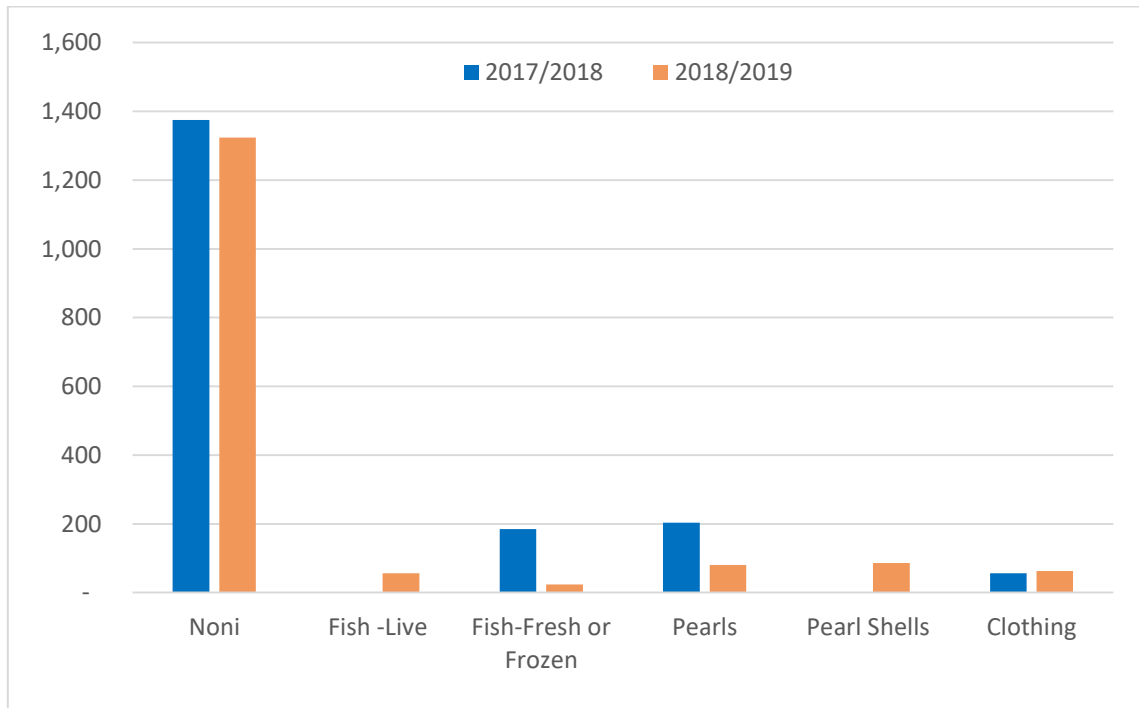
Figure 4-35: Value of total imports, annual, 2008/09 to 2022/23, year to June (\$'000)



4.9.2 Goods exports

Total goods exports in the year to August 2019 more than tripled from to \$1.7 million to \$6 million. This growth however, has resulted from two large export shipments of recyclables, valued \$4.4 million. Excluding these two items, the exports would have fallen by 5 per cent to \$1.6 million.

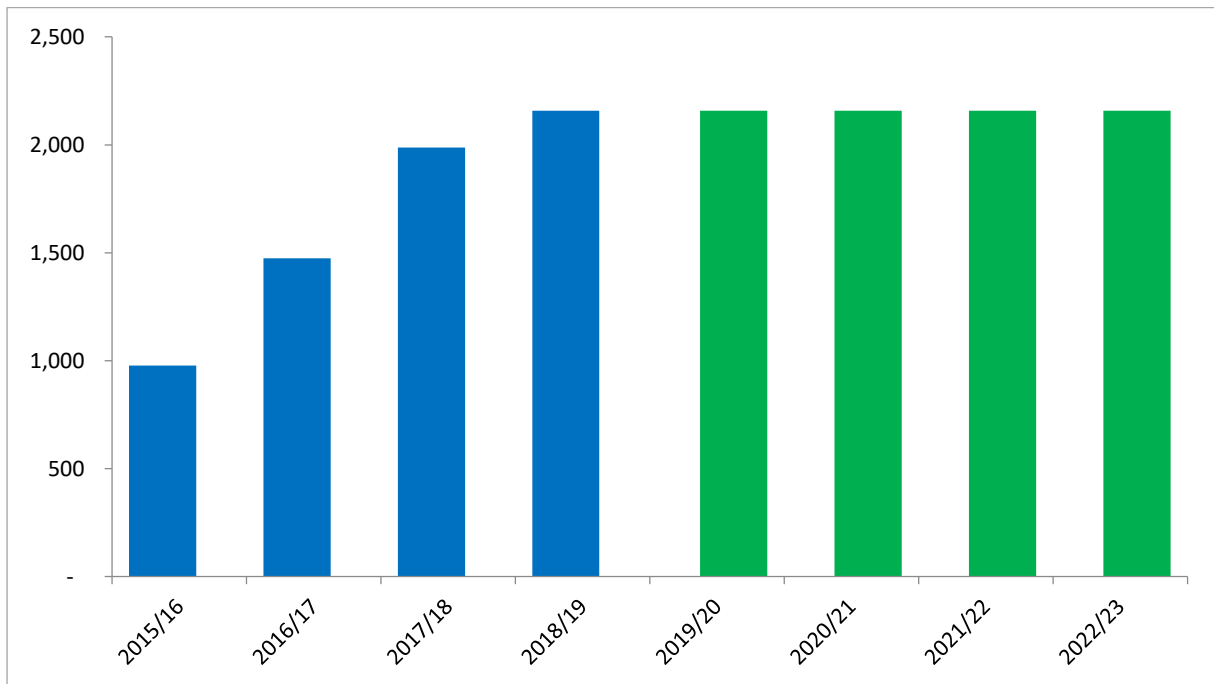
Figure 4-36: Major goods exports, 2018 and 2019, year to June (\$'000)¹⁴



¹⁴ Excludes 4.37 million in recyclables export in 2019.

Looking forward, the value of goods exports is expected to remain steady, as shown in Figure 4-37.

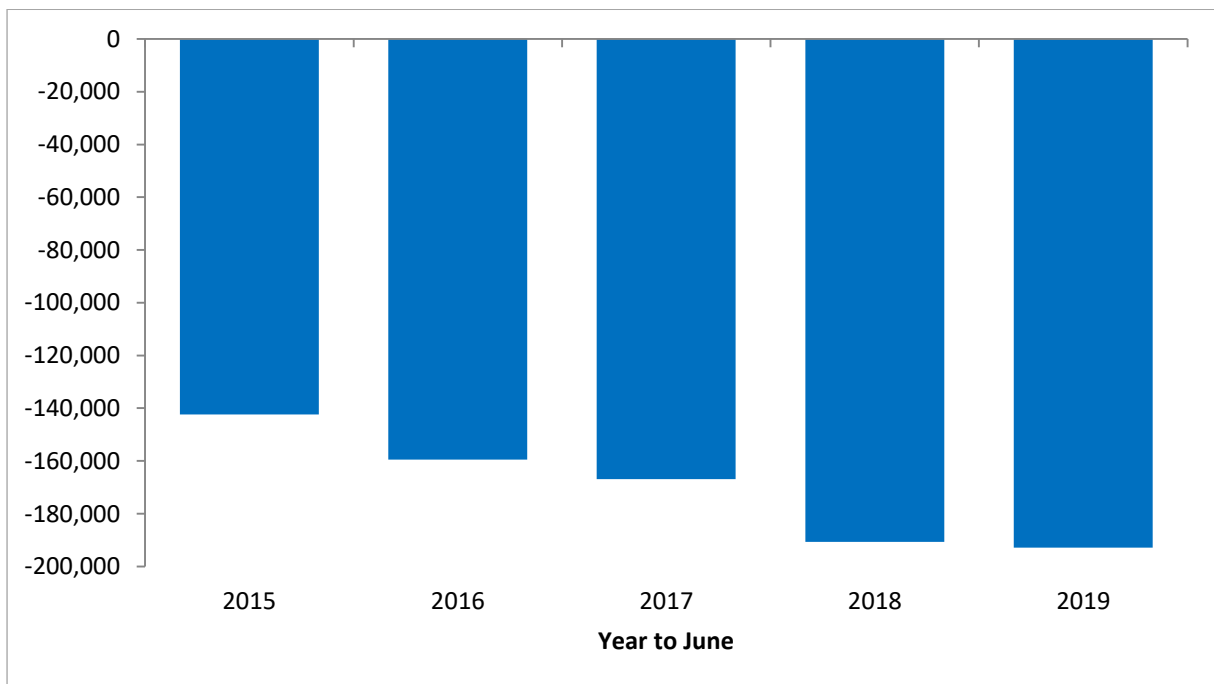
Figure 4-37: Total goods exports 2015/16 to 2022/23 (\$'000)



4.9.3 Merchandise balance of trade

As a result of the positive growth in imports a negative merchandise balance of \$192.8 million has been reported for year ending June 2019, an increase from the negative \$190.7 million in the same period of 2018 (see Figure 4-38).

Figure 4-38: Merchandise balance of trade, 2015 to 2019 (\$'000)

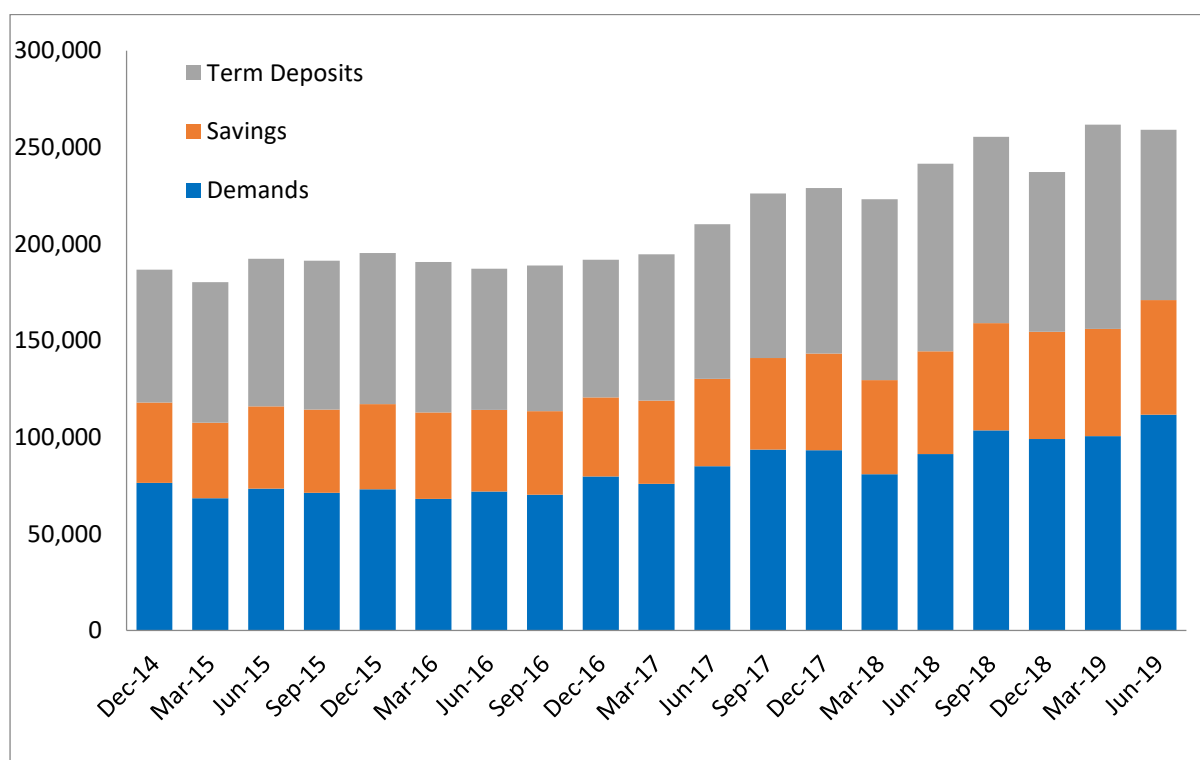


4.10 Banking and finance

4.10.1 Deposits

Total deposits in Cook Islands banks in June 2019 when compared to June 2018 rose by 7.3 per cent from \$241.5 million to \$259.1 million. The key driver of this increase, about 22 per cent, was a steep rise in demand deposits, from \$91.3 million to \$111.6 million. Term deposits decreased by 9.1 per cent over this period.

Figure 4-39: Total value of bank deposits, December 2014 to June 2019 (\$'000)

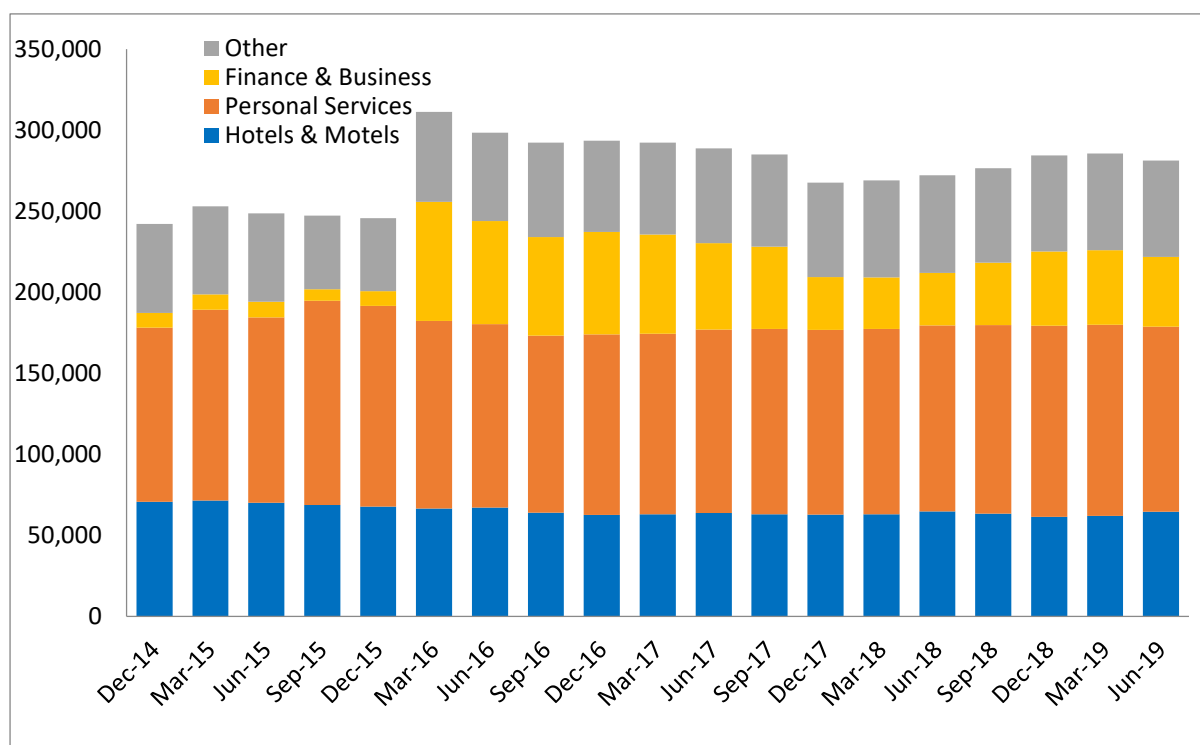


4.10.2 Loans

Lending by Cook Islands banks is dominated by loans to the Personal services, Hotel and motels and Finance and business industry sectors.

Total lending by Cook Islands banks in June 2019 when compared to June 2018 rose by 3 per cent from \$271 million to \$281 million. Agriculture & fishing, as well as Finance & business categories recorded significant increases, more than enough to offset falls in Transport and Communications, Wholesale and retail trade and Personal services categories. Personal services loans account for 41 per cent of total lending, followed by Hotels & motels on 23 per cent.

Figure 4-40: Total value of bank loans, December 2014 to June 2019 (\$'000)



4.11 Financial services industry

4.11.1 The industry

The financial services industry, by statutory definition, includes those Cook Islands businesses licensed to carry on banking, insurance and trustee company business, both domestically and internationally.

The Cook Islands has passed laws to ensure its financial institutions comply with the OECD's Common Reporting Standard requiring the automatic exchange of an individual's financial information with the country where that individual is tax resident. Similarly, the Cook Islands has passed laws specifically requiring that financial institutions provide the United States (US) Internal Revenue Service with financial information held on US taxpayers.

In October 2018, the Financial Action Task Force (FATF) published the Cook Islands second Mutual Evaluation Report (MER), the first being in 2009. The FATF is an inter-governmental body responsible for policy making on international AML/CFT standards. The evaluation process took 18-months. The Cook Islands rated "largely compliant" or above on 38 of the FATF's 40 recommendations for technical compliance. At that time, this had not been surpassed by any other jurisdiction. The Cook Islands also obtained five "substantial" ratings for the effectiveness of its AML/CFT regime. The 2018 MER is a significant achievement for the Cook Islands.

In 2017 the European Union (EU) commenced its good tax governance initiative whereby it assessed over 90 countries against its criteria of transparency, fair taxation and compliance with the OECD's anti-base erosion and profit shifting measures. The EU assessed the Cook Islands and identified certain areas that it considered amounted to preferential and harmful tax regimes. The Cook Islands has been given until the end of 2019 to address these concerns. The international financial services industry, and in particular the business of the licensed trustee companies, will be most affected by the changes required by the EU.

The licensed trustee companies are responsible for the administration of approximately 3,500 entities and trusts registered on the Cook Islands international registers. The registration and renewal fees

derived by Government from these entities/trusts for the year ended 30 June 2019 was approximately \$1.2 million. The growth of these numbers depends on the impact of international regulatory requirements and the licensed trustee companies' ability to operate efficiently and diversify with innovation. Product development will be essential to growth. The primary market for the services of licensed trustee companies remains the USA, however efforts are being made to develop an Asian market.

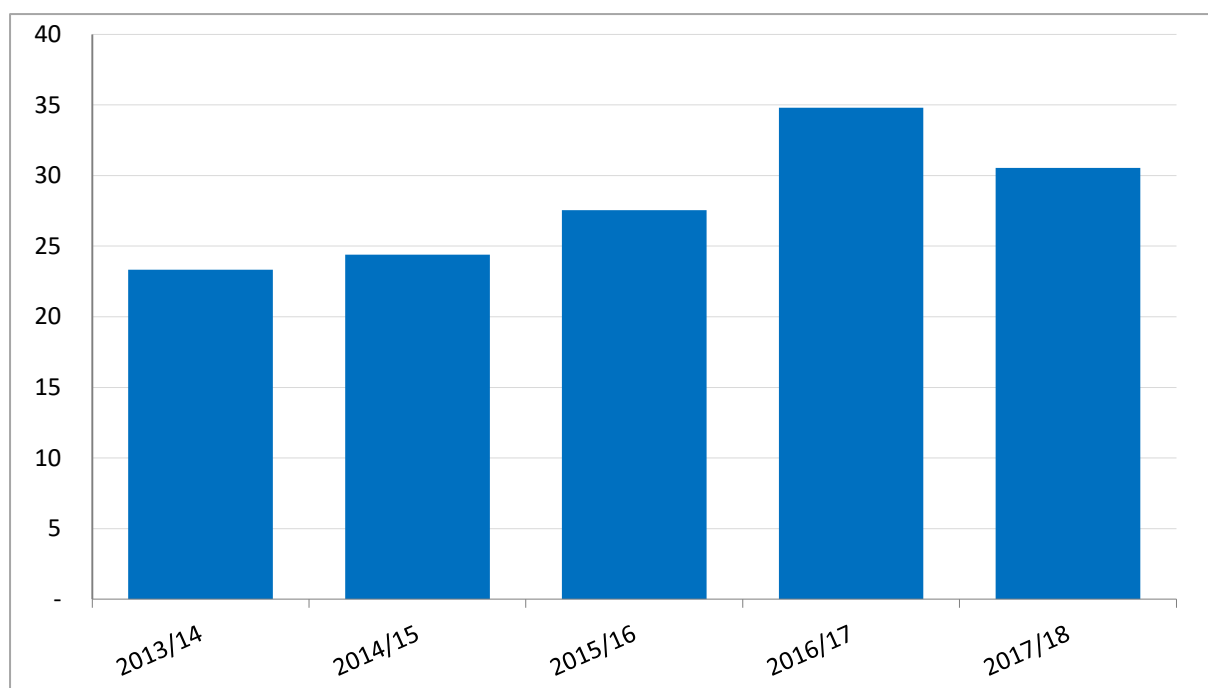
4.11.2 Economic contribution

Financial services industry – domestic and international

The financial services industry, which includes trustee companies, banks, insurance companies and money exchangers, employs over 260 staff, accounting for approximately 4.6 per cent of total employment in the Cook Islands.¹⁵

The Cook Islands Statistics Office identifies the financial services industry as the finance and insurance sector. The finance and insurance sector's contribution to GDP, shown in Figure 4-41, has fallen from \$34.8 million in 2016/17 to \$30.5 million in 2017/18.

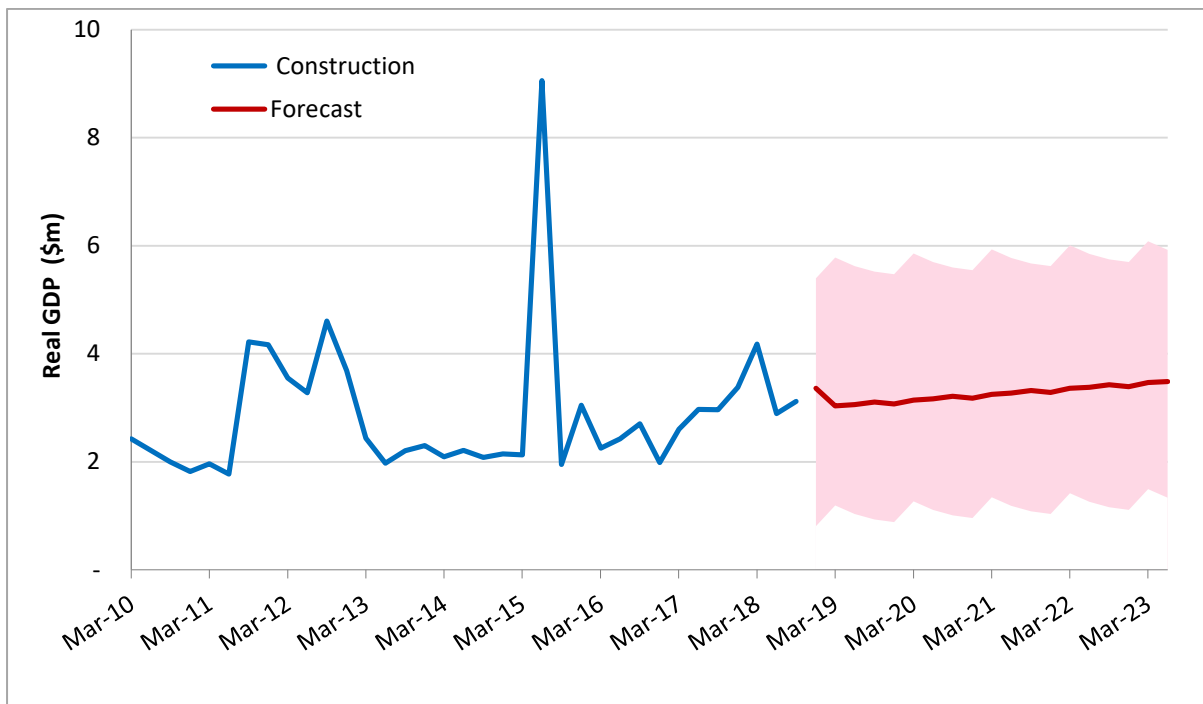
Figure 4-41: Finance and insurance contribution to real GDP, 2013/14 to 2017/18 (\$'000)



Going forward, the steady state medium-term forecast for the finance and insurance sector is shown in Figure 4-42.

¹⁵ Based on surveys conducted by the Financial Services Development Authority. The employment rate is estimated using the number of active Cook Islands National Superannuation Fund members as a proxy for total employees in the Cook Islands, which was 5653 as at September 2019.

Figure 4-42: Finance and insurance sector forecast, 2010 to 2023 (\$ million real)



International component

In November 2018, MFEM requested technical assistance from the International Monetary Fund’s (IMF) Pacific Financial Technical Assistance Centre (PFTAC) to estimate the economic and revenue contributions of the international financial services industry in the Cook Islands.¹⁶ The IMF report defined the international financial services industry as the activities of the eight licensed trustee companies, the ship registry, the Financial Supervisory Commission, the FSDA and the one Cook Islands licensed bank that carries on business in the international financial services sector.

The IMF report measured both the direct contribution of the international financial services industry to Cook Islands Gross Domestic Product (GDP) and the indirect contribution through two channels: the goods and services that the industry purchases from other suppliers; and through the business that the international financial services providers create for other sectors of the economy, including banking services, captive insurance, and business travel.

The report estimated that between 2010 and 2017 the total, direct and indirect, contribution to GDP of the international financial services industry has fluctuated between 3.8 and 4.8 per cent. The direct contribution has increased from \$12.5 million in 2010 to \$14.9 million in 2017, while the indirect contribution has remained flat, averaging around \$3.5 million per year. The indirect contribution has remained unchanged because purchases of production inputs from other businesses in the Cook Islands have been falling.

¹⁶ IMF (2019). Cook Islands International Financial Services Industry. Iris Claus, PFTAC Technical Assistance Report, April 2019. Available at: <https://www.imf.org/en/Publications/CR/Issues/2019/08/14/Cook-Islands-Technical-Assistance-Report-International-Financial-Services-Industry-48585>.

5 Crown Debt and Net Worth

Government has not taken on or proposed any new debt since the passing of the 2019/20 appropriation.

Proposals to take on new debt must be treated under transparent processes as required by the MFEM Act 1995/96 and the Loan Repayment Fund Act 2014 (LRF Act). The LRF Act 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, the amortisation schedule, the impact on debt service burden 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.

5.1 The Loan Repayment Fund (LRF)

In February 2014, the Parliament of the Cook Islands passed the Cook Islands Loan Repayment Fund (LRF) Act 2014, formally creating a Loan Repayment Fund (LRF). The aim of the LRF is to quarantine funds previously accumulated for loan repayments and to prevent them from being utilized for anything outside of debt servicing requirements.

Since its enactment, the LRF has become the official means by which the Cook Islands Government (Crown) manages its debt portfolio.

Table 5-1: Loan Repayment Fund Statement (NZD '000)

	2019/20	2020/21	2021/22	2022/23	2023/24
Opening LRF balance	20,922	21,427	21,026	19,849	18,694
Contribution to LRF principle	7,696	8,065	8,073	8,011	7,817
Contribution to LRF interest	2,228	2,102	1,895	1,695	1,501
Total Transfer in	9,924	10,167	9,968	9,707	9,318
Interest earned (avg. 2%)	418	429	421	397	374
Total transfer in	10,342	10,596	10,389	10,104	9,692
Repayment of Prepaid SOE debt					
Principal	797	823	808	717	716
Interest	85	79	70	61	54
Total repayment from LRF	882	903	878	779	770
Repayment of other debt					
Principal	6,578	7,541	8,359	8,366	8,426
Interest	2,467	2,552	2,329	2,114	1,907
Total repayment other debt	9,045	10,093	10,688	10,480	10,333
¹ Valuation adjustment	89	0	0	0	0
LRF stock balance	21,427	21,026	19,849	18,694	17,282

1 - Valuation adjustment is used to maintain the LRF stock balance at the end of the current financial year as per the 2019/20 appropriation.

The contributions into the LRF are 'smoothed' in order to reduce the volatility to the Crown's cash reserves from new debt obligations and exchange rate shocks. The total contribution is transferred into the LRF at the start of each financial year as mandated by Section 7(1) of the LRF Act, using the estimated average debt servicing requirements for current plus four forward years.

5.2 Overall Gross Debt owed by the Crown

Total gross debt estimated to the end of June 2020 increased by \$2.23 million as a result of the unfavourable movement in exchange rates used between the 2019/20 budget and this half year update.

Table 5-2: Gross Debt by Crown estimated to 30 June 2020 (\$ million)

<i>Original Estimate</i>	Direct Debt	SOE Debt	Gross Debt
Loans committed and drawn	58.94	51.83	110.78
Loans committed but not drawn	13.95	4.74	18.69
Total Commitment - Original Estimate	72.89	56.57	129.47
<i>Movement since the 2019/20 Appropriation</i>			
Loans committed and drawn	0.32	1.61	1.93
Loans committed but not drawn	0.00	0.30	0.30
Total Movement	0.32	1.91	2.23
<i>Half-Year Update Estimate</i>			
Loans committed and drawn	59.26	53.44	112.71
Loans committed but not drawn	13.95	5.04	18.99
Total Half-Year Estimate	73.21	58.48	131.70

The revised estimated debt of \$131.70 million includes \$18.99 million of loans that will not be drawn by the end of the financial year. The undisbursed loans are made up of \$13.95 million for the Disaster Risk Management (DRM) loan, which is only triggered and drawn down in the event of a catastrophe, and \$5.04 million for the Undersea Broadband Cable loan which is expected to be drawn early in 2020/21.

5.3 Gross Debt

5.3.1 Exchange rate assumptions

Table 5-3: Half-Year Revisions to Exchange Rate Assumptions – 2019/20 – 2022/23

Currency	2019/20		2020/21		2021/22		2022/23	
	Budget	Revised	Budget	Revised	Budget	Revised	Budget	Revised
EUR	0.5801	0.5859	0.5694	0.5647	0.5766	0.5651	0.5732	0.5627
USD	0.6770	0.6330	0.6960	0.6550	0.7050	0.6730	0.7080	0.6790
RMB	4.6136	4.5378	4.6645	4.5608	4.7182	4.6603	4.7115	4.6895
SDR	0.4787	0.4747	0.4776	0.4595	0.4869	0.4678	0.4875	0.4734

The revised assumptions for the major exchange rates used against the New Zealand Dollar (NZD), detailed in the table above, have been used to calculate future NZD flows.

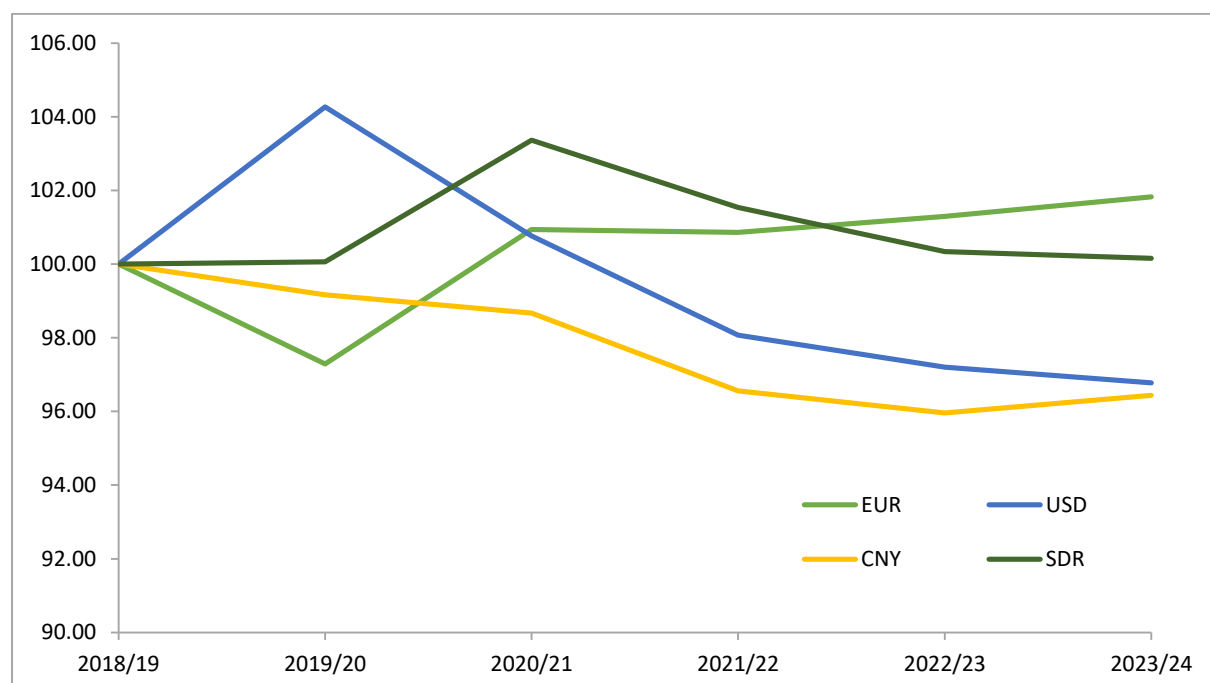
Table 5-4: Exchange Rate movement – 2019/20 – 2022/23

Currency	2019/20	2020/21	2021/22	2022/23
EUR	1.0%	-0.8%	-2.0%	-1.9%
USD	-6.5%	-6.5%	-4.6%	-4.4%
RMB	-1.6%	-2.3%	-1.2%	-0.5%
SDR	-0.8%	-3.8%	-4.0%	-3.1%

Table 5-4 demonstrates the percentage movement between the original rates used at the 2019/20 budget and this half year update. Except for the EUR, the NZD has weakened against all major trading currencies.

The revised rate used for 2019/20 showed the NZD weakened against the USD by 6.5 per cent followed by the RMB and the SDR by 1.6 and 0.8 per cent respectively. The impact of these movements against the NZD is an appreciation in the value of the total debt by \$2.23 million reported in Figure 5-1.

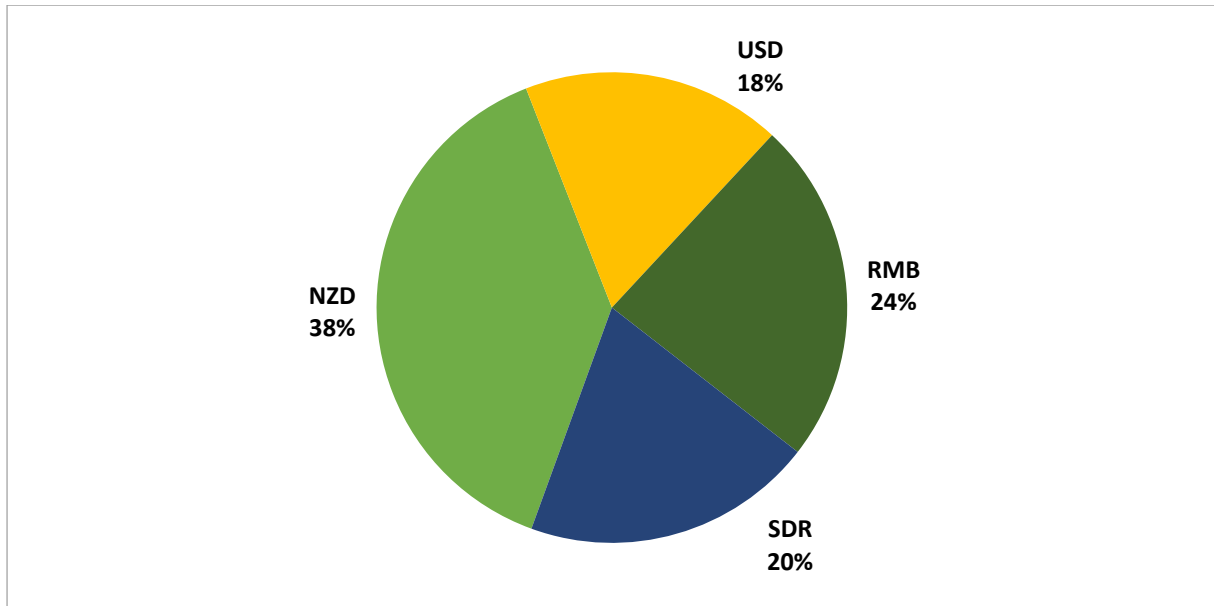
Figure 5-1: Assumed Changes in Major Exchange Rates (indices – 2018/19 = 100)



The graph illustrates that the USD is estimated to appreciate against the NZD during the 2019/20 financial year. About 18 per cent of the overall Crown debt is held in USD, as such, the Government will continue to hold USD denominated bank accounts to mitigate the resulting foreign currency risks.

5.3.2 Gross Debt by Currency

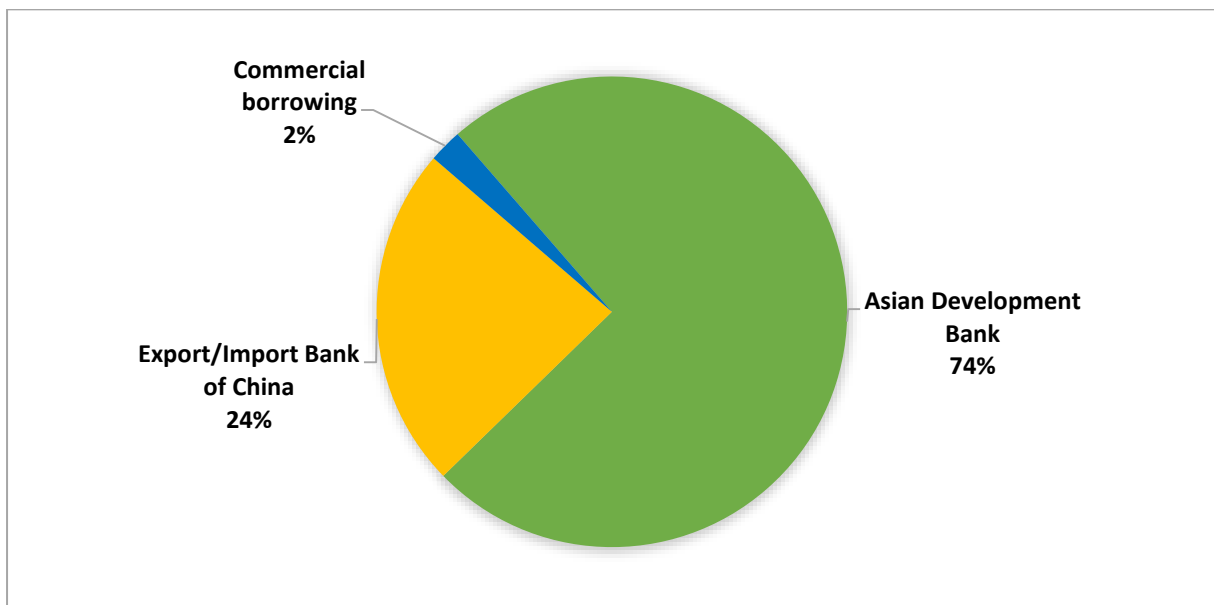
Figure 5-2: Crown Debt Estimate by Currency - June 2020



Total Crown debt is mainly denominated in the local currency NZD with 38 per cent followed by RMB with 24 per cent, SDR with 20 per cent and USD with 18 per cent. However, this means 62 per cent of total Crown debt are held in foreign currencies, Government’s approach is to take on new debt in NZD where possible to manage the risks around exchange fluctuations.

5.3.3 Gross Debt by Lenders

Figure 5-3: Crown Debt Estimate by Lenders - June 2020



Total Crown debt is estimated to be \$131.70 million at the end of June 2020 and is mainly held by the Asian Development Bank (ADB) with 74 per cent, followed by the Export/Import Bank of China (EXIM Bank) with 24 per cent and two per cent held by commercial financial institutions.

5.4 Debt Headroom

Table 5-5: Current Borrowing Statement (\$ million)

Current Statement	2019/20	2020/21	2021/22	2022/23	2023/24
Gross Crown Debt	131.70	123.19	111.58	100.50	89.96
<i>Direct Crown Debt</i>	<i>64.30</i>	<i>58.86</i>	<i>52.44</i>	<i>46.58</i>	<i>41.10</i>
<i>SOE debt</i>	<i>53.44</i>	<i>50.39</i>	<i>45.76</i>	<i>41.71</i>	<i>37.82</i>
<i>Contingent (Disaster) debt</i>	<i>13.95</i>	<i>13.95</i>	<i>13.37</i>	<i>12.21</i>	<i>11.04</i>
... net of LRF	110.27	102.17	91.73	81.80	72.68
... net of LRF, as percentage of GDP	20%	18%	16%	14%	12%
Loan Repayment Fund Held	21.43	21.03	19.85	18.69	17.28
Gross Debt Servicing	9.93	11.00	12.28	12.67	12.49
<i>Direct Crown Debt</i>	<i>6.98</i>	<i>6.73</i>	<i>7.17</i>	<i>7.71</i>	<i>7.58</i>
<i>SOE debt excl. Cable loan</i>	<i>2.72</i>	<i>2.85</i>	<i>2.82</i>	<i>2.01</i>	<i>1.32</i>
<i>Contingent (Disaster) debt</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.71</i>	<i>1.41</i>
Net Debt Servicing	7.20	8.15	9.46	9.94	9.76
... as percentage of Total Revenue	4%	4%	5%	5%	5%

To be prudent, Table 5-5 assumes full draw down of the DRM contingency loan in 2019/20, even though this would only be the case if a major disaster occurs.

Net debt (gross debt, net Loan Repayment Fund) 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 State-owned Enterprises (SOE). The threshold agreed to by government is to maintain net debt within a hard cap of 35 per cent of GDP and a 30 per cent soft debt cap. This ensures that there is at least five per cent of GDP available in debt financing as contingency should there ever be a major natural disaster.

Figure 5-4 shows that we are well within both limits with the level of net debt maintained at 20 per cent compared to 19 per cent reported in the 2019/20 budget. The slight increase is primarily driven by the weakening of the NZD against our major trading currencies as reported earlier in this section.

Figure 5-4: Net Debt to GDP Rule

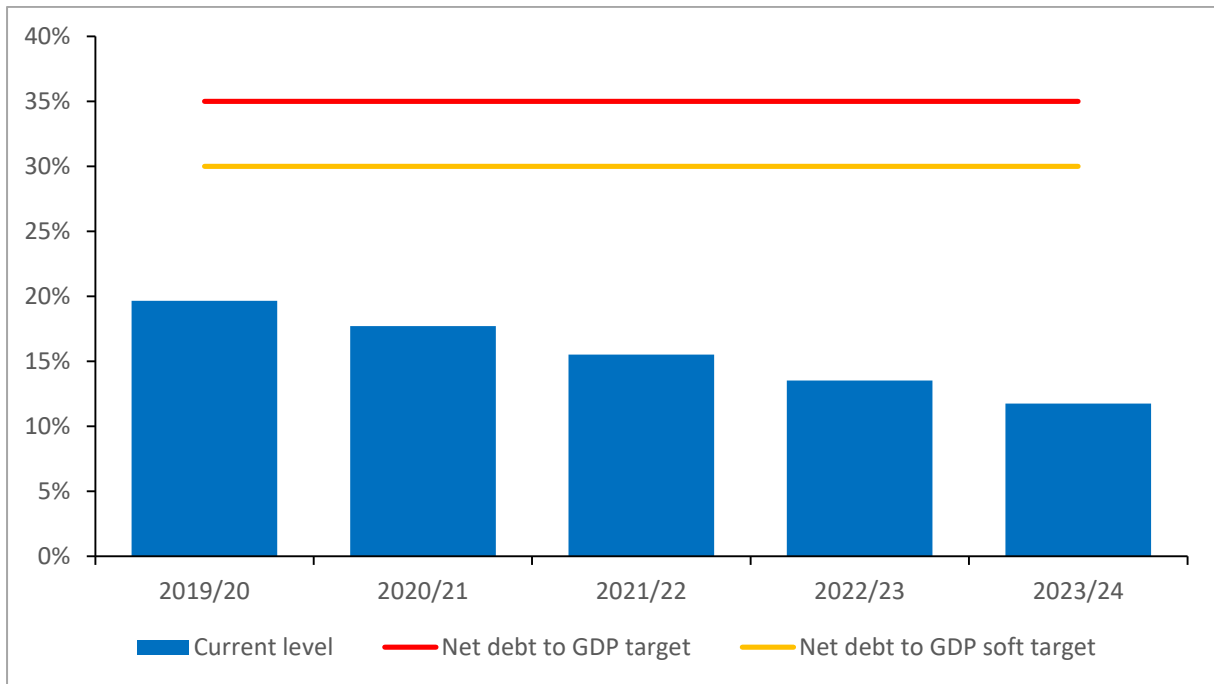
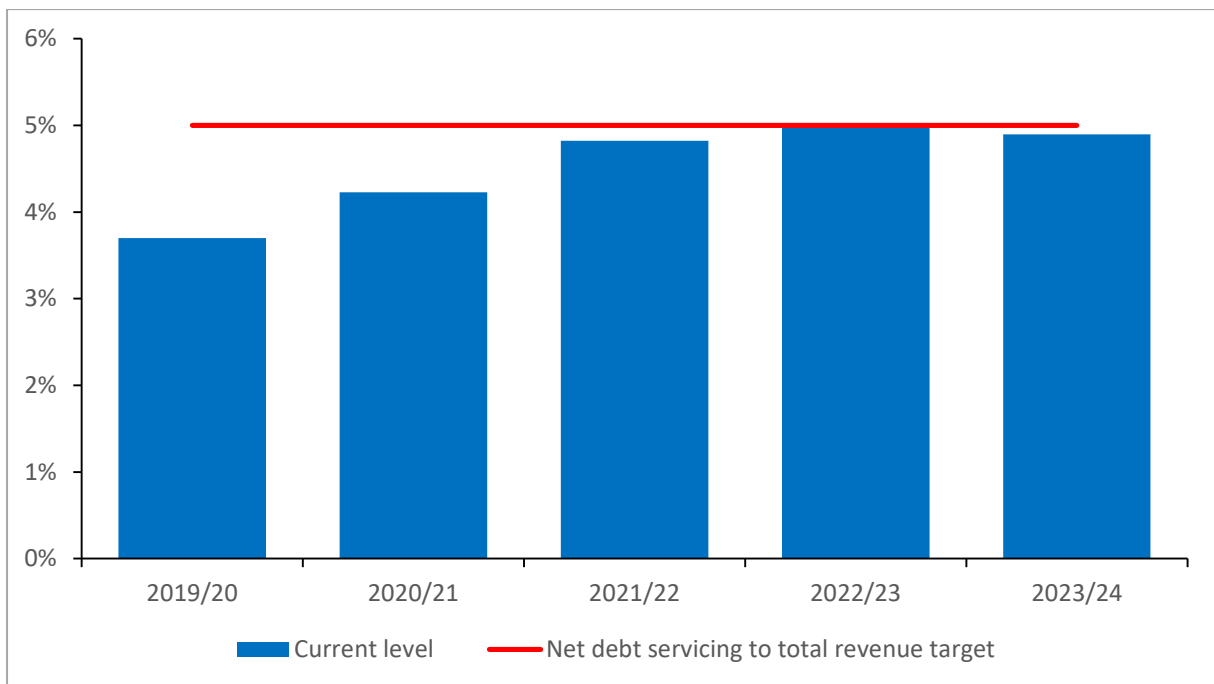


Figure 5-5 illustrates government's net debt servicing to total revenue, the guideline is to maintain net debt servicing to total revenue within five per cent. This is intended to ensure that debt servicing does not consume excessive government resources, displacing spending on things that are national priorities and adding to the burden of repayment of future generations.

Figure 5-5: Net debt servicing to total revenue target



The half year update estimates debt servicing to total revenue to still be within the required threshold at four per cent in 2019/20 however, it is estimated to increase to five per cent in 2022/23 due to the grace period terms of the Undersea Broadband Cable loan lapsing and principal repayments commencing. The total revenue estimates has been revised upward since the 2019/20 budget and contributes to the reduction in the current level of debt to total revenue benchmark.

5.5 Other State-Owned Enterprise Debt

Since the enactment of the LRF Act, all new Crown debt (including SOE debt) must go through a full debt sustainability analysis, and be approved by Cabinet (via the Minister of Finance), on the advice of the Financial Secretary.

Airport Authority

The Airport Authority is currently paying off its loan from the commercial bank (2020: \$3.024 million). The estimate for 2019/20 includes an additional loan of \$1.0 million for the RESA project and for the building of the Air NZ cargo shed. The loan is to be secured by registered mortgage debenture over the assets and undertakings of the Authority.

The Airport Authority is considering further borrowings in the next 24 months to expand the passenger terminal facility at Rarotonga International Airport. This is currently estimated to cost an additional \$16.0 million. Other projects totalling \$8.0 million include the work to complete the RESA project, the building of the new VIP Lounge and the runway slab replacement project.

Te Aponga Uira

The Te Aponga Uira (TAU) is estimated to spend \$22.9 million in 2019/20 on renewable energy projects funded largely by Grant of \$10.7 million with the balance of \$12.2 million being self-funded. TAU is also anticipating an additional \$25.0 million on capital spending in the four years following 2019/20, of which replacing the Cross-Island Feeder cables network is a major component, in addition to the ongoing renewable energy projects. Funding the additional work has not been confirmed but it is likely that TAU will consider external financing to meet its capital plans.

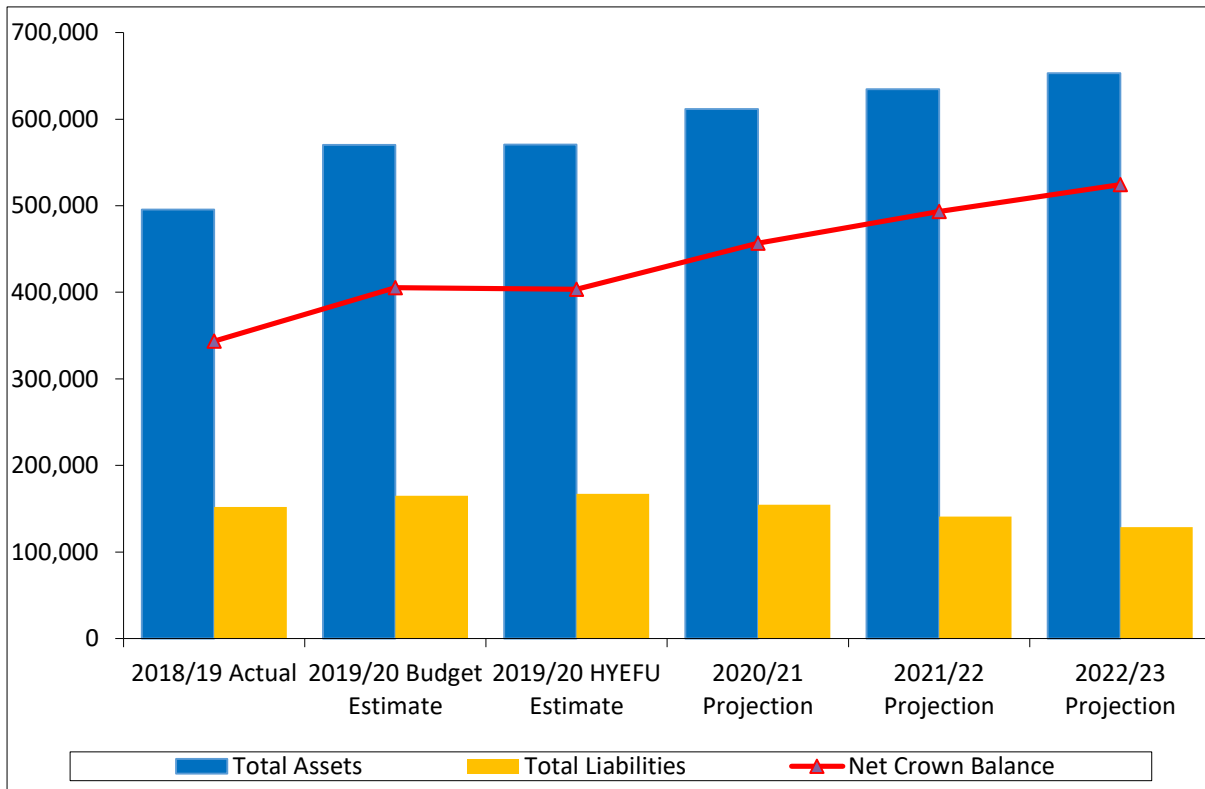
Ports Authority

The Ports Authority is currently repaying its loan obligations to the ADB (2020: \$18.96 million) and have made lump sum prepayments as part of managing its debt exposure to foreign exchange movement and more importantly continuing to improve its serviceability and gearing ratio. Taking on any further debt is not a feasible option given the high gearing position the Authority is already in.

5.6 Net worth

Government's net worth is the difference between Crown assets and Crown liabilities providing a snapshot of Government's ability/inability to service all its creditors. There are currently no clear guides to determining an optimal level of public sector net worth; however analysing the Government's net worth and what causes it to change can lead to understanding the need for appropriate policies.

Figure 11.13 Net Worth 2018/19 to 2022/23, (\$000)



The estimated net worth of the Crown as at HYEFU 2019/20 has increased from the 2018/19 actuals of \$343.65 million to \$403.40 million. This is a net movement of \$59.75 million. This net movement is caused from an increase in total Crown assets from increased capital growth in plant, property and equipment and as a result of the establishment of the Stabilisation Fund.

The Crown's net worth is expected to increase in the outer years from 2019/20 as long as there is an estimated operating surplus.

6 Official Development Assistance

6.1 Introduction

Cook Islands ODA December 2019 Update	(NZD \$'000)
FY2019/10 Budget	65,219
FY2019/20 ODA Budget (excluding CSS)	57,489
FY2019/20 HYEPU estimated spend to date	9,700
Conversion rate December 2019	15%

Official Development Assistance (ODA) for 2019/20 was appropriated as an annual ODA expenditure at the value of \$65.2 million. Estimated expenditure to date is reported at \$9.7 million, representing a 15% spend against the total budget for 2019/20. This includes programmes under 3rd Party spends and new ODA programmes.

ODA graduation

On 10 July 2019 the Organization for Economic Cooperation and Development (OECD) graduated the Cook Islands to the category of High Income Country. The determination of income level is based on Gross National Income (GNI) per Capita, that is, the per capita income earned by a country's residents.

Table 6-1: Cook Islands Gross National Income per capita

	2015	2016	2017
GDP (Current prices, LCU, millions)	433.3	445.1	486.4
Primary Income (current prices, millions)	-7.8	-6.2	-14.9
Population (millions)	0.0187	0.0182	0.0195
Cook Islands GNI per capita, Atlas method (US\$)	16,220	17,310	16,860
OECD Higher Income Threshold	12,475	12,235	12,055

As seen in Table 6.1, the GNI per capita for the Cook Islands is substantially higher than the high income threshold set by the OECD in all years between 2015 and 2017. As such, the Cook Islands will graduate from ODA. This is a significant achievement as the Cook Islands is the first Pacific Island to achieve this status.

Graduation will be officially triggered by the OECD on 1 January 2020, meaning that any funding provided prior to that date is still classified as ODA. Following that date, ODA graduation will impact upon the level of foreign aid received, however this impact will be restricted to OECD donor countries, and as such is expected to be minimal.

It should be noted that the Cook Islands is working closely with development partners to assess the implications of ODA graduation and acknowledge that our vulnerability to natural disasters remains a key challenge.

6.2 New Zealand Programmes

Cook Islands Core Sector Support

The previous Core Sector Support (CSS) Grant Funding Arrangement (GFA) with New Zealand, which was valued at \$20.1 million and allocated over 2015/16 to 2017/18, has come to an end. A new GFA is under negotiation and is predicted to provide \$36 million over four years. In the meantime a one-year Grant Contribution provided bridge funding of \$9,083,062 to allow for continued work under the same priorities as 2018/19. The goal of the support is to enhance the Cook Islands self-sufficiency by enabling predictable, efficient and effective delivery of priority development objectives coupled with

practical policy reform. A recent independent evaluation of the first iteration of CSS has found that the CSS GFA is the preferred modality to implement bilateral funds with NZ and it was re-confirmed that the arrangement has achieved the Government’s desired results.

New Zealand Volunteers Services Abroad (NZVSA) – New Zealand

This is a program directly managed by NZVSA for the purposes of sending skilled New Zealanders to the Cook Islands to share their experience and knowledge directly with public sector agencies. There has been an increase in volunteers assigned to the public sector agencies.

For this period, volunteer service abroad (VSA), who takes up these tasks together with the Government, will aim to ensure that assignments are locally identified, locally relevant, and locally delivered. The VSA goal is to transfer skills and knowledge so that the changes achieved during an assignment remain sustainable after a volunteer returns to New Zealand.

Manatua Submarine Cable (ICT cable) – New Zealand Grant

Implementing Agencies: OPM

Total spend to date is NZD\$1,417,826.

The Manatua Procurement Group subcommittee is overseeing the operation of the supply contract with Subcom. Avaroa Cables Limited is the state-owned enterprise tasked with operating and managing the Cook Islands component of the Manatua Cable project. Manufacturing of the cable, final testing, physical inspection and quality checks are complete. The project is on track to commence installation by January 2020 and be ready for service later in the year.

Mei Te Vai ki te Vai Project

Implementing Agency: Ministry of Finance and Economic Management

Total spend to date: NZ\$1,231,038

The purpose of the Mei Te Vai Ki Te Vai Project is to improve the water quality of the lagoons in Rarotonga and Aitutaki for the benefit of our health, environment and economy. The following are project activities progress to date (for further information please visit <https://www.totatouvai.co/mei-te-vai-ki-te-vai>)

Project Activity	Progress
Environmental investigations and monitoring	This is to establish a firm scientific and environmental understanding of the current situation to ensure that the final technical options developed are robust and can be clearly justified. The Investigation has been completed, with a full report available to the public.
Wastewater Infrastructure	Designs are in progress for wastewater infrastructure, specifically a Muri/Avana area reticulation system with replication of this system in all other parts of Rarotonga. The purpose of the reticulation system is to collect wastewater (from toilets, sinks and other drains) from properties and feed it into a network of pipes, pump stations and other infrastructure to transport it to a single point (off-site). This will help to better treatment of wastewater on a larger scale and reduce the likelihood of overwhelming amounts of nutrients in the soil.

Concept Design	The report is to inform CIG and public on technically feasible options that could be considered as solutions to the environmental issues that have been identified with Muri Lagoon. This document, along with a business case investigation currently being conducted, will assist the CIG to decide which option should go forward for preliminary design, permitting and eventual construction.
Business Case	The Completion of the business case will inform CIG on the financial and economic costs and benefits of the MTVKTV project for Muri, along with the with the social cultural survey work.
Social Cultural Impact Assessment (SCIA)	The purpose of the SCIA is to assist CIG in decision making for the MTVKTV project and provide action oriented guidance around meaningful community engagement, contributing to project success. This has been completed.
Outline EIA Report	The Outline Environmental Impact Assessment Report identifies the potential environmental impacts from the outline designs and proposed mitigations. The report has been completed and will inform CIG of the technical and environmental details associated with each of the options in sufficient detail for further consultation with key stakeholders.
Business Case	The Completion of the business case will inform CIG on the economic costs and benefits of the MTVKTV project for Muri, along with the with the social cultural survey work being undertaken. This is currently being undertaken.
Outline Design Report	This technical report sets out all the design information used to inform the Outline EIA Report, including outline designs for the wastewater reticulation, treatment and disposal options that have been considered.
Land Report	Ongoing site investigations, the design of a land disposal scheme is non-site specific. Further site investigations and consultation would be required to assess site feasibility before progressing with a land-based option, if and when land is offered.
Stakeholder consultation and feedback	Ongoing public/stakeholder engagement communicating the details of the outline EIA's and outline designs.

Asset Management

Implementing Agency: Ministry of Finance and Economic Management

Total spend to date: NZ\$998,202

The Cook Islands received a \$13 million grant from NZ in December 2018 towards supporting Asset Management. This will contribute towards the maintenance and repair of Te Mato Vai (TMV). For more information please visit website <https://www.totatouvai.co/te-mato-vai-1>

Project Activity	Progress
Te Mato Vai Stage 1 Remediation	Local company Landholding Limited has been awarded an \$11.2 million contract to undertake work to improve the resilience of the public water supply ring main. The project is projected to take about eight months to complete, with work commencing in November. This work will provide a 100-year design life for these critical sectors of the network. The work will help complete the important task of upgrading Rarotonga’s water systems to provide safe and reliable water to our communities.

6.3 European Union Programmes

General Budget Support - European Development Fund

The focus of the incentivized budget support under the EU’s 11th cycle of funding (EDF11), which allocates funding using national systems until the year 2020, will continue with the Cook Islands priority of improving the Sanitation Sector. The Cook Islands submission under the 11th EDF funding cycle approved by the EU Commission focusses on upgrading commercial facility sewage systems on Aitutaki and Rarotonga to meet the *Public Health (Sewage and Wastewater Treatment and Disposal) Regulations 2014* standards. The implementing agency for this program is the Ministry of Health with support from the Development Coordination Division of MFEM.

Multiyear (Fisheries) Policy Support - EU Partnership

This Sustainable Fisheries Partnership Agreement (SFPA) includes an annual fisheries sector contribution of EUR 350,000 by the European Commission under the 4 year protocol. The sectoral support component of the SFPA is utilised to supplement the Ministry of Marine Resources Budget Appropriations and Business Plan through the implementation of the Multiannual Sectoral Programme. This program is currently in its third year of implementation and to date approximately EUR\$1 million has been received.

Northern Water Project (Phase 2)

Implementing Agencies: OPM

Total spend to date: NZD\$21,200

This project aims to improve the resilience of Penrhyn, Nassau and Palmerston to natural disasters, including drought proofing by increasing their capacity to collect, store and manage their water resources. A total amount of EUR 400,000 was provided for this project.

A request to EU-GIZ was made for a no cost extension to the project extending the completion date from 31st March 2019 to 31st December 2019. The implementation of the project has encountered major impediment in shipping of materials to project site as well as costs associated with transportation of construction support personnel to the Northern Islands project sites.

The project is in the closing stages with the Terminal Evaluation consultation completed in November 2019.

6.4 Japan Programmes

Economic and Social Sector Programme 2018 – Japanese Machinery and Equipment

Implementing Agencies: MFEM

Total spend to date: NZD\$34,730

A provisional Manufacture Japan Market test was carried out by Japan International Cooperation Systems (JICS) to obtain an understanding of Japan's manufacturer's interest in providing the items identified in the sixteen (16) item priority list and establish costs estimates. Japanese manufacturers showed an interest in providing six (6) of the items. These were accordingly approved by the Japanese authorities. Using JICS procurement process, five of the six items have completed the procurement process and contracts have been awarded. Procurement for the sixth item is targeted for early/mid-2020. Manufacturing and shipment of the items will take place from July 2019 through to early 2022.

Co-financing on the part of Government includes exemptions of relevant import VAT taxes in accordance with the VAT Act 1997 for approved ODA imports. Cook Islands Government financial procedures and procurement processes will be adhered to.

Grant Assistance for Grassroots Projects (GGP) Japan - Resource Recovery Centre Upgrades

Implementing Agencies: ICI

The spend to date is NZD\$95,211

Two key components for this project are: 1) to concrete the main working area where staff are exposed to dust and unsteady ground during rainfall and 2) the installation of an industrial glass crusher. Early November 2019, the glass crusher was received and installed, which was followed by the operation and maintenance training. Completion of the remaining component is planned for early/mid-2020.

6.5 India Programmes

India Grant Fund

Implementing Agencies: MFEM

Total spend to date: NZD\$5,950

A total of \$964,000 was granted for 16 approved grass roots projects in the 2016/17 Round. The main focal area of the grant funding from the Government of India is to support, promote, and/or develop social, economic and/or cultural and development cultural, economic and social development and sustainability. An additional prerequisite was the alignment to Te Kaveinga Nui Framework National Sustainable Development Plan 2016-2020.

The 2016/17 round addressed a variety of grass root community areas such as agriculture and fisheries development, disability support, sports development, assistance to community halls and clinics, road safety and infrastructure.

Out of the 16 approved projects, 14 were successfully completed in 2018/19 and the remaining 2 have been successfully completed to date.

The next round of funding for 2018/19 was advertised in November 2018. A total of 19 concept notes were received in December 2018 and of these 11 were deemed successful and received the full application templates to complete and submit by 23rd January 2019. These applications were vetted by the Grant Award Evaluation Committee in April 2019. A full list of the Committee's results have

been provided to the National Sustainable Development Committee (NSDC) for their recommendations and forwarded to the Government of India for final approval.

6.6 United Nations Programmes

Preparation of the Third National Communication (TNC) under UN Framework Convention on Climate Change (UNFCCC)

Implementing Agencies: OPM – Climate Change Cook Islands

Total spend to date: NZD\$60,783

The Third National Communications Report under the UNFCCC is moving positively forward.

The report is to be finalized by December 2019 for final review in January 2020. The project is scheduled to end by June 2020.

Global Environment Facility Renewable Energy Battery Storage (via Asian Development Bank)

Implementing Agencies: OPM

Total spend to date: NZD\$269,184

The GEF BESS contract was awarded to M-Power Limited on the 1 June 2017 for a fixed price of US\$3,092,768 (equivalent). A variation for NZ\$103,000 was agreed in August 2018 to allow a larger transformer sizing. Completion and commissioning of Rarotonga airport west BESS for load shifting occurred in September 2019.

The BESS will be connected to the existing electricity grid to provide flexible response to fluctuating Solar PV output in the TAU network. The main function of this BESS is to:

- Minimise the severity and frequency of events that cause low load at the Power Station
- Minimise any curtailment of Solar PV facilities that may be necessary to maintain grid stability

The Airport West BESS is a containerised energy storage and power conversion platform, utilising a flexible open architecture communication. The supplied Battery System has a total energy rated capacity of 6.4MWh at Beginning of Life (BOL) but is expected to de-rate over the 10 year period End of Life (EOL) to 4MWh.

Global Environment Facility – Small Grants Programme

Implementing Agencies: Cook Islands Red Cross

Total spend to date: NZD\$200,000

This is the only in country development partner agency outside of government reporting administration of a development programme targeted at Cook Islands civil society organisations as small environment projects executive agencies. The Cook Islands Global Environment Facility (GEF) Small Grants Programme (SGP) was established in 2005 and until 2015 was part of the SGP Samoa. As of late 2014, the Cook Islands Red Cross Society serves as the SGP host institution with the GEF SGP Cook Islands now a separate programme.

The Operational Phase 6 (OP6) country programme with the aim to “effectively support creation of global environmental benefits and the safeguarding of global environment through community and local solutions that complement and add value to national and global level action.” The focus of support for community based organized activities are on conservation of biodiversity, waste management, prevention of land degradation, capacity building and awareness programmes to address climate change through community based support. Formal signing of OP6 MOA’s grantees was held in November 2019 with funding expected to be received before the end of the year.

Protecting biodiversity and enhancing ecosystem functions through “Ridge to Reef” approach in the Cook Islands

Implementing Agencies: National Environment Service

Total spend to date: Nil

A full extension request to January 2021 for the project lifespan was completed with Biodiversity Steering Committee support and endorsement and approved by UNDP. This will enable all stakeholders to implement their existing activities and work programmes in order to achieve the overarching goal of the project. A new project management team have been recruited after resignations of key project staff. Planning of the activities for the remaining term of the project is currently underway.

Western Pacific Multi-country Integrated HIV/TB program – United Nations Development Programme (UNDP)

Implementing Agencies: MOH

Total spend to date: NZD\$37,645

UNDP is the Principal Recipient for the Multi-Country Western Pacific Integrated HIV/TB Programme. It aims to improve the coverage and quality of HIV/TB prevention, treatment and care in 11 participating Western Pacific countries. The HIV activities includes strengthening Mobile HIV testing and counselling initiative, continuation of the Counselling and Testing program. The TB activities include monitoring and evaluation of policies implemented in hospitals and centers, training of community volunteers, community awareness and training of health staff on contact tracing.

6.7 Green Climate Fund Programmes

The Cook Islands can now access climate related finance of up to approximately \$76.3 million (US\$50 million) per project directly from the Green Climate Fund (GCF) which is a significant achievement for the Cook Islands.

The country has become the first nation in the Pacific to be accredited to the fund which was formed to assist developing countries in adaptation and mitigation practices to counter climate change.

The Ministry of Finance and Economic Management (MFEM) was approved as an accredited entity to the fund at the 22nd GCF board meeting in Manama, Bahrain in October 2018.

Green Climate Fund Readiness 2

Implementing Agencies: MFEM – OPM

Total spend to date: NZD\$38,913.70

Readiness 2 continued to strengthen the NDA and the Ministry of Finance and Economic management, in developing strategic frameworks for engagement with the GCF, including the preparation of the Cook Islands Country Programme and progress towards MFEM’s Direct Access Accreditation and Programme development

The second readiness support proposal is currently in the 2nd year of implementation and is scheduled to be completed by January 2020. MFEM and OPM have been working on a 4th readiness support proposal during the year which has been submitted to the GCF. Readiness 4 has been approved and will commence in February 2020

Readiness Proposal No. 4

MFEM have also been working closely with OPM to finalise the 4th readiness proposal which is predominately based on capacity building within OPM, MFEM, BCI and the Private sector. It is envisioned that urgent activities such as BCI's accreditation to the fund and the development of a Simplified Approval Process (SAP) proposal and development of an Enhanced Direct Access (EDA) Project Proposal can commence immediately.

Green Climate Fund – Renewable Energy Battery Storage (administered by Asian Development Bank)

Implementing Agencies: OPM

Total spend to date: NZD\$4,456,296

The Airport South BESS contract was awarded to Vector on 30 September 2018, which is to implement two units of 1.0 MW/4.0MWh (a total of 2.0MW/8.0MWh) battery energy storage system (BESS) for load shifting capability at the Rarotonga airport south. Completion of the detailed design and breaking ground with civil works took place in October 2019. The BESS and Ring Main Unit underwent factory testing and inspection with proposed commissioning of Ring Main Unit and transformers prior to Christmas. Tesla due on-site in January 2020 for main commissioning works.

Rebidding and the Invitation for Bids (IFB) for the Rarotonga Power Station BESS contract was issued on 27 May 2019. The deadline for the submission of bids was extended from 7 August to Wednesday 14 August 2019. The Bid Evaluation was completed in October and contract award is planned for next quarter. The purpose of this BESS is to provide grid stability at the Rarotonga power station through implementation of a 6MW/3MWh modular/containerized BESS. Out of 30 firms that received the bidding documents, six (6) bidders submitted bids.

This project is on track for completion by 31 December 2021.

6.8 Adaptation Fund Programmes

Pa Enea Action for Resilient Livelihoods (PEARL)

Implementing Agencies: OPM

Total spend to date: NZD\$295,000

The Cook Islands aims to use the funds to strengthen national and local capacity to reduce climate change risks, establish climate resilient water management instruments through an approach that involves communities and to revitalize agricultural production systems. The intention is to support greater food security and protect livelihoods in Pa Enea, particularly islands in the northern group, which comprises seven low-lying, sparsely populated, coral atolls and sand cays.

The Project is made up of the 3 components:

1. Strengthening disaster risk governance to manage disaster risk and enhancing disaster preparedness for effective response to “Build Back Better” in recovery, rehabilitation and reconstruction
2. Integrated water security management planning and implementation
3. Revitalised agricultural production systems strengthening island food sources and livelihoods in the Pa Enea

The first tranche of funding was received July 2018. Good progress has been made on achieving the targets with the first Project Performance Report due to AF in February 2020.

Aid Effectiveness

The Aid Effectiveness budget is drawn from the interest earned on development partner trust accounts and is used to support the implementation of official development assistance policy. The program currently contributes to several projects including the following: annual meeting of development partners, surge capacity to catch up and standardise Crown financial statements, training and set-up of project financial management software and support project development in the areas of climate finance. Total estimated spend to date is \$49,000.

7 Schedules

7.1 Statement of Fiscal Responsibility (Operating)

Operating Statement (\$'000)

	2017/18 Actual	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEFU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Operating Revenue							
Taxation Revenue	140,587	159,060	151,626	157,040	160,230	163,420	166,611
Other Crown Revenue	18,051	30,049	19,607	25,043	19,892	19,932	19,892
Trading Revenue	7,503	7,746	4,927	4,927	4,929	4,949	4,949
Interest on Loans to Subsidiaries	1,158	760	830	830	830	830	830
Dividends	3,293	4,556	2,370	2,770	2,147	2,171	2,241
Interest on Balances	2,360	2,483	1,740	1,740	1,740	1,740	1,740
Core Sector Support	7,730	7,730	7,730	7,730	7,730	7,730	7,730
Total Operating Revenue (excluding Bonus)	180,683	212,385	188,830	200,080	197,498	200,773	203,993
<i>Performance Based Budget Support - Bonus Payment</i>	120	0	0	0	0	0	0
<i>Total Operating Revenue (including Bonus)</i>	180,803	212,385	188,830	200,080	197,498	200,773	203,993
Operating Expenditure							
Ministry Outputs	109,006	123,997	133,443	135,808	137,017	141,476	139,522
<i>Personnel</i>	50,437	53,065	62,493	62,553	67,383	71,065	71,422
<i>Operating</i>	20,199	23,316	20,380	20,380	21,691	21,702	21,710
<i>Administered Payments</i>	33,587	41,328	43,604	45,909	40,977	41,743	39,424
<i>Depreciation</i>	4,783	6,287	6,966	6,966	6,966	6,966	6,966
POBOC	24,850	26,262	27,746	27,746	27,884	27,827	27,912
Airport Authority subsidy	0	0	0	0	0	0	0
Airport Authority Capital	0	0	0	0	0	0	0
Bank of the Cook Islands - social assistance subsidy	0	0	0	0	0	0	0
Provisional for Doubtful Debts	6,781	0	0	0	0	0	0
Cook Islands Primary Schools 50 year Saver	0	0	0	0	0	0	0
Public Sector Strengthening	0	0	0	0	0	0	0
Ports Authority - subsidy	0	0	0	0	0	0	0
Te Aponga Uira - social assistance subsidy	0	0	0	0	0	0	0
Debt Interest Contribution to LRF	2,063	2,082	2,133	2,228	2,102	1,895	1,695
Asset Management (CIIC)	0	0	0	0	0	0	0
Crown Infrastructure Depreciation	4,603	2,084	4,603	4,603	4,603	4,603	4,603
Transfer to Emergency Response Trust Fund	50	50	50	50	50	50	50
Depreciation Contingency Fund	3,957	0	2,174	2,174	2,174	2,174	2,174
<i>Chinese Equipment</i>	663	0	0	0	0	0	0
<i>Rarotonga Water Network</i>	694	0	803	803	803	803	803
<i>Northern Pa Enuā Renewable Energy System</i>	400	0	400	400	400	400	400
<i>Southern Pa Enuā Renewable Energy System (excl. Aitutaki)</i>	1,200	0	971	971	971	971	971
<i>Other Assets</i>	1,000	0	0	0	0	0	0
Contingency Funds - Operating	682	308	100	650	100	100	100
Contributions to CISWF	0	2,726	0	0	0	0	0
Total Operating Expenses	151,993	157,508	170,249	173,258	173,928	178,123	176,054
Operating Surplus/(Shortfall) (excluding Bonus)	28,690	54,877	18,581	26,822	23,570	22,649	27,939
<i>Operating Surplus/(Shortfall) (including Bonus)</i>	28,810	54,877	18,581	26,822	23,570	22,649	27,939

7.2

Statement of Fiscal Responsibility (Non-Operating)

Financing and Applications Statement (\$'000)

	2017/18 Actual	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEFU Estimate	2020/21 Proj.	2021/22 Proj.	2022/23 Proj.
Reductions in Net Borrowings							
Loan Disbursements	-6,817	-1,095	(17,282)	(17,282)	(4,741)	0	0
Principal repayment	4,897	7,558	7,314	7,375	8,364	9,167	9,083
	-1,920	6,463	(9,968)	(9,907)	3,623	9,167	9,083
Capital Expenditures							
Ministries and Outer Islands (Including CIIC Capital)	21,626	36,102	40,710	47,326	35,540	26,070	25,520
<i>Infrastructure Capital Investment in SOEs</i>	0	0	0	0	0	0	0
Airport Authority	0	0	0	0	0	0	0
Te Aponga Uira	0	0	0	0	0	0	0
Contingency Funds - Capital Expenditure	0	0	0	0	0	0	0
	21,626	36,102	40,710	47,326	35,540	26,070	25,520
Foreign Aid							
Receipts	39,428	19,615	57,489	57,489	28,879	14,599	3,836
Expenditure	-39,428	-19,615	(57,489)	(57,489)	(28,879)	(14,599)	(3,836)
	0	0	0	0	0	0	0
Other Committed Considerations							
Transfer to Reserve Trust Fund	703	795	0	0	0	0	0
Stabilisation Fund	0	0	56,700	56,700	26,653	27,211	34,860
Advanced Subsidiaries	0	0		17,282	4,741		
Disaster Response Fund	50	50	50	50	50	50	50
	753	845	56,750	74,032	31,444	27,261	34,910
Total Non-Operating balance	-20,459	-43,411	-87,492	-111,451	-70,607	-62,498	-69,513
To be Funded by							
Operating Surplus	28,952	54,877	18,581	26,822	23,570	22,649	27,939
Depreciation	13,343	8,370	13,742	13,742	13,742	13,742	13,742
<i>of which: R.E. Capital Replacement</i>	<i>1,600</i>	<i>0</i>	<i>1,371</i>	<i>1,371</i>	<i>1,371</i>	<i>1,371</i>	<i>1,371</i>
Unencumbered Cash Reserves	-31,786	-29,674	44,776	60,494	22,649	15,668	17,680
Contribution to Loan Reserve Fund	11,055	9,787	10,343	10,343	10,596	10,389	10,103
Economic Recovery Support Program	0	0	0	0	0	0	0
Transfer to Emergency Response Trust Fund	50	50	50	50	50	50	50
Total Funding Items	21,615	43,411	87,492	111,451	70,607	62,498	69,513
Net Surplus/Shortfall	1,156	0	0	0	0	0	0

7.3 Schedule 1 – Agency Budget Appropriations

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Agriculture	1,006,072	315,509	0	22,181	1,343,762	90,535	1,253,227
Audit (PERCA)	993,854	114,300	0	21,000	1,129,154	60,700	1,068,454
Crown Law	769,756	181,319	300,000	6,000	1,257,075	0	1,257,075
Cultural Development	740,850	164,502	977,500	93,655	1,976,507	150,000	1,826,507
Business Trade and Investment Board	432,796	344,866	0	4,500	782,162	28,000	754,162
Education	11,366,964	3,275,358	4,612,289	641,000	19,895,611	0	19,895,611
Environment	971,843	351,952	497,389	30,381	1,851,565	35,000	1,816,565
Finance and Economic Management	5,024,219	926,483	15,618,433	358,344	21,927,480	954,341	20,973,139
Financial Services Development Authority	242,797	277,906	0	9,868	530,571	0	530,571
Foreign Affairs	1,815,692	868,103	15,000	77,726	2,776,521	28,000	2,748,521
Head Of State	162,503	43,603	36,000	8,057	250,163	0	250,163
Health	11,643,618	2,842,444	2,146,870	886,614	17,519,546	350,000	17,169,546
Infrastructure Cook Islands	2,399,009	444,564	3,200,000	241,596	6,285,169	300,000	5,985,169
Internal Affairs	1,195,725	277,199	3,217,810	20,113	4,710,847	6,000	4,704,847
<i>of which: Welfare Payments - Allowances</i>			1,291,309				
Justice	1,930,495	377,805	460,000	87,463	2,855,763	550,000	2,305,763
Corrective Services	1,105,842	190,115	0	43,984	1,339,941	100,000	1,239,941
Marine Resources	1,231,685	745,933	300,000	95,000	2,372,618	28,000	2,344,618
Ombudsman	256,350	68,226	0	5,822	330,398	0	330,398
Parliamentary Services	557,267	71,835	110,000	19,579	758,681	0	758,681
Police	3,518,527	541,724	365,662	1,009,948	5,435,861	201,783	5,234,078
Prime Minister's Office	1,453,400	396,447	873,000	59,039	2,781,886	0	2,781,886
Public Service Commission	375,149	285,616	1,741,645	21,200	2,423,610	0	2,423,610
Tourism Corporation	1,918,191	2,398,471	4,922,000	36,000	9,274,662	150,000	9,124,662
Transport	899,951	208,034	0	52,247	1,160,232	36,000	1,124,232
Cook Islands Investment Corporation	1,507,476	1,353,014	6,515,419	50,000	9,425,909	753,831	8,672,078
Cook Islands Seabed Minerals Authority	196,778	89,127	0	9,387	295,292	0	295,292
Total Ministries, Crown & Statutory Agencies	53,716,809	17,154,454	45,909,017	3,910,704	120,690,984	3,822,190	116,868,794

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Ministerial Support							
Prime Minister	301,696	109,773	0	11,100	422,569	0	422,569
Deputy Prime Minister	260,784	81,289	0	7,927	350,000	0	350,000
Minister Vaine Mokoroa	121,200	163,300	0	5,500	290,000	0	290,000
Minister Vainetutai Toki-Brown	181,000	97,838	0	11,162	290,000	0	290,000
Minister Robert Tapaitau	188,000	92,010	0	9,990	290,000	0	290,000
Minister George Angene	164,000	114,000	0	12,000	290,000	0	290,000
7th Minister Office	180,000	108,000	0	2,000	290,000	0	290,000
Leader Of Opposition	115,160	168,040	0	6,800	290,000	0	290,000
Total Ministerial Support Offices	1,511,840	934,250	0	66,479	2,512,569	0	2,512,569
Outer Islands							
Aitutaki	1,209,626	416,495	0	434,365	2,060,486	67,828	1,992,658
Atiu	851,976	427,184	0	416,555	1,695,715	224,318	1,471,397
Mangaia	943,706	578,760	0	635,824	2,158,290	301,000	1,857,290
Manihiki	707,715	150,616	0	474,383	1,332,714	119,000	1,213,714
Mauke	730,255	212,655	0	417,034	1,359,944	113,853	1,246,091
Mitiaro	678,693	73,824	0	91,242	843,759	60,900	782,859
Palmerston	282,500	65,474	0	84,399	432,373	20,500	411,873
Penrhyn	599,964	163,309	0	138,881	902,154	74,000	828,154
Pukapuka-Nassau	906,017	142,706	0	213,381	1,262,104	73,695	1,188,409
Rakahanga	415,294	59,249	0	82,406	556,949	50,000	506,949
Total Outer Islands	7,325,746	2,290,272	0	2,988,470	12,604,488	1,105,094	11,499,394
Gross Total	62,554,395	20,378,976	45,909,017	6,965,653	135,808,041	4,927,284	130,880,757

7.4 Schedule 2 – Payments on Behalf of the crown (POBOCs)

Administering Ministry	POBOC	2019/20	2019/20	Variance
		Budget Estimate	HYEFU Estimate	
Compensation of Employees				
Finance & Economic Management	Parliamentary Superannuation	180,000	180,000	0
Audit	PERC Salaries and Administration Costs	57,500	57,500	0
Parliamentary Services	Civil List - Personnel	2,901,961	2,901,961	0
Parliamentary Services	House of Ariki	348,420	348,420	0
Compensation of Employees POBOCs		3,487,881	3,487,881	0
Use of Goods and Services				
Audit	Audit Fees	95,600	95,600	0
Prime Minister's Office	Local Government Election	30,000	30,000	0
Parliamentary Services	Civil List - Constituency Visits	170,200	170,200	0
Parliamentary Services	Parliamentary Sitting Expenses	150,000	150,000	0
Parliamentary Services	QR Travel and Allowances (local and overseas)	109,000	109,000	0
Parliamentary Services	MP Travel and Allowances (local and overseas)	341,000	341,000	0
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	63,461	0
Use of Goods and Services POBOCs		959,261	959,261	0
Subsidies				
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997	2,047,997	0
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	128,000	128,000	0
Cook Islands Investment Corporation	Ports Authority - subsidy	110,099	110,099	0
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	380,000	380,000	0
Subsidies POBOCs		2,666,096	2,666,096	0
Social Assistance				
Internal Affairs	Welfare Payments	19,689,535	19,689,535	0
Social Assistance POBOCs		19,689,535	19,689,535	0
Other Expense				
Finance & Economic Management	Pacific Catastrophe Risk Insurance	120,694	120,694	0
Finance & Economic Management	CIG Insurance	100,000	100,000	0
Finance & Economic Management	BEPS Subscription	35,000	35,000	0
Foreign Affairs	International Subscriptions	687,967	687,967	0
Other Expenses POBOCs		943,661	943,661	0
Grand Total		27,746,434	27,746,434	0

7.5 Schedule 3 – Cook Islands Capital Spending

	2019/20 Budget	2019/20 HYEUFU Estimate	Variance
Cook Islands Government Capital programs	40,710,336	47,326,000	6,615,664
Total Capital spending	40,710,336	47,326,000	6,615,664

7.6 Schedule 4 – Official Development Assistance

	2019/20 Budget	2019/20 HYEUFU Estimate	Variance
Operating or recurrent expenditure	10,396,102	9,629,446	-766,656
Capital Project Expenditure	47,093,335	47,859,991	766,656
Total Official Development Assistance	57,489,437	57,489,437	0

7.7 Schedule 5a – Other Expenses & Financing Transactions

Category of Expense	2019/20 Budget	2019/20 HYEUFU Estimate	Variance
Contingency Funds - Operating	100,000	650,000	550,000
Crown Infrastructure Depreciation	4,602,500	4,602,500	0
Provisional for Doubtful Debts	0	0	0
Transfer to Emergency Response Trust Fund	50,000	50,000	0
Transfer to Reserve Trust Fund	0	0	0
Depreciation Contingency Fund	2,173,580	2,173,580	0
Total Other Expenses	6,926,080	7,476,080	550,000

7.8 Schedule 5b – Loan Reserve Fund Appropriation

Category of Appropriation	2019/20 Budget	2019/20 HYEUFU Estimate	Variance
Contribution to LRF - Principal	7,696,000	7,696,000	0
Contribution to LRF - Interest	2,229,000	2,229,000	0
Total Contribution to LRF	9,925,000	9,925,000	0

7.9 Summary

Category of Payment	2019/20 Budget	2019/20 HYEUFU Estimate	Variance
Schedule 1 - Ministry Outputs (Gross Operating)	133,443,249	135,808,041	2,364,792
Schedule 2 - POBOCs	27,746,434	27,746,434	0
Schedule 3 - CIG Capital Expenditure	40,710,336	47,326,000	6,615,664
Schedule 4 - Official Development Assistance	57,489,437	57,489,437	0
Schedule 5a - Other Expenses and Financing Transactions	6,926,080	7,476,080	550,000
Schedule 5b - Loan Reserve Fund Appropriations	9,925,000	9,925,000	0
TOTAL APPROPRIATION	276,240,536	285,770,992	9,530,456

7.10 Schedule 6 – Capital Schedule

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2017/18 Actual	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEPU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Ministry of Agriculture				71,871	30,091	0	0	0	0	0
	Rarotonga	Vanilla Shade House	CIG	71,871	30,091	0	0	0	0	0
Cook Islands Investment Corporation				2,571,061	951,277	6,180,000	7,953,896	7,370,000	11,450,000	10,000,000
	Rarotonga	3 Building Repair	CIG	0	0	550,000	795,000	0	0	0
	Rarotonga	MFEM Building	CIG	0	0	540,000	540,000	0	0	0
	Atiu	School Upgrade	CIG	0	0	480,000	480,000	350,000	0	
	Penrhyn	Government Building Project	CIG	0	0	500,000	500,000	150,000	0	
	Rarotonga	Land Acquisition	CIG	0	0	2,000,000	2,000,000	2,000,000	1,000,000	0
	Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	CIG	0	0	500,000	500,000	500,000	0	0
	Aitutaki	Government Building Project	CIG	0	0	60,000	60,000	170,000	450,000	
	Rarotonga	To Tatou Vai	CIG	0	0	150,000	281,614			
	Various	Health Project	CIG	0	0	800,000	800,000	200,000		
	Rarotonga	Vaikapuangi Government Building	CIG	0	200,464	600,000	687,767	4,000,000	10,000,000	10,000,000
	Rarotonga	Te Mato Vai - Stage 1: road & pipeline easement & Stage 2 land acquisition for water intakes	CIG	0	0	0	650,000	0	0	0
	Rarotonga	TMV Titikaveka Backroad Rehabilitation	CIG	0	0	0	27,000	0	0	0
	Rarotonga	Apii Nikao design, demolition, construction supervision and quality assurance	CIG	471,602	0	0	0	0	0	0
	Rarotonga	Avaroa Cable Establishment	CIG	0	0	0	0	0	0	0
	Rarotonga	Nukutere Rebuild	CIG	0	625,000	0	0	0	0	0
	Pukapuka	Pukapuka Hospital Reconstruction	CIG	0	12,100	0	314,415	0	0	0
	Rarotonga	Tereora College Redevelopment Stage 1	CIG	2,099,459	113,713	0	0	0	0	0
	Rarotonga	Removal of AM radio mast	CIG		0		318,100	0	0	0
Police				0	0	70,000	70,000	0	0	0
	Rarotonga	Integrated Communication System	CIG	0	0	70,000	70,000	0	0	0
Education				340,952	160,276	360,000	360,000	360,000	360,000	360,000
	National	Fund to be Prioritised by Education	CIG	340,952	160,276	360,000	360,000	360,000	360,000	360,000

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2017/18 Actual	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEPU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Health				592,125	657,531	400,000	460,841	1,600,000	400,000	300,000
	National	Fund to be Prioritised by Health for Technical Equipment	CIG	306,895	453,045	300,000	300,000	300,000	300,000	300,000
	Rarotonga	CT Scanner	CIG	0	0	100,000	100,000	1,300,000	100,000	0
	Rarotonga	Medical Service Bed End Panels	CIG	281,146	38,664	0	0	0	0	0
	Rarotonga	Ambulance	CIG	2,202	86,956	0	60,841	0	0	0
	Rarotonga	Hospital Incinerator	CIG	1,882	78,866	0	0	0	0	0
Infrastructure Cook Islands				4,487,553	7,229,209	18,471,500	18,471,500	19,950,000	11,800,000	12,800,000
	Atiu	Atiu Airport Runway Stabilisation	CIG	100,647	0	0	0	0	0	0
	Atiu	Atiu Road Improvement Programme	CIG	6,531	486,261	570,000	570,000			
	National	Bitumen truck	CIG	202,331	14,229	0	0	0	0	0
	Rarotonga	Bridges & Structures Improvement Project	CIG	165,496	1,032,740	2,580,000	2,580,000	3,300,000	2,800,000	3,800,000
	National	Pa Enea Marine Infrastructure Improvement	CIG	0	0	150,000	150,000	3,500,000	0	0
	National	Pa Enea Water Infrastructure	CIG	0	0	0	0	1,050,000	500,000	500,000
	Mangaia and Palmerston	Cargo barge repair program for Palmerston & Mangaia	CIG	13,466	0	0	0	0	0	0
	Various	Pa Enea Cyclone Center	CIG	89,813	546,254	4,200,000	4,200,000	3,600,000	0	0
	Rarotonga	Avatiu Valley Stream embankment	CIG	0	660,218	21,500	21,500	0	0	0
	Rarotonga	Road Assets Management	CIG	1,166,818	2,000,160	8,000,000	8,000,000	7,000,000	7,000,000	7,000,000
	Rarotonga	Drainage Improvement	CIG	0	0	1,800,000	1,800,000	1,500,000	1,500,000	1,500,000
	National	Manea Games Upgrade	CIG	20,995	0	100,000	100,000	0	0	0
	Mitiaro	Mitiaro Water Upgrade	CIG	77,862	304,750	250,000	250,000	0	0	0
	Rarotonga	Rutaki Foreshore Rock Revetment	CIG	117,155	0	250,000	250,000	0	0	0
	Aitutaki	Establishing new water galleries	CIG	49,279	0	200,000	200,000	0	0	0
	Pukapuka	Nassau Ferry	CIG	0	0	350,000	350,000	0	0	0
	Mangaia	Mangaia Road Improvement Programme	CIG	192,135	118,687	0	0	0	0	0
	Mangaia, Atiu, Mauke	HV Transport Trailer	CIG	96,927	14,229	0	0	0	0	0
	Mangaia	HIAB (includes man cage & fork)	CIG	75,241	0	0	0	0	0	0
	Mangaia	Central water project	CIG	10,744	0	0	0	0	0	0
	Manihiki	Manihiki Island Airport Terminal - construction	CIG	86,795	15,921	0	0	0	0	0

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2017/18 Actual	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEFU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
	Penrhyn	Omoka Harbour Upgrade	CIG	0	187,457	0	0	0	0	0
	Pukapuka	Pukapuka Airport terminal buildings upgrade	CIG	75,241	60,899	0	0	0	0	0
	Pukapuka	Yato Cargo Shed Upgrade	CIG	7,850	0	0	0	0	0	0
	Rarotonga	Tereora Drainage Improvement	CIG	0	117,000	0	0	0	0	0
	Rarotonga	Sheraton Foreshore Protection	CIG	0	239,100	0	0	0	0	0
	Rakahanga	Large boat outboard motor	CIG	83,709	0	0	0	0	0	0
	Aitutaki	Aitutaki road Improvement Programme	CIG	863,153	218,879	0	0	0	0	0
	Mangaia	Tamarua Water Project	CIG	116,087	212,470	0	0	0	0	0
	Rarotonga	Tip Truck	CIG	54,397	0	0	0	0	0	0
	Pa Enea	Pa Enea Machinery Shelters	CIG	42,460	0	0	0	0	0	0
	Rarotonga	Road Network Maintenance		723,543	0	0	0	0	0	0
	Manihiki	Tukao Passage Widening, Improving safe access to and from the Manihiki Lagoon	CIG	9,480	112,238	0	0	0	0	0
	Rarotonga	Muri Road Widening	CIG	39,398	288,332	0	0	0	0	0
	Rarotonga	Culvert	CIG	0	599,385	0	0	0	0	0
Internal Affairs				0	50,000	50,000	50,000	50,000	50,000	50,000
	Rarotonga	Vaka Maintenance Capital Projects	CIG		50,000	50,000	50,000	50,000	50,000	50,000
Ministry of Finance and Economic Management				5,526,235	22,932,572	13,068,836	14,649,728	5,000,000	1,000,000	1,000,000
	Rarotonga	FMIS purchase and implementation	CIG	124,619	391,103	468,836	468,836	0	0	0
	Rarotonga	MFEM Extension - Furniture and materials	CIG	0	0	100,000	100,000	0	0	0
	Rarotonga	Te Mato Vai - Rarotonga Water Upgrade	CIG	4,849,292	22,451,306	9,000,000	10,298,693	4,000,000	0	0
	Rarotonga	AEOI IT System	CIG	378,347	37,709	0	84,653	0	0	0
	Rarotonga	Mei Te Vai ki Te Vai	CIG	173,977	52,454	1,000,000	1,197,546	1,000,000	1,000,000	1,000,000
	Rarotonga	Shipping Vessel	CIG	0	0	2,500,000	2,500,000			
Justice				0	200,000	0	0	0	0	0
	Rarotonga	Online Business Registry	CIG		200,000	0	0	0	0	0
Parliament				0	0	300,000	300,000	0	0	0
	Rarotonga	Parliament Building Extension	CIG		0	300,000	300,000	0	0	0

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2017/18 Actual	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEFU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Office Of Prime Minister				7,848,290	2,887,594	900,000	3,711,160	300,000	100,000	100,000
	Atiu	Atiu Power Distribution	CIG	418,449	576,006	0	130,000	0	0	0
	Pa Enea	Renewable Energy - Capital works	CIG	6,817,217	1,094,370	0	1,496,210	0	0	0
	National	Government IT Network	CIG	40,000	39,017	650,000	650,000	300,000	100,000	100,000
	Aitutaki	Aitutaki Renewable Energy Project	CIG	325,815	873,754	0	1,184,950	0	0	0
	National	Renewable Management Project Management and Support	CIG	246,809	217,140	250,000	250,000	0	0	0
	Mangaia	Mangaia School Bus	CIG	0	87,307	0	0	0	0	0
MINISTRY TOTAL				21,438,087	35,098,550	39,800,336	46,027,125	34,630,000	25,160,000	24,610,000
Capital Funds Administered BY MFEM				187,649	1,003,740	910,000	1,298,875	910,000	910,000	910,000
	National	Capital Distribution Fund	CIG	97,390	930,135	800,000	1,188,875	800,000	800,000	800,000
	Pa Enea	Outer Islands Small Capital Fund	CIG	90,259	73,605	110,000	110,000	110,000	110,000	110,000
		<i>Aitutaki</i>		<i>15,818</i>	<i>0</i>	<i>16,000</i>	<i>16,000</i>	<i>16,000</i>	<i>16,000</i>	<i>16,000</i>
		<i>Atiu</i>		<i>11,686</i>	<i>6,272</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>
		<i>Mangaia</i>		<i>5,370</i>	<i>8,975</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>
		<i>Manihiki</i>		<i>0</i>	<i>8,006</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>
		<i>Mauke</i>		<i>9,500</i>	<i>8,873</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>
		<i>Mitiaro</i>		<i>7,609</i>	<i>6,768</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>
		<i>Palmerston</i>		<i>8,639</i>	<i>7,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>
		<i>Penrhyn</i>		<i>11,844</i>	<i>11,444</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>
		<i>Pukapuka-Nassau</i>		<i>12,000</i>	<i>8,609</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>
		<i>Rakahanga</i>		<i>7,793</i>	<i>7,658</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>
GRAND TOTAL				21,625,736	36,102,290	40,710,336	47,326,000	35,540,000	26,070,000	25,520,000

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

	2017/18 Actual	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEYU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Taxation Revenue							
Value Added Tax (VAT)	63,509,000	70,315,065	72,759,000	71,700,831	73,087,140	74,473,448	75,859,757
Income tax	28,688,816	36,351,845	27,773,000	31,635,720	31,919,834	32,203,947	32,488,061
Company tax	21,760,000	24,596,456	22,170,000	25,305,252	26,014,260	26,723,269	27,432,277
Import levies	14,164,518	14,565,054	14,557,000	14,264,224	14,361,422	14,458,620	14,555,818
Withholding tax	1,841,603	1,503,687	2,247,000	1,691,785	1,691,785	1,691,785	1,691,785
Departure tax	10,623,158	11,728,180	12,120,000	12,441,918	13,155,655	13,869,392	14,583,129
Total	140,587,094	159,060,288	151,626,000	157,039,730	160,230,096	163,420,461	166,610,827
Other Crown Revenue							
FSC Return of Excess	0	278,582	198,000	198,000	198,000	198,000	198,000
Immigration Fees	927,000	1,064,458	950,000	950,000	950,000	950,000	950,000
IMO Subscription - Maritime Cook Islands	90,000	67,493	66,000	66,000	66,000	66,000	66,000
Court Services	45,746	35,207	50,000	50,000	50,000	50,000	50,000
Instant Fines	107,010	38,924	70,000	70,000	40,000	40,000	40,000
Fishing Licenses	8,617,159	15,164,003	9,531,000	15,000,000	10,000,000	10,000,000	10,000,000
Fisheries - US Treaties (purse seining)	4,890,095	5,357,872	5,059,146	4,676,026	5,004,825	5,004,825	5,004,825
Fishing Fines	0	2,262,864	100,000	450,000	0	0	0
Research Fee	1,470	1,114	1,500	1,500	1,500	1,500	1,500
Permits	26,916	12,084	24,000	24,000	24,000	24,000	24,000
Dividends	3,293,000	4,556,000	2,369,600	2,770,000	2,147,000	2,171,000	2,241,000
Banana Court - dividend	10,000	10,000	0	0	0	0	0
Bank of the Cook Islands - dividend	248,000	284,000	409,600	370,000	247,000	271,000	341,000
Ports Authority - dividend	0	0	0	0	0	0	0
Punanga Nui Market - dividend	0	0	0	0	0	0	0
Te Aponga Uira - dividend	255,000	682,000	400,000	400,000	400,000	400,000	400,000
Extraordinary SOE Dividend	60,000	60,000	60,000	0	0	0	0
Telecom Cook Islands (Bluesky) - dividend	2,720,000	3,520,000	1,500,000	2,000,000	1,500,000	1,500,000	1,500,000
Numismatics	511,000	537,133	450,000	450,000	450,000	450,000	450,000
Border Management Fees	0	0	0	0	0	0	0
Drivers Licenses	214,000	288,978	260,000	260,000	260,000	300,000	260,000
Motor Vehicle Registration	922,000	870,827	875,000	875,000	875,000	875,000	875,000
Interest on balances	2,360,000	2,482,644	1,740,000	1,740,000	1,740,000	1,740,000	1,740,000
Interest on loans to subsidiaries	1,158,000	760,349	830,000	830,000	830,000	830,000	830,000
Foreign Investment Fees	29,000	28,980	27,000	27,000	27,000	27,000	27,000
Upper Air Management Agreement	545,000	576,531	746,000	746,000	746,000	746,000	746,000
Shipping Registration	224,000	264,707	268,259	268,259	268,259	268,259	268,259
International Shipping License	10,000	24,236	10,000	10,000	10,000	10,000	10,000

	2017/18	2018/19	2019/20 Budget	2019/20 HYEPU	2020/21	2021/22	2022/23
	Actual	Actual	Estimate	Estimate	Projection	Projection	Projection
Liquor Licensing	75,000	65,839	70,000	70,000	70,000	70,000	70,000
Tattslotto Grants	172,000	193,377	120,000	120,000	120,000	120,000	120,000
Censorship Fees	3,000	2,458	3,000	3,000	3,000	3,000	3,000
Circulating Currency - Coins	638,000	534,671	650,000	650,000	650,000	650,000	650,000
Employer Liabilities	0	75,000	75,000	75,000	75,000	75,000	75,000
Motor Vehicle Dealers	3,000	3,358	3,000	3,000	3,000	3,000	3,000
Gains on FOREX	0	2,300,000	0	0	0	0	0
Core Sector Support	7,730,400	7,730,487	7,730,487	7,730,487	7,730,487	7,730,487	7,730,487
Total Other	32,592,796	45,578,175	32,276,992	38,113,272	32,339,071	32,403,071	32,433,071
Total Crown Receipts - excluding Bonus Payment	173,179,890	204,638,463	183,902,992	195,153,002	192,569,167	195,823,532	199,043,898
Performance Based Budget Support - Bonus Payment	120,267	0	0	0	0	0	0
Total Crown Receipts - including Bonus Payment	173,300,157	204,638,463	183,902,992	195,153,002	192,569,167	195,823,532	199,043,898

7.12 Schedule 8a – Administered Payments

Administering Ministry	Administered Payment	2017/18 Actual	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEPU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Compensation of Employees								
Cook Islands Investment Corporation	Infrastructure Committee	75,000	47,000	150,000	180,000	150,000	150,000	150,000
Cook Islands Investment Corporation	Joint Venture with Seabed Minerals Authority	67,009	320,000	130,000	130,000	130,000	130,000	130,000
Cook Islands Investment Corporation	Special Projects Units	354,766	685,000	420,000	591,546	420,000	420,000	420,000
Environment	National Heritage Trust	80,906	65,169	82,241	82,241	122,241	122,241	122,241
Finance and Economic Management	Salary Adjustment Administered Fund	82,680	0	0	0	0	0	0
Finance and Economic Management	Director of Civil Aviation	56,129	0	0	0	0	0	0
Finance and Economic Management	Price Tribunal Committee	0	46,055	45,000	45,000	45,000	45,000	45,000
Internal Affairs	Price Tribunal	18,730	0	0	0	0	0	0
Justice	Project to bring land records up to date	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Justice	Judges Allowances	171,090	176,943	300,000	300,000	300,000	300,000	300,000
Public Service Commission	HOM's Salaries	1,254,903	1,472,492	1,741,645	1,741,645	1,741,645	1,741,645	1,741,645
Prime Minister's Office	ICT Support Team	0	0	250,000	250,000	250,000	0	0
Cook Islands Investment Corporation	School Security	250,000	281,000	280,000	280,000	280,000	280,000	280,000
Education	Centre of Research and Policy Studies	0	0	0	0	0	0	0
Finance and Economic Management	The Centre of Research and Policy Studies	0	0	80,000	80,000	80,000	80,000	80,000
Transport	Civil Aviation	0	0	0	0	0	0	0
Prime Minister's Office	Public Sector Strengthening	190,812	0	0	0	0	0	0
	Compensation of Employees Administered Payments	2,722,025	3,213,659	3,598,886	3,800,432	3,638,886	3,388,886	3,388,886
Use of Goods and Services								
Marine Resources	WCPFC Conference	49,170	0	0	0	0	0	0
Prime Minister's Office	Red Cross	0	0	50,000	50,000	50,000	50,000	50,000
Cultural Development	Te Maeva Nui Constitution Celebrations	749,633	3,669,873	722,500	722,500	722,500	2,722,500	722,500
Cook Islands Investment Corporation	Provision for Land Rentals	1,037,560	667,863	1,500,000	2,095,323	500,000	500,000	500,000
Cook Islands Investment Corporation	Land Rent Reviews	787,500	0	0	250,000	0	0	0
Cook Islands Investment Corporation	Avaroa Cable	0	11,450	150,000	238,550	150,000	0	0
Cook Islands Investment Corporation	Renewable Energy Maintenance	0	0	250,000	250,000	0	0	0
Education	Tertiary Training Institutions	749,940	732,670	1,209,855	1,209,855	1,159,855	1,159,855	1,159,855
Education	Centre of Excellence in Information Technology (CEIT)	0	0	0	0	0	0	0
Education	Bus Service	0	0	26,325	26,325	26,325	26,325	26,325
Finance and Economic Management	HRMIS Tax Amnesty Change	99,980	0	0	0	0	0	0

Administering Ministry	Administered Payment	2017/18 Actual	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEFU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Finance and Economic Management	The Centre of Excellence in Information Technology (CEIT)	0	27,027	250,000	250,000	60,000	0	0
Finance and Economic Management	Audit of Crown Accounts	0	30,000	30,000	30,000	30,000	30,000	30,000
Finance and Economic Management	Border Management System Maintenance	135,000	155,250	155,250	155,250	155,250	155,250	155,250
Finance and Economic Management	Standard and Poors Subscription	54,150	58,520	65,000	65,000	65,000	65,000	65,000
Finance and Economic Management	Special Investigative and Prosecution Services	0	67,305	70,000	202,695	70,000	70,000	70,000
Finance and Economic Management	Debt Advisory Services	0	60,000	60,000	60,000	60,000	60,000	60,000
Finance and Economic Management	Post Tax Amnesty Work	1,290	18,061	483,621	483,621	0	0	0
Finance and Economic Management	Public Sector Strengthening-processes and systems	140,593	187,821	200,000	357,179	200,000	200,000	200,000
Finance and Economic Management	National Superannuation Fund	67,224	0	0	0	0	0	0
Crown Law	Arbitration Case	354,000	1,156,705	300,000	300,000	0	0	0
Foreign Affairs	Cook Islands Student Association Support	0	0	10,000	10,000	10,000	10,000	10,000
Head Of State	Domestic Hosting Entertainment	13,480	11,850	15,000	15,000	15,000	15,000	15,000
Head Of State	QR Social Responsibility Fund	4,840	7,516	8,000	8,000	8,000	8,000	8,000
Head Of State	Head of State Rent	0	0	13,000	13,000	13,000	13,000	13,000
Health	Pharmaceuticals	867,800	1,117,829	867,800	867,800	867,800	867,800	867,800
Health	Operation Namu	0	88,016	0	0	0	0	0
Health	Hosting of the 2017 Pacific Health Ministers' Meeting	83,000	0	0	0	0	0	0
Infrastructure Cook Islands	Outer Islands Equipment Repairs of Unanticipated Breakdowns	196,929	196,602	200,000	200,000	200,000	200,000	200,000
Infrastructure Cook Islands	Waste Management	494,000	494,000	500,000	500,000	500,000	500,000	500,000
Infrastructure Cook Islands	Water Maintenance	0	442,704	0	0	0	0	0
Infrastructure Cook Islands	Road and Civil Maintenance	0	647,204	1,100,000	1,100,000	1,280,000	1,000,000	1,000,000
Infrastructure Cook Islands	Road Asset Management	0	646,009	0	0	0	0	0
Infrastructure Cook Islands	Bridges and Drainage Maintenance	0	600,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Infrastructure Cook Islands	Emergency Work	0	0	200,000	200,000	200,000	200,000	200,000
Internal Affairs	Lease extension	72,000	48,600	72,000	95,400	72,000	72,000	72,000
Internal Affairs	Vaka Maintenance	400,890	397,554	400,000	400,000	400,000	400,000	400,000
Internal Affairs	Children Forum	0	0	0	0	20,000	0	0
Internal Affairs	Internal Affairs Youth Program	0	0	45,000	45,000	45,000	45,000	45,000
Parliamentary Services	Pacific Legislatures for Population and Governance (PLPG)	52,000	41,532	0	0	0	0	0
Parliamentary Services	Special Select Committee	66,399	18,812	110,000	110,000	110,000	60,000	60,000
Cultural Development	Te Kopapa Reo Maori Board	12,220	14,590	15,000	15,000	15,000	15,000	15,000
Cultural Development	Cook Islands Cultural Fund	0	0	200,000	200,000	200,000	200,000	200,000
Cultural Development	Audio and Visual Digitization	0	0	40,000	40,000	0	0	0

Administering Ministry	Administered Payment	2017/18 Actual	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEFU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Prime Minister's Office	Social Responsibility Fund	243,000	243,000	243,000	243,000	243,000	243,000	243,000
Prime Minister's Office	Pa Enuā Mechanical Overseer	0	0	130,000	130,000	100,000	100,000	100,000
Prime Minister's Office	Energy Commissioner	0	0	100,000	100,000	100,000	100,000	100,000
Prime Minister's Office	Undersea Fiber optic Cable	33,600	0		0	0	0	0
Police	Search and Rescue	18,220	0	20,000	20,000	20,000	20,000	20,000
Police	Serious Crime Investigations	48,850	68,291	100,000	100,000	100,000	100,000	100,000
Police	Te Kūkupa - Biannual Slipping	0	29,338	0	60,662	150,000	0	0
Police	Te Kūkupa - Fuel Contribution	140,000	140,000	140,000	140,000	140,000	140,000	140,000
Police	Police Youth Program	694	44,801	45,000	45,000	45,000	45,000	45,000
Tourism Corporation	Marketing Resources - Tourism Growth Strategy	5,400,000	5,072,000	4,922,000	4,922,000	4,922,000	4,922,000	4,922,000
Foreign Affairs	Returned Services Association	3,283	4,706	5,000	5,000	5,000	5,000	5,000
Prime Minister's Office	Community Support Fund	96,930	91,118	100,000	100,000	100,000	100,000	100,000
Environment	E - Waste & Whitewear Collection	15,060	84,681	0	165,148	0	0	0
Environment	Management of Suwarrow Park	0	0	100,000	100,000	100,000	100,000	100,000
Environment	EIA Process	0	0	150,000	150,000	200,000	200,000	200,000
Parliamentary Services	Remuneration Tribunal Committee	3,150	17,823	0	0	0	0	0
Crown Law	Pacific Islands Law Officers Network (PILON)	0	29,642	0	0	0	0	0
	Use of Goods and Services Administered Payments	12,492,385	17,440,761	16,573,351	18,046,308	14,629,730	15,919,730	13,919,730
Subsidies								
Education	University of the South Pacific Contribution	241,130	183,410	205,000	205,000	205,000	205,000	205,000
Finance and Economic Management	Air New Zealand - Subsidies	11,466,710	12,925,262	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Finance and Economic Management	Provision for Inter Island Shipping	76,927	174,066	500,000	500,000	500,000	500,000	500,000
Finance and Economic Management	Subsidy of audio/visual broadcasting in Pa Enuā Asian Infrastructure Investment Bank (AIIB)	39,720	39,728	45,000	45,000	45,000	45,000	45,000
Finance and Economic Management	Membership	0	0	30,500	30,500	30,500	30,500	30,500
	Subsidies Administered Payments	11,824,487	13,322,467	12,780,500	12,780,500	12,780,500	12,780,500	12,780,500
Social Assistance								
Education	Government Funded Scholarships	487,981	672,787	660,400	660,400	780,000	780,000	780,000
Health	Patient Referrals	900,000	730,002	850,000	850,000	850,000	850,000	850,000
Health	Nursing School	278,049	279,337	234,070	234,070	234,070	234,070	234,070
Health	NCD Fund	195,000	194,999	195,000	195,000	195,000	195,000	195,000
Health	Oxygen Plant	30,000	0	0	0	0	0	0
Internal Affairs	Welfare Payments - Allowances	695,360	742,134	1,291,309	1,291,309	1,292,973	1,294,029	1,295,038
Justice	Legal Aid	0	10,560	40,000	40,000	40,000	40,000	40,000
	Social Assistance Administered Payments	2,586,390	2,629,819	3,270,779	3,270,779	3,392,043	3,393,099	3,394,108

Administering Ministry	Administered Payment	2017/18 Actual	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEFU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Other Expense								
Cook Islands Investment Corporation	To Tatou Vai	100,000	380,622	2,500,000	2,500,000	2,330,000	1,755,000	1,400,000
Education	Private School Funding	2,147,028	2,229,709	2,510,709	2,510,709	2,510,709	2,510,709	2,510,709
Marine Resources	Fisheries Development Facility	199,188	178,298	200,000	200,000	200,000	200,000	200,000
Marine Resources	Fisheries Development Facility in the Pa Enea	98,570	121,430	100,000	100,000	100,000	100,000	100,000
Internal Affairs	CISNOC Grant	220,000	720,000	370,000	476,381	420,000	420,000	420,000
Internal Affairs	SIF - Cook Islands Government Contribution	1,115,230	772,913	800,000	909,720	860,000	860,000	860,000
Finance and Economic Management	National Census	13,711	0	0	0	0	300,000	0
Finance and Economic Management	Conduct of a Labour Force Survey	0	0	0	99,448	0	0	0
Finance and Economic Management	Production of new currency, transportation and sale of old coins	68,170	35,259	800,000	1,114,740	15,000	15,000	350,000
Finance and Economic Management	Marumaruatua	0	255,212	0	0	0	0	0
Finance and Economic Management	Establishment of Ministerial Office	0	0	0	0	0	0	0
Finance and Economic Management	Economic Utilities Regulator	0	0	100,000	100,000	100,000	100,000	100,000
Other Expenses Administered Payments		3,961,897	4,693,443	7,380,709	8,010,998	6,535,709	6,260,709	5,940,709
Grand Total		33,587,184	41,300,149	43,604,225	45,909,017	40,976,868	41,742,924	39,423,933

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

Administering Ministry	POBOC	2017/18 Actual	2018/19 Actual	2019/20 Budget Estimate	2019/20 HYEFU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Compensation of Employees								
Finance and Economic Management	Parliamentary Superannuation	125,000	113,844	180,000	180,000	180,000	180,000	180,000
Audit (PERCA)	PERC Salaries and Administration Costs	35,400	36,919	57,500	57,500	57,500	57,500	57,500
Parliamentary Services	Civil List - Personnel	2,031,180	2,358,896	2,901,961	2,901,961	2,901,961	2,901,961	2,901,961
Parliamentary Services	House of Ariki	229,954	228,733	348,420	348,420	348,420	348,420	348,420
	Compensation of Employees POBOCs	2,421,534	2,738,391	3,487,881	3,487,881	3,487,881	3,487,881	3,487,881
Use of Goods and Services								
Audit (PERCA)	Audit Fees	0	95,600	95,600	95,600	95,600	95,600	95,600
		0	0	0	0	0	0	0
Justice	General Elections, Petitions and By-Elections							
Parliamentary Services	Civil List - Constituency Visits	90,028	53,742	170,200	170,200	170,200	170,200	170,200
Parliamentary Services	Parliamentary Sitting Expenses	84,307	297,226	150,000	150,000	150,000	150,000	150,000
Parliamentary Services	MP Travel and Allowances (local and overseas)	331,231	414,766	341,000	341,000	341,000	341,000	341,000
Parliamentary Services	QR Travel and Allowances (local and overseas)	106,356	117,499	109,000	109,000	109,000	109,000	109,000
Prime Minister's Office	Local Government Election	0	0	30,000	30,000	0	0	0
	International Maritime Organisation - Maritime	0	0	63,461	63,461	63,461	63,461	63,461
Foreign Affairs	Cook Islands							
	Use of Goods and Services POBOCs	611,923	978,833	959,261	959,261	929,261	929,261	929,261
Subsidies								
Finance and Economic Management	Apex - Profit Guarantee	618,070	0	0	0	0	0	0
		120,000	120,000	128,000	128,000	128,000	128,000	128,000
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy							
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997	2,047,997	2,047,997	2,047,997	2,047,997	2,047,997	2,047,997
Cook Islands Investment Corporation	Ports Authority - subsidy	0	110,000	110,099	110,099	110,099	110,099	110,099
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	0	380,000	380,000	380,000	380,000	380,000	380,000
	Subsidies POBOCs	2,786,067	2,657,997	2,666,096	2,666,096	2,666,096	2,666,096	2,666,096
Social Assistance								
Internal Affairs	Welfare Payments	17,682,100	19,035,449	19,689,535	19,689,535	19,774,919	19,859,919	19,944,757
	Social Assistance POBOCs	17,682,100	19,035,449	19,689,535	19,689,535	19,774,919	19,859,919	19,944,757
Other Expense								
Finance and Economic Management	Pacific Catastrophe Risk Insurance	0	153,139	120,694	120,694	120,694	120,694	120,694
Finance and Economic Management	CICC Mission Training Center Construction Grant	650,000	0	0	0	0	0	0
Finance and Economic Management	BEPS Subscription	0	0	35,000	35,000	35,000	35,000	35,000
Foreign Affairs	International Subscriptions	698,800	627,194	687,967	687,967	689,697	687,967	687,967
Finance and Economic Management	CIG Insurance	0	70,578	100,000	100,000	180,000	40,000	40,000
	Other Expenses POBOCs	1,348,800	850,911	943,661	943,661	1,025,391	883,661	883,661
Grand Total		24,850,424	26,261,581	27,746,434	27,746,434	27,883,548	27,826,818	27,911,656

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

Creditor	2018/19 Actual	2019/20 HYEPU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Asian Development Bank (ADB)					
Principal	4,292	4,668	5,556	6,388	6,352
Interest	2,024	1,873	1,988	1,830	1,669
Total Debt Servicing to ADB	6,316	6,542	7,545	8,218	8,021
People's Republic of China (China)					
Principal	933	2,646	2,617	2,587	2,591
Interest	727	651	592	533	482
Total Debt Servicing to China	1,660	3,297	3,208	3,120	3,073
France					
Principal	317	0	0	0	0
Interest	1	0	0	0	0
Total Debt Servicing to France	318	0	0	0	0
Gross Debt Servicing	8,294	9,838	10,753	11,338	11,094

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

Transaction	2018/19 Actual	2019/20 HYEPU Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Opening Balance in LRF	21,277	20,922	21,427	21,028	19,851
<i>Transfer into LRF by Government</i>	9,361	9,925	10,167	9,968	9,707
Contribution to LRF - Principal	6,995	7,696	8,065	8,073	8,011
Contribution to LRF - Interest	2,366	2,229	2,102	1,895	1,695
Interest earned by LRF	426	418	429	421	397
Total inflows	9,787	10,343	10,596	10,389	10,103
Total Principal Paid out of LRF	7,558	7,375	8,364	9,167	9,083
Total Interest Paid out of LRF	2,524	2,552	2,631	2,399	2,175
	60	0	0	0	0
Total outflows	10,142	9,927	10,995	11,566	11,258
Valuation Adjustment	0	89	0	0	0
Closing balance of LRF	20,922	21,427	21,028	19,851	18,696

7.16 Schedule 10 – Official Development Assistance Schedule

Agency	Programs/Projects by Agency	Development Partner	2018/19 Actuals	HYEFU 2019/20	Budget 2020/21	Budget 2021/22	Budget 2022/23
Projects funded directly in New Zealand dollars							
MFEM	Cook Islands Core Sector Support	New Zealand	7,700,000	7,730,487	7,730,487	7,730,487	7,730,487
MFEM	Cook Islands Core Sector Support - TA Component	New Zealand	0	1,269,513	1,269,513	1,269,513	1,269,513
CIIC	Chinese Building Repairs	China	0	10,837,524	0	0	0
INTAFF	Gender Empowerment	Australia	61,651	0	0	0	0
MFEM	India Grant Fund	India	121,216	680,000	0	0	0
MFEM	Pacific Parliamentary Development Project	UNDP	0	75,758	0	0	0
MOT	Disaster Resilience for Small Pacific Islands (RESPAC Cook Islands)	UNDP	141,640	0	0	0	0
	US Treaty Project Development Fund (PDF) Support	Forum Fisheries Agency	114,000	0	0	0	0
MMR		Agency	114,000	0	0	0	0
MFAI	Pacific Agreement on Closer Economic Relations (PACER) Plus	Australia	0	0	0	0	0
MFEM	Grassroots Grant Fund	Japan	0	376,160	300,000	0	0
MFEM	Non Project Grant Aid - Palmerston Cyclone Centre	Japan	935,116	103,926	0	0	0
MFEM	Economic Social Development Programme 2018	Japan	126,832	766,656	1,603,972	0	0
MFEM	JICA Training and Development	Japan	124,993	125,000	0	0	0
MFEM	General Budget Support	European Union	0	2,288,136	1,419,665	0	0
MFEM	Manatua Polynesian Cable Project	New Zealand	4,124,992	6,071,777	0	0	0
MFEM	Aid Effectiveness	Other	60,712	100,000	100,000	100,000	100,000
MFEM	Te Mato Vai	New Zealand	3,719,418	0	0	0	0
MFEM	Mei Te Vai Ki Te Vai (MTVKTV)	New Zealand	1,477,990	3,858,000	10,000,000	10,000,000	0
MFEM	Mei Te Vai Ki Te Vai (MTVKTV) - Environmental Investigation	New Zealand	0	142,000	0	0	0
MMR	Sustainable Fisheries Partnership Agreement	New Zealand	553,293	588,730	294,365	0	0
OPM	NZ Volunteer Services Aboard	New Zealand	196,283	200,000	200,000	200,000	200,000
MFEM	New Zealand Triennium Fund	New Zealand	1,383,062	0	0	0	0
MMR	Japan Trust Fund	Japan	0	210,521	0	0	0
		Forum Fisheries Agency	114,000	236,364	236,364	236,364	236,364
MMR	Project Development Fund - US Fisheries Treaty	Forum Fisheries Agency	114,000	236,364	236,364	236,364	236,364
MFAI	Project Development Fund - US Fisheries Treaty	Agency	0	30,303	30,303	30,303	30,303
MOH	WHO Biennium Budget Support	WHO	101,496	204,545	0	0	0
MOH	Small Health Grants	Multilateral Fund	14,877	0	0	0	0
MOH	Western Pacific Multi-country Integrated HIV/TB programme - UNDP	UNDP	67,090	80,000	90,000	90,000	0
INTAFF	National Children's Policy Project	UNICEF	26,047	0	0	0	0
NES	Ridge to Reef	Global Environment Facility	2,062,288	1,284,003	1,712,028	318,389	0
NES	Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands	Global Environment Facility	0	120,430	49,960	0	0
OPM	E-Government TA Support	Asian Development Bank	40,011	111,504	0	0	0

Agency	Programs/Projects by Agency	Development Partner	2018/19 Actuals	HYEFU 2019/20	Budget 2020/21	Budget 2021/22	Budget 2022/23
OPM	Renewable Energy Grant (Southern Group)	European Union Global Environment Facility	271,943	0	0	0	0
OPM	Renewable Energy Grant (Southern Group)	Green Climate Fund	1,059,663	891,365	0	0	0
OPM	Renewable Energy Grant (Southern Group)	Green Climate Fund	1,507,370	8,316,288	8,316,288	0	0
OPM	Preparation of the Third National Communication under UN Framework Convention on Climate Change (UNFCCC)	Global Environment Facility	81,110	200,000	0	0	0
MFEM	Green Climate Fund Readiness	Green Climate Fund	483,480	769,087	718,023	354,428	0
MFEM	MOH Building Resilient and healthy Cook Islands Communities - SAP	Green Climate Fund	0	2,000,000	2,000,000	2,000,000	2,000,000
OPM	Pa Enea Action for Resilient Livelihoods (PEARL)	UN Adaptation Fund EU-German Development Cooperation	243,412	1,826,957	538,021	0	0
OPM	Northern Water Project Phase 2	Global Environment Facility	297,131	21,338	0	0	0
REDCROSS	GEF Small Grants Programme	Japan	103,467	485,161	0	0	0
ICI	Japan Grassroots Human Security - Resource Recovery Centre Upgrades	Japan	0	178,391	0	0	0
MFEM	JICA Purpose-built shipping vessel for inter-island services TA Support	Japan	0	250,000	0	0	0
MFEM	Assets Management	New Zealand	0	12,750,000	0	0	0
ICI	ICI COOKGEO Geo-Portal	SPC	0	40,000	0	0	0
Total NZD Equivalent ODA Funding			27,314,583	65,219,924	36,608,989	22,329,484	11,566,667
Total NZD Funding (excluding Core Sector Support)			19,614,583	57,489,437	28,878,502	14,598,997	3,836,180

8 Financial Statements

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

8.1 Statement of Financial Performance

	2018/19 Actual ('000)	2019/20 Budget Estimate ('000)	2019/20 HYEFU Estimate ('000)	2020/21 Projection ('000)	2021/22 Projection ('000)	2022/23 Projection ('000)
Revenue						
Taxation revenues	159,060	151,626	157,040	160,230	163,420	166,611
<u>Other revenue</u>						
Revenue on behalf of the Crown	37,783	27,337	32,774	27,622	27,662	27,622
Sale of goods and services	7,742	4,927	4,927	4,929	4,949	4,949
Interest	3,243	2,570	2,570	2,570	2,570	2,570
Dividends	4,556	2,370	2,770	2,147	2,171	2,241
Total Revenue	212,384	188,830	200,081	197,498	200,773	203,993
Expenditure						
Appropriations to agencies	123,996	133,443	135,808	137,017	141,476	139,522
Payments on behalf of Crown	26,262	27,746	27,746	27,884	27,827	27,912
Debt-servicing interest	2,082	2,133	2,228	2,102	1,895	1,695
Infrastructure depreciation	2,084	4,603	4,603	4,603	4,603	4,603
Depreciation contingency fund-renewable energy	0	1,371	1,371	1,371	1,371	1,371
Other expenditure	3,083	953	1,503	953	953	954
Total Expenditure	157,507	170,249	173,259	173,928	178,123	176,055
NET OPERATING SURPLUS / (DEFICIT)	54,877	18,581	26,822	23,570	22,649	27,938

8.2 Statement of Financial Position

	2018/19 Actual ('000)	2019/20 Budget Estimate ('000)	2019/20 HYEFU Estimate ('000)	2020/21 Projection ('000)	2021/22 Projection ('000)	2022/23 Projection ('000)
Assets						
<i>Working Capital Funds</i>	162,868	90,467	92,033	85,392	86,496	93,523
<i>Stabilisation Fund</i>	0	56,700	56,700	56,700	56,700	56,700
Cash and Equivalents	162,868	147,167	148,733	142,092	143,196	150,223
Loan Repayment Fund	20,922	21,427	21,427	21,028	19,851	18,696
Trust accounts	21,692	21,742	21,742	21,792	21,842	21,892
Inventory	1,296	1,134	1,134	988	857	739
Tax receivables	17,391	17,391	17,391	17,391	17,391	17,391
Debtors and other receivables	8,379	7,913	7,913	7,471	7,028	6,607
Advances to SOEs	26,896	43,388	43,381	47,330	46,554	45,857
Plant, property, and equipment	236,159	310,221	308,879	353,436	377,764	391,542
Total Assets	495,603	570,383	570,600	611,528	634,483	652,947
Liabilities						
Creditors and other payables	15,730	13,763	13,764	12,436	10,842	9,408
Trust liabilities	23,625	21,742	21,742	19,113	18,692	18,692
Borrowings	112,602	129,470	131,696	123,193	111,576	100,499
Total Liabilities	151,957	164,975	167,202	154,742	141,110	128,599
Net Crown Balance	343,646	405,408	403,398	456,786	493,373	524,348

8.3 Statement of Cashflows

	2018/19 Actual ('000)	2019/20 Budget Estimate ('000)	2019/20 HYEFU Estimate ('000)	2020/21 Projection ('000)	2021/22 Projection ('000)	2022/23 Projection ('000)
Cashflows from Operating Activities						
<u>Cash provided from:</u>						
Taxation and levies	152,817	145,382	157,040	160,230	163,420	166,611
Collection of tax arrears	6,244	6,244	0	0	0	0
Sale of goods and services	7,742	4,927	4,927	4,929	4,949	4,949
Interest	3,243	2,570	2,570	2,570	2,570	2,570
Dividends	4,556	2,370	2,770	2,147	2,171	2,241
Other income	38,505	27,779	32,774	27,622	27,662	27,622
Foreign Aid Income	19,615	57,489	48,094	28,879	14,599	3,836
	232,721	246,761	248,175	226,377	215,372	207,829
<u>Cash applied to:</u>						
Appropriations to agencies (less depn)	117,709	126,477	128,842	130,051	134,510	132,556
Payments on behalf of Crown	26,262	27,746	27,746	27,884	27,827	27,912
Debt-servicing interest	2,082	2,133	2,228	2,102	1,895	1,695
Building maintenance	0		0	0	0	0
Other expenditure	3,083	150	700	150	150	151
Foreign Aid Expense	5,851	10,396	8,958	6,120	2,599	1,836
	154,987	166,903	168,474	166,307	166,981	164,150
Net Operating Activity Cashflows	77,734	79,858	79,701	60,070	48,391	43,679
Cashflows from Investing Activities						
<u>Cash provided from:</u>						
Subsidiary loan repayments	0	0	0	0	0	0
	0	0	0	0	0	0
<u>Cash applied to:</u>						
Capital expenditure	36,102	40,710	47,326	35,540	26,070	25,520
Capital expenditure Foreign Aid	13,764	47,093	39,136	22,758	12,000	2,000
Advances to Subsidiaries	0	17,282	17,282	4,741	0	0
	49,866	105,086	103,744	63,040	38,070	27,520
Net Investing Activity Cashflows	-49,866	-105,086	-103,744	-63,040	-38,070	-27,520
Cashflows from Financing Activities						
<u>Cash provided from:</u>						
Loans drawn down	1,095	17,282	17,282	4,741	0	0
Cash drawn from other reserves	1	51	52	1	0	0
	1,096	17,333	17,334	4,742	0	0
<u>Cash applied to:</u>						
Loan reserves	7,559	7,314	7,375	8,364	9,167	9,083
Other reserves	773	50	50	50	50	50
	8,332	7,364	7,425	8,414	9,217	9,133
Net Financing Activity Cashflows	-7,236	9,969	9,909	-3,672	-9,217	-9,133
Net cash movements	20,633	-15,259	-14,135	-6,641	1,104	7,026
Add: Opening Cash and Equivalents	142,235	130,451	162,868	148,734	142,092	143,196
Closing Cash and Equivalents	162,868	115,193	148,734	142,092	143,196	150,223

8.4 Statement of Borrowings

	2018/19 Actual ('000)	2019/20 Budget Estimate ('000)	2019/20 HYEFU Estimate ('000)	2020/21 Projection ('000)	2021/22 Projection ('000)	2022/23 Projection ('000)
Total Gross Borrowings	112,602	129,470	131,696	123,193	111,576	100,499
Assets Held Against Borrowings:						
Advances to subsidiaries	26,896	43,388	43,381	47,330	46,554	45,857
Loan reserves	20,922	21,427	21,427	21,028	19,851	18,696
Total Assets Held Against Borrowings	47,818	64,815	64,808	68,358	66,405	64,553
Net Borrowings of the Government	64,784	64,655	66,888	54,835	45,171	35,946

8.5 Statement of Financial Risks

Quantifiable Contingent Liabilities	('000)
Guarantees and indemnities	500
Uncalled capital	1,712
Legal proceedings and disputes	4,100
Total Quantifiable Contingent Liabilities	6,312

The total quantifiable contingent liabilities are estimated at \$7.5 million in 2014/15. This is made up of the guarantees and indemnities outlined below. Possible liabilities stemming from the Outer Island Governments are also discussed.

Guarantees and indemnities relate to the following:

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

Uncalled Capital

Uncalled capital relates to shares in the Asian Development Bank – Cook Islands Government Property Corporation owns 88 uncalled shares with a par value of US\$13,500 each.

Legal Proceedings and Disputes

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

Financial liabilities relating to Island Governments

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

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

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

9 Statement of Accounting Policies

There have been no changes since the 2019/0 Budget. There are no major changes to accounting policies anticipated in the foreseeable future.

9.1 Basis of Preparation

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

The primary objective of the Crown is to provide goods or services for the social benefit of all Cook Islands citizens and permanent residents living in the Cook Islands. The achievement of social responsibility is paramount to the making of a financial return.

Statement of Compliance

These financial statements have been prepared in accordance with the Ministry of Finance and Economic Management (MFEM) Act 1995/96 and the International Public Sector Accounting Standards (IPSAS).

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 except certain assets are revalued. 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 (\$000). The functional currency is New Zealand dollars.

9.2 Significant Accounting Policies

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

9.2.1 Recent Standards

Of significant relevance to the Crown is the current development of new standards at the IPSAS Board. No new standards have been issued for the 2014/15 period by the board.

STANDARDS	EFFECTIVE DATE
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

9.2.2 Basis of Consolidation

Ministries, public enterprises and other authorities (including state owned enterprises (SOE's) comprising the reporting entity are consolidated by adding together like items of assets, liabilities, equity, 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.

9.2.3 Associate

The Crown's associate investment is accounted for in the group financial statements using the equity method. 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 initially 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.

9.2.4 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 revenue is met.

Revenue Type	Revenue Recognition Point
Individual Income Tax	Income tax is earned when individuals earn taxable income.
Company Income Tax	When the corporate community earns taxable income.
Value Added Tax	When taxable sales are made.
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 airline ticket is purchased.
Other Revenue	When the debt to the Crown arises.

9.2.5 Revenue Earned Through Operations

Revenue from sales of goods or services is recognised when the product is sold or the services are provided to the customer.

Interest Income

Interest income is earned on cash or cash equivalent assets. This is recognised in the period in which it is earned.

Fines

Fines are economic benefits or services potentially 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 earned from the leasing or rental of Crown assets to third parties that is neither a Crown entity or a Crown related party. 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 Comprehensive Revenue and Expenses in the period in which the transaction is concluded.

Dividends

Dividends are recognised when the right to receive the payment has been established.

Aid (Development Partners) Revenue

Revenue is recognised when donor funds are expensed on approved projects and upon receipt of aid donated assets.

9.2.6 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 to 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 Comprehensive Revenue and Expenses in the period in which the transaction is concluded.

Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign Currencies

Transactions in foreign currencies are translated into New Zealand dollar (NZD) 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 Comprehensive Revenue and Expenses.

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 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 value over their estimated useful lives. Typically, the estimated useful lives for various asset types are follows:

Asset Type	Useful Life
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 - 40 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
Plant and equipment tools	4 – 5 years
Marine equipment	5 years
Lease land and leasehold improvements	Term of the lease
Specialised buildings and other buildings	15 years

9.2.7 Non-Current Assets

Plant, Property, and Equipment

Plant, property and equipment is 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 Comprehensive Revenue and Expenses.

Impairment

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Statement of Comprehensive Revenue and Expenses.

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.

Infrastructure assets are accounted for the same way as property, plant and equipment

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

Intangible Assets

Intangible assets are software acquisition costs and are recorded at cost less accumulated amortisation and accumulated impairment losses.

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 Comprehensive Revenue and Expenses.

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:

Asset Type	Useful Life
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. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Debtors and other receivables

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 Comprehensive Revenue and Expenses.

Tax receivables have been calculated on a subsequent receipt bases. All tax revenue received in the years subsequent to 30 June 2015 has been disclosed as tax receivables at year end

Inventories

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis are 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 associates are accounted for in the consolidated financial statements using the equity method. That is, investments in associates are 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.

Provision is made for banking portfolio Investments (specific loans) where recovery is considered doubtful or they have become non-performing. The accounting policy relating to measuring the impairment of loans and advances requires the Bank to assess impairment at least at each reporting date. The credit provisions raised represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement and in accordance with the Financial Supervisory Commission's (FSC) guidelines. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability. Management regularly reviews and adjusts the estimates and methodologies as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of provision and impairment. 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 (Development Partner) Assets

Donor funds are deposited into bank accounts until expensed on approved assets. Where an asset is acquired at no cost, or is donated for use by the Crown or other Crown entity, it is recognised at fair value as at the date of acquisition.

9.2.8 Liabilities

Borrowings

Borrowing liabilities are accounted for at amortised cost on the Statement of Financial Position. Any changes are recognised in the Statement of Comprehensive Revenue and Expenses. Borrowings or the proportion of borrowings expected to be settled within 12 months of balance date are disclosed as current liabilities in the statement of the financial position. All other borrowings are disclosed as non-current liabilities.

Pension Liabilities

Pension liabilities, in respect of the contributory service of current and past Members of Parliament, are recorded at the latest (30 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).

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 Comprehensive Revenue and Expenses as revenue.

Employee Entitlements

These include annual leave earned but not yet taken at balance date and long service (bonus) leave. Long service bonus is paid out on the completion of three years continuous service within the Government. The bonus is equivalent to a fortnight pay of the employee and is provided for on a pro-rata basis in the statements of financial position. Annual leave and long service leave are expected to

be settled within 12 months of balance date, are classified as current liability. All other employee entitlements are classified as a non-current liability.

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 and is provided for on a pro-rata basis in the statement of financial position. Annual leave and long service leave to be settled within 12 months of the balance date, are classified as current liability. All other employee entitlements are classified as a non-current liability.

9.2.9 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. Included in the cash flow statement 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.

Operating activities identify 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. The direct cash flow method has been applied.

9.2.10 Leases

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incidental to the ownership of an 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. Operating leases are recognised as an expense in the Statement of Comprehensive Revenue and Expenses in the periods in which they are incurred.

The cost of leasehold improvements is capitalised and amortised over the lesser of the leasehold improvements useful life or the original lease term.

9.2.11 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.

9.2.12 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.

9.2.13 Changes in Accounting Policies

There have been no changes to the accounting policies. All policies have been applied on a consistent basis with the prior year.