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# Cook Islands Government

## Quarterly Financial Report

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**March 2017**

**Prepared by the Ministry of Finance and Economic Management**  
**[www.mfem.gov.ck](http://www.mfem.gov.ck)**

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## Introduction

The statements contained in this report have been prepared on an accruals basis as far as practical and outline income and expenses incurred which may not been necessarily received or paid. All figures are rounded to the nearest thousand. In a change from past quarterly reporting, personnel expenses have been accrued for ten days ending March 2017 to give a more accurate picture of expenditure.

## Key Points

The net operating balance of the General Government Sector as at 31 March 2017 was a surplus of \$23.24 million.

- Operating revenue was \$117.21 million; and
- Operating expenditure was \$93.97 million.

The estimated overall fiscal balance for March 2017 was a surplus of \$21.72 million. The fiscal balance adjusts the Net Operating Balance for the effects of depreciation and capital expenditure.

**Table 1**  
**Net Operating Balance General Government – March 2017**

<b>2015/16</b>		<b>2016/17</b>	<b>2016/17</b>	<b>Variance</b>	
<b>Actual</b>		<b>Budget</b>	<b>Actual</b>	<b>(‘000)</b>	<b>%</b>
<b>(‘000)</b>		<b>(‘000)</b>	<b>(‘000)</b>		
105,104	Operating Revenue	107,668	117,214	9,546	9
93,205	Operating Expenditure	99,302	93,973	5,330	5
<b>11,899</b>	<b>Net Operating Balance</b>	<b>8,366</b>	<b>23,241</b>	<b>14,875</b>	<b>178</b>

**Table 2**  
**Fiscal Balance of General Government – March 2017**

<b>2015/16</b>		<b>2016/17</b>	<b>2016/17</b>	<b>Variance</b>	
<b>Actual</b>		<b>Budget</b>	<b>Actual</b>	<b>(‘000)</b>	<b>%</b>
<b>(‘000)</b>		<b>(‘000)</b>	<b>(‘000)</b>		
11,899	Net Operating Balance	8,366	23,241	14,875	178
2,190	Add Crown Depreciation	2,762	2,762	-	-
1,498	Add Ministry Depreciation	2,133	1,882	(251)	(12)
382	Add Pa Enea Depreciation	859	881	22	3
8,590	Less Capital Expenditure - CI Govt Funded	27,760	7,050	20,710	75
<b>7,380</b>	<b>Fiscal Balance</b>	<b>(13,640)</b>	<b>21,716</b>	<b>35,356</b>	<b>(259)</b>

Total revenue collections for March 2017 were higher than the Budget estimate and were mainly attributable to higher than estimated tax revenues for reasons detailed in the General Government Revenue Analysis section.

Total operating expenses for March 2017 were lower than the Budget estimate and are largely attributed to lower expenditure of payments on behalf of Crown. Details are provided General Government Expenditure Analysis section.

Capital Expenditure was well below expectations due mainly to scheduling.

## Summary of the Financial Position of the General Government

The net operating surplus of the General Government sector for March 2017 was \$23.24 million, representing an increase of \$14.86 million on the 2016/17 Budget estimates.

Overall, revenue was \$9.55 million higher than the 2016/17 Budget estimates and operating expenditure was lower by \$5.33 million than the 2016/17 Budget estimates for the nine months. The under spend largely attributed to savings in the Air NZ airline subsidy payments. Further detail is provided in the appropriation analysis sections.

This statement has been prepared on an accruals basis as far as practical and outlines income and expenses incurred which may not been necessarily received or paid.

**Table 3**  
**Net Operating Balance as at 31 March 2017**

<b>Mar 16</b>		<b>2016/17</b>	<b>2016/17</b>	<b>Variance</b>
<b>FY2015/16</b>		<b>Budget</b>	<b>Actual</b>	
<b>Actual</b>				
<b>('000)</b>		<b>('000)</b>	<b>('000)</b>	<b>('000)</b>
<u>Operating Revenue</u>				
87,738	Taxation Revenue	82,769	91,620	8,851
9,909	Other Crown Receipts	11,064	16,256	5,192
4,906	Trading Revenue	4,122	5,350	1,228
537	Interest on Loans to Subsidiaries	527	552	25
818	Dividends	1,340	35	(1,305)
1,196	Interest on Funds	1,414	1,525	111
-	Higher Modality Partnership NZ	5,683	1,877	(3,806)
-	Public Sector Strengthening -Process and Systems	750	0	(750)
<b>105,104</b>	<b>Total Operating Revenue</b>	<b>107,668</b>	<b>117,214</b>	<b>9,546</b>
<u>Operating Expenditure</u>				
50,384	Ministry/ Pa Enuu Expenditure	51,802	49,756	2,046
32,834	Payments on Behalf of the Crown	39,616	36,023	3,593
1,536	Airport Authority	0	0	-
90	Bank of Cook Islands	0	0	-
285	Te Aponga Uira	0	0	-
83	Ports Authority	0	0	-
1,474	Debt Service Interest	1,283	1,153	129
1,991	Asset Management	1,089	1,393	(304)
2,190	Crown Infrastructure Depreciation	2,762	2,762	(0)
-	Concessional Loan to Vanilla Farmers (BCI)	0	0	-
-	Cook Islands Primary Schools 50 year Saver	0	0	-
-	Public Sector Strengthening	0	0	0
-	Transfer to Emergency Reserve Trust Fund	453	453	0
386	Transfer to Reserve Trust Fund	411	411	-
1,868	Depreciation Contingency Fund	1,772	1,772	0
-	Contingency Funds - Capital	0	0	-
-	ADB Share Capital	0	0	-
84	Contingency Funds - Operating	115	250	(135)
<b>93,205</b>	<b>Total Operating Expenditure</b>	<b>99,302</b>	<b>93,973</b>	<b>5,330</b>
<b>11,899</b>	<b>Net Operating Balance</b>	<b>8,366</b>	<b>23,241</b>	<b>14,875</b>

## Summary of Crown Cash Position of the General Government

December 2016/17 Actual ('000)	<u>For the Third Quarter 2016/17</u> <b>Key Balance Sheet Items in General Government:</b>	March 2016/17 Actual ('000)
73,406	Cash and Equivalents (Table 15)	75,669
(29,259)	Committed Cash (Table 15)	(29,303)
<b>44,147</b>	<b>Net Cash Reserve</b>	<b>46,366</b>
<hr/>		
98,757	Gross General Government Borrowings (Table 13)	97,600
<b>58,396</b>	<b>Net General Government Borrowings</b>	<b>57,321</b>
<hr/>		
	<b>Increase in Net Cash Reserve</b>	<b>2,219</b>
	<b>Decrease in Net General Government Borrowings</b>	<b>1,075</b>
	<b>Net Cash Gain/(Loss) in the period</b>	<b>3,294</b>

The gross borrowings by the Crown were \$97.60 million; net borrowings by the General Government Sector (excluding loan reserves and borrowings by SOEs) were \$57.32 million (down by \$1.08 million on December 2016).

The net cash reserve which is essentially unencumbered increased to \$46.37 million for 31 March 2017 (up by \$2.22 million on December 2016) resulting from the Fiscal surplus in the third quarter reported.

Combined net cash position resulting from the Fiscal surplus was a net cash gain of \$3.29 million for the third quarter.

The following table provides the same analysis for the nine months to 31 March 2017. The table shows an overall net cash gain for the financial year 2016/17 year-to-date March 17 of \$22.63 million

June16 FY2015/16 Actual ('000)	<u>For the 9 months to March 2016/17</u> <b>Key Balance Sheet Items in General Government:</b>	March 2016/17 Actual ('000)
56,535	Cash and Equivalents (Table 15)	75,669
(27,289)	Committed Cash	(29,303)
<b>29,246</b>	<b>Net Cash Reserve</b>	<b>46,366</b>
<hr/>		
104,098	Gross General Government Borrowings (Table 13)	97,600
<b>62,831</b>	<b>Net General Government Borrowings</b>	<b>57,321</b>
<hr/>		
	<b>Increase in Net Cash Reserve</b>	<b>17,120</b>
	<b>Decrease in Net General Government Borrowings</b>	<b>5,510</b>
	<b>Net Cash Gain/(Loss) in the period</b>	<b>22,630</b>

The net cash gain is greater than the Fiscal surplus for the year to date due to a significant receipt accounted for in 2015/16 being received in July 2016. This is offset partially by unrealised gains from Foreign Exchange movement on Government Debt.

## Changes to Expenditure Authority

Section 70 (3) (b) (i) of the Cook Islands Constitution allows for expenditure to exceed the appropriation provided that the total amount of all sums issued and paid shall not exceed one and one-half percent (1 ½ per cent) of the total amount of all sums appropriated by the Appropriation Act or Acts for that year. The table below illustrates total appropriation \$238,280,290 one-half percent (1 ½ per cent) and approved expenditure and balance remaining for the nine months ending March 2017.

<b>Total Government Appropriation (2016/17)</b>	<b>\$ 238,280,290.00</b>
Government Approved Excess (1.5%)	\$ 3,574,204.35
Less Approved Expenditure	\$ 2,078,020.00
Balance	<u>\$ 1,496,184.35</u>

Listed below are approved Executive Council passed in the nine months ending March 2017

<b>Executive Orders approved under Section 70(3) (b) (i)</b>	
<i>Contingency Fund Top-up</i>	\$ 100,000
<i>STEPNZ Immigration Programme</i>	\$ 72,500
<i>R&amp;M Atiu Genset</i>	\$ 41,000
<i>Social Impact Fund topup</i>	\$ 260,000
<i>COI Air Raro</i>	\$ 26,220
<i>Serious Crime Investigation</i>	\$ 81,751
<i>IMF-PFTAC</i>	\$ 56,658
<i>CISNOC Grant - U20 Oceania Tournament</i>	\$ 15,000
<i>Miss Cook Islands Association</i>	\$ 50,000
<i>Civil List Travel &amp; Allowances</i>	\$ 330,000
<i>Aitutaki Road Sealing Programme</i>	\$ 499,133
<i>Capital Distribution Fund(CDF)</i>	\$ 10,239
<i>As at 31 December 2016</i>	<u>\$ 1,542,501</u>
<i>Transfer from Min of Culture (POBOC) to Capital Distribution Fund (CDF)</i>	\$ 26,950
<i>Pharmaceuticals</i>	\$ 150,000
<i>Capital Distribution Fund(CDF)</i>	\$ 36,689
<i>School Security</i>	\$ 140,000
<i>Contingency Fund Top-up, Samatua vs Attorney General</i>	\$ 41,000
<i>Contingency Fund Top-up, Hardship Grant for Tahiti Appeal</i>	\$ 10,000
<i>Samatua vs Attorney General 2/2</i>	\$ 49,000
<i>Tupapa House Fires</i>	\$ 10,000
<i>Operating Budget</i>	\$ 54,950
<i>Head of State Top-Up</i>	\$ 16,930
<i>As at 31 March 2017</i>	<u>\$ 535,519</u>
<b>Total YTD 31 March 2017</b>	<u><u>\$ 2,078,020</u></u>

## General Government Revenue Analysis

General Government sector revenue as at 31 March 2017 was higher than the Budget estimate by \$9.55 million or 5 per cent. This was mainly attributed to tax revenues performing above budget for respective reasons detailed below.

**Table 4**

### General Government Revenue Summary – March 2017 YTD

2015-16 Actual ('000)		2016-17 Budget ('000)	2016-17 Actual ('000)	Variance ('000)	%
41,779	Value-added Tax	41,995	44,499	2,504	6
18,870	Income Tax	18,068	17,709	(359)	(2)
9,161	Company Tax	7,390	9,381	1,991	27
8,931	Import Levies	8,122	10,825	2,703	33
2,313	Withholding Tax	0	1,438	1,438	100
6,684	Departure Tax	7,194	7,768	574	8
4,906	Trading Revenue	4,122	5,350	1,228	30
12,461	Other Revenue	14,344	18,367	4,023	28
-	Higher Modality Partnership NZ	5,683	1,877	(3,806)	(67)
-	Public Sector Strengthening-Process & Systems	750	0	(750)	(100)
<b>105,104</b>	<b>Total Revenue</b>	<b>107,668</b>	<b>117,214</b>	<b>9,546</b>	<b>9</b>

#### Value Added Tax

Actual VAT revenue collected ending March 2017 was \$2.50 million above Budget estimate (6 per cent) as a result of steady economic activities.

#### Income Tax

Actual Income Tax revenue collected ending March 2017 was \$0.36 million below Budget estimate (-2 per cent).

#### Company Tax

Actual Company tax collected as at 31 March 2017 was \$1.99 million above the 2016/17 Budget estimate (27 per cent).

#### Import Levies

Actual Import levies collected as at 31 March 2017 was \$2.70 million above the Budget estimate (33 per cent). Chain effect of economic activities from tourism has resulted in increased imports.

#### Withholding Tax

Actual Withholding tax collections were \$1.44 million above the 2016/17 Q3 Budget estimate (100 per cent).

#### Departure Tax

Departure tax collections were \$0.57 million above the 2016/17 Budget estimate (8 per cent).

#### Trading Revenue

This will be discussed in the next section (Appropriation Analysis).

#### Higher Modality Partnership Agreements

Agreement has not been reached with New Zealand. Consequently there has been timing issues with receipt of this revenue and only revenue received by 31 March 2017 has been accounted for as revenue. Associated expenditure, particularly related to performance based funding has been managed lower accordingly. \$1.88 million is the remainder of the 2015/16 GFA.

Other Crown Revenue

Other Crown Revenue was \$4.02 million above the 2016/17 budget estimate (28 per cent). Fishing Licences, Interest on Balances and Unrealised Foreign Exchange Gains contributed to this variance to budget. No dividends have yet to be received, this will be accounted for at the end of the financial year.

**Table 5**

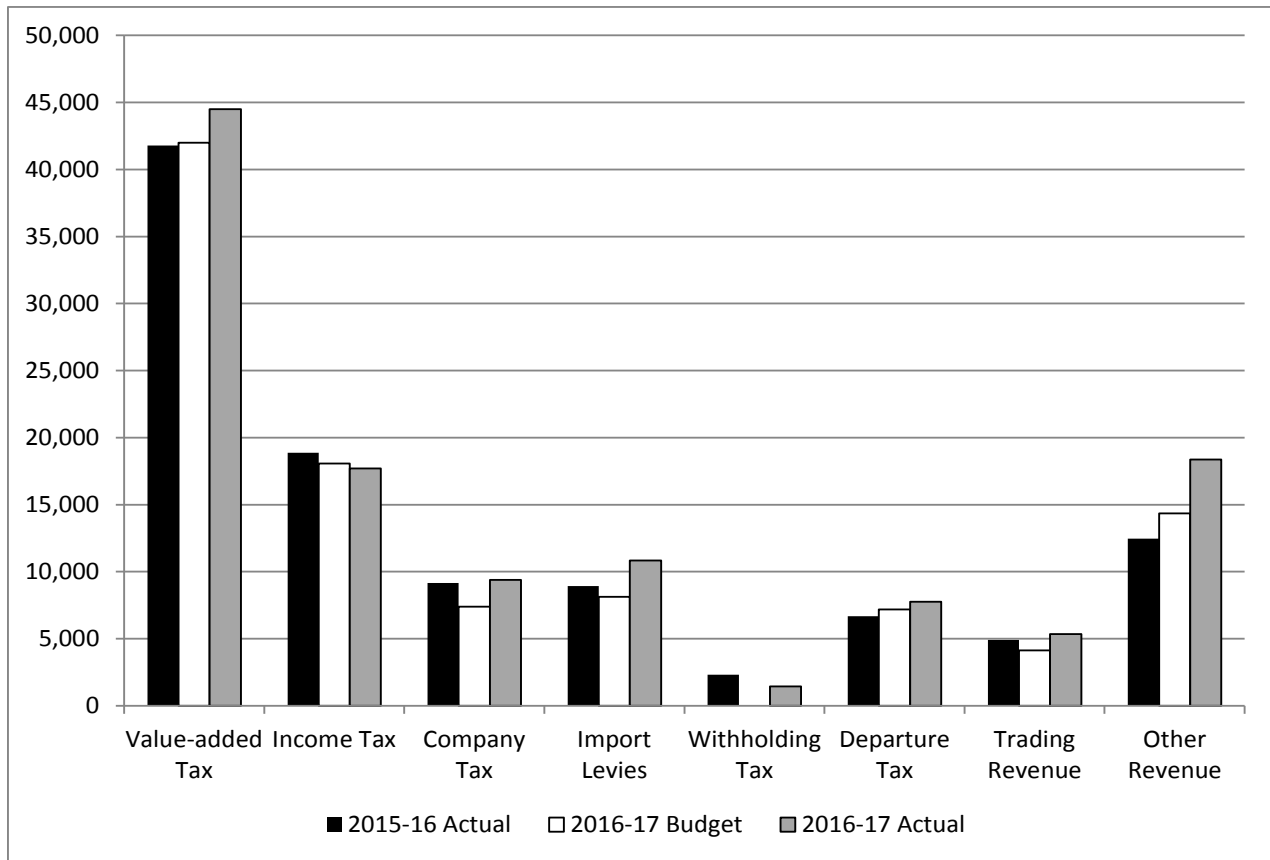
**General Government Other Revenue Summary – March 2017 YTD**

<b>2015-16 Actual ('000)</b>		<b>2016-17 Budget ('000)</b>	<b>2016-17 Actual ('000)</b>	<b>Variance ('000)</b>	<b>%</b>
257	FSC Fees	220	134	(86)	(39)
288	Vested Assets-FSC	0	0	0	0
545	Immigration Fees	440	653	213	48
-	IMO Subscription - Maritime CI	50	-	(50)	(100)
33	Court Services	38	25	(12)	(33)
16	Instant Fines	15	36	21	141
6,927	Fishing Licences	6,750	10,010	3,260	48
-	Fisheries Catch Rev	0	-	0	0
-	Fisheries US Treaties	900	928	28	3
1	Research Fees	1	1	-	-
11	Permits	18	23	5	28
-	Banana Court -Dividends	8	-	(8)	(100)
-	Bank of the Cook Islands	186	-	(186)	(100)
-	Te Aponga - Dividends	239	35	(204)	(85)
18	Extraordinary SOE-Dividends	45	-	(45)	(100)
800	Telecom-Dividends	863	-	(863)	(100)
218	Numismatic Revenue	263	274	12	4
53	Drivers Licenses	60	59	(1)	(1)
171	Motor Vehicle Registrations	656	239	(418)	(64)
1,196	Interest on balances	1,414	1,525	111	8
537	Interest on loans to subsidiaries	527	552	25	5
22	Foreign Investment Fees	20	17	(3)	(15)
363	Upper Air Management Agreement	560	363	(196)	(35)
95	Shipping Reg/Licenses	201	41	(160)	(80)
15	Intl Shipping Licenses	11	10	(1)	(11)
17	Liquor Licensing	23	15	(8)	(34)
132	Tattslotto Grants	90	115	25	28
2	Censorship Fees	8	2	(6)	(78)
740	Circulating Currency- Coins	682	223	(459)	(67)
-	Employers Liability	56	-	(56)	(100)
3	Motor Vehicle Dealers	4	2	(2)	(47)
-	Gain on Forex	0	3,025	3,025	0
-	Other Misc Revenue	0	61	61	0
<b>12,461</b>		<b>14,344</b>	<b>18,367</b>	<b>4,023</b>	<b>28</b>

\*In the 2016/17 budget a policy was established whereby CIG would seed the new sovereign wealth fund with extraordinary revenues that were not budgeted for. Revenue generated from fishing fines and vested assets in the table above will be set aside into this fund once legislative changes are in place.



**Figure 1**  
**General Government Revenue – 2015/16 Actual and 2016/17 Budgets and Actual (\$'000)**



**Figure 2**  
**Net Operating Revenue Trends**

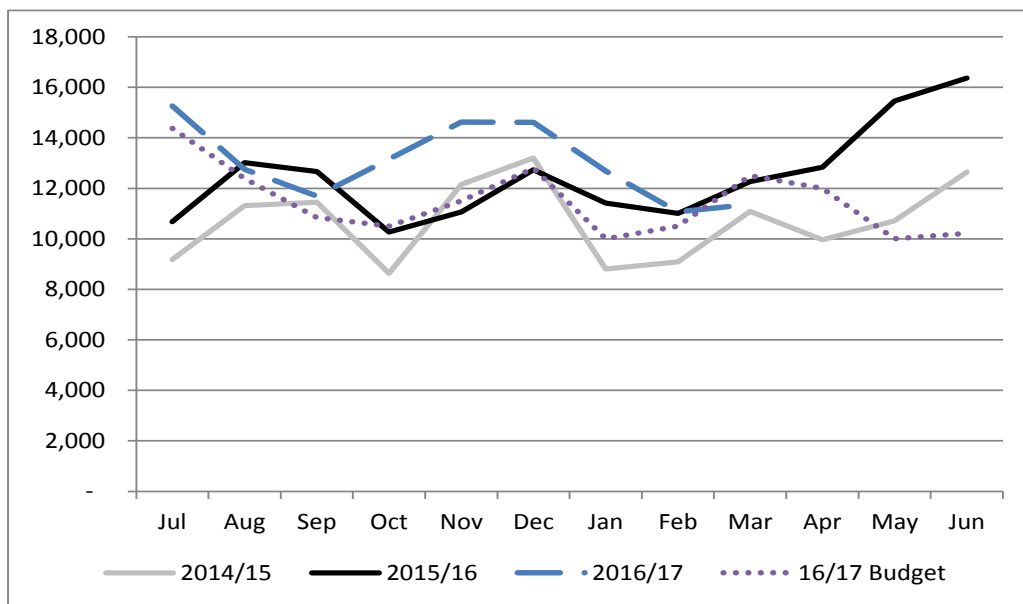


Figure 2 shows that the trends over the previous two financial years of operating revenue and against the 2016/17 budget are quite consistent and significant increase on prior years and budget, mainly from taxes revenues.

# General Government Expenditure Analysis

## Payments on Behalf of Crown (POBOCs)

Table 6

### Payments on Behalf of Crown – March 2017 YTD

2015/16 Actual (‘000)	Administering Ministry	POBOC	Budget (‘000)	Actuals (‘000)	Variance (‘000)	%
<b>Compensation of Employees</b>						
40	Cook Islands Investment Corporation	Infrastructure Committee	56	42	14	25
	Cook Islands Investment Corporation	Est of an SOE to manage Consortia on Deep Sea				
0		Minerals Harvesting	98	73	25	25
104	Finance & Economic Management	Parliamentary Superannuation	135	100	35	26
65	National Environment Service	National Heritage Trust	62	61	0	1
	Finance & Economic Management	Public Sector Strengthening -processess and				
0		systems MFEM	247	9	238	97
28	Audit	PERC Salaries and Administration Costs	32	29	3	9
30	Internal Affairs	Price Tribunal	23	21	1	5
0	Justice	Projects to bring land records up to date	90	6	84	94
145	Justice	Judges Allowances	133	58	75	56
1,488	Parliamentary Services	Civil List - Personnel	1,481	1,460	21	1
120	Parliamentary Services	House of Ariki	132	168	(36)	(27)
0	Public Service Commission	HOM's Salaries	922	877	45	5
177	Cook Islands Investment Corporation	School Security	75	102	(27)	(36)
42	Transport	Director of Civil Aviation	42	40	2	4
<b>2,240</b>			<b>3,526</b>	<b>3,046</b>	<b>480</b>	<b>14</b>
<b>Use of Goods and Services</b>						
51	Audit	Audit Fees	72	0	72	0
576	Cultural Development	Te Maeva Nui Constitution Celebrations	542	296	246	45
32	Cook Islands Investment Corporation	Hosting Te Maeva Nui participants at schools	0	0	0	0
625	Education	Tertiary Training Institutions	570	551	19	3
0	Finance & Economic Management	Audit of Crown Accounts	23	0	23	100
0	Finance & Economic Management	Border Management System Maintenance	101	135	(34)	(33)
224	Finance & Economic Management	National Superannuation Fund	192	101	91	47
0	Finance & Economic Management	Standard and Poors Subscription	30	0	30	100
5	Foreign Affairs	Cook Islands Student Association	4	5	(1)	(33)
11	Head Of State	Domestic Hosting Entertainment	11	14	(3)	(25)
710	Health	Pharmaceuticals	501	751	(250)	(50)
48	Infrastructure and Planning	OI Unanticipated Breakdowns	150	65	85	57
333	Infrastructure and Planning	Waste Management	409	329	79	19
54	Internal Affairs	Lease extension	54	54	0	0
293	Internal Affairs	Vaka Maintenance	300	292	8	3
438	Parliamentary Services	Civil List - Operating Expenses	0	0	0	#DIV/0!
	Parliamentary Services	Civil List - Constituency Visits	128	90	37	29
-	Parliamentary Services	Parliamentary Sitting Expenses	90	7	83	92
-	Parliamentary Services	QR & MP Travel and Allowances (local and overseas)	113	316	(203)	(181)
36	Parliamentary Services	PPAPD - FDOC Secretariat	39	41	(2)	(4)
195	Prime Minister's Office	Social Responsibility Fund	146	195	(49)	(33)
635	Prime Minister's Office	Self Government Golden Anniversary	0	0	(0)	0
0	Prime Minister's Office	Local Government Elections	0	1	(1)	#DIV/0!
1	Police	Search and Rescue	15	0	15	100
66	Police	Serious Crime Investigations	38	141	(103)	(276)
	Police	Te Kukupa - Biannual Slipping	113	10	102	91
70	Police	Te Kukupa - Fuel Contribution	105	125	(20)	(19)
0	Police	Youth Program	34	31	3	10
3,880	Tourism Corporation	Marketing Resources - Tourism Growth Strategy	4,125	4,725	(600)	(15)
5	Prime Minister's Office	Returned Services Association	4	0	4	100
74	Prime Minister's Office	Community Development Fund	75	74	1	1
65	Environment	E-Waste Collection	48	0	48	100
<b>8,428</b>			<b>8,028</b>	<b>8,349</b>	<b>(321)</b>	<b>(4)</b>

<b>Subsidies</b>						
121	Education	University of the South Pacific Contribution	214	97	116	54
4,205	Finance & Economic Management	Air New Zealand - Subsidies	7,125	5,663	1,462	21
806	Finance & Economic Management	Apex - Profit Guarantee	1,125	971	154	14
0	Finance & Economic Management	Provision for Inter Island Shipping	375	0	375	100
0	Finance & Economic Management	Subsidy of audio/visual broadcasting in Pa Enuua	34	40	(6)	(18)
		Bank of the Cook Islands - social assistance				
-	Cook Islands Investment Corporation	subsidy	90	0	90	100
-	Cook Islands Investment Corporation	Airport Authority subsidy	1,536	1,536	0	0
-	Cook Islands Investment Corporation	Ports Authority - subsidy	83	0	83	100
-	Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	285	0	285	100
<b>5,132</b>			<b>10,866</b>	<b>8,307</b>	<b>2,559</b>	<b>24</b>
299	Education	Government Funded Scholarships	556	390	166	30
537	Health	Patient Referrals	413	494	(81)	(20)
224	Health	Nursing School	176	201	(25)	(15)
177	Health	NCD Fund	146	160	(13)	(9)
12,213	Internal Affairs	Welfare Payments	12,587	12,599	(12)	(0)
0	Justice	Legal Aid	30	0	30	100
<b>13,450</b>			<b>13,907</b>	<b>13,843</b>	<b>63</b>	<b>0</b>
<b>Other Expense</b>						
	Cook Islands Investment Corporation	Establishment and implementation of a water utility for Rarotonga	75	0	75	100
1,922	Education	Private School Funding	1,610	1,360	250	16
0	Finance & Economic Management	Pacific Catastrophe Risk Insurance	91	0	91	100
164	Foreign Affairs	International Subscriptions	448	564	(116)	(26)
100	Marine Resources	Establishment of Fisheries Development Facility	150	0	150	100
0	Marine Resources	Fishes Development Facility in the Pa Enuua	75	100	(25)	(34)
220	Internal Affairs	CISNOC Grant	165	235	(70)	(42)
128	Internal Affairs	SIF- Cook Islands Government Contribution	0	0	0	0
	Internal Affairs	NGO and Welfare Organisations	211	40	171	81
507	Finance & Economic Management	New coins production	278	0	278	100
0	Finance & Economic Management	2017 Baseline Funding for National Census	188	177	10	0
521	Prime Minister's Office	Te Maeva Nui Transport Costs	0	0	0	0
21	Parliamentary Services	Ui Ariki Day	0	0	(0)	0
<b>3,583</b>			<b>3,289</b>	<b>2,477</b>	<b>812</b>	<b>25</b>
<b>32,834</b>	<b>Grand Total</b>		<b>39,616</b>	<b>36,023</b>	<b>3,593</b>	<b>9</b>

The overall saving in POBOC expenditure (9 per cent) was mainly attributed to the Air New Zealand underwrite (\$1.46 million). The variance in Tourism Corporation's Marketing Resources-Tourism Growth Strategy POBOC of \$0.6 million to budget was a result on Tourism Corporation taking advantage of favourable exchange rates and approved advanced funding to purchase foreign currency to increase efficiency.

Welfare payments were in line with budget for the quarter March 2017.

**Table 7**  
**Welfare Payments - March 2017 YTD**

<b>2015/16</b>		<b>2016/17</b>	<b>2016/17</b>	<b>Variance</b>	
<b>Actual</b>		<b>Budget</b>	<b>Actual</b>	<b>('000)</b>	<b>%</b>
<b>('000)</b>		<b>('000)</b>	<b>('000)</b>		
<b>Legislated Payments</b>					
2,037	Child Benefit	1,991	2,032	(40)	(2)
150	New Born Allowance	150	177	(27)	(18)
8,857	Old Age Pension	9,082	9,118	(35)	0
504	Destitute & Infirm Persons Payment	396	397	(1)	(0)
96	Govnerment Paid-Maternity Leave	113	77	36	32
<b>Non-legislated Welfare Payments</b>					
0	Caregiver's Allowance	275	226	49	18
274	Christmas Bonus	208	278	(71)	(34)
103	Funeral Assistance	128	110	18	0
35	Power Subsidy	59	60	(0)	(0)
53	Special Assistance	75	26	49	65
104	BCI Transaction Fee	110	99	11	10
<b>12,213</b>	<b>Total Welfare Payments</b>	<b>12,587</b>	<b>12,599</b>	<b>(12)</b>	<b>(0)</b>

## Appropriation Analysis

Table 8

### Ministries, Agencies & Ministerial Office Appropriation Analysis March 2017 YTD

Actual 2015/16 (‘000)		Budget 2016/17 (‘000)	Actual 2016/17 (‘000)	Variance (‘000)	%
32,339	Personnel	30,931	29,628	1,303	4
10,374	Operating	11,708	11,318	390	3
1,498	Depreciation	2,133	1,882	251	12
3,970	Trading Revenue	3,276	4,187	911	28
<b>40,241</b>	<b>Net Appropriation</b>	<b>41,496</b>	<b>38,641</b>	<b>2,855</b>	<b>7</b>

#### Personnel

Personnel Expenditure for March 2017 quarter was \$1.30 million lower than budget estimates (4%). The contributing factor for this variance was mainly from Ministries' vacancies, in particular Infrastructure Cook Islands and Ministry of Education, who have a number of positions and delay in filling these vacancies as well as new posts to fill.

#### Operating

Operating Expenditure for March 2017 quarter was lower than budget estimates \$0.40 million (3%). Most ministries are closely monitoring their operating expenses parallel to carrying out their core functions.

#### Depreciation

Depreciation expenditure was under budget for March 2017 by \$0.25 million 12%.

#### Trading Revenue

Trading revenue for March 2017 was \$0.91 million (28%) higher than budget estimates. Excess trading revenue was mainly from the Ministry of Finance through its overtime recoveries, Aitutaki Power Supply with its high collection of power usage. Ministry of Justice contributed mainly through its increase in fees.

**Table 9****Pa Enuu (Outer Islands) Appropriation Analysis – March 2017 YTD**

2015/16 Actual ('000)		Budget 2016/17 ('000)	Actual 2016/17 ('000)	Variance ('000) %	
4,243	Personnel	4,412	4,211	201	5
1,548	Operating	1,759	1,836	(77)	(4)
382	Depreciation	859	881	(22)	(3)
936	Trading Revenue	846	1,163	317	37
<b>5,238</b>	<b>Net Appropriation</b>	<b>6,184</b>	<b>5,765</b>	<b>419</b>	<b>7</b>

**Personnel**

Personnel expenditure for March 2017 was \$0.20 million 5% below budget. Aitutaki and Pukapuka had the highest unfilled vacancies, while 2 islands (Penrhyn and Atiu) exceeded their personnel due to additional staff being employed.

**Operating**

Operating expenditure for March 2017 was \$0.77 million - 4% over budget. Fuel costs and raw materials contributed to this variance to budget.

**Depreciation**

Depreciation expenditure for March 2017 was \$0.02 million - 3% over budget estimate. It is expected the variance will continue to increase as the islands are slowing accounting for the Chinese machineries without an increase in the depreciation budget to date. Crown will account for an offset of overspend in depreciation with appropriation from the Depreciation Contingency Fund.

**Trading Revenue**

Trading revenue actuals has increased by \$0.32 million (37%) over Budget. 2 Islands have exceeded their trading revenue with Mauke Island having an increase in hireage of machinery, boating and reefing and power account being up to date.

## Other General Government Operating Expenditure

**Table 10**  
**Other General Government Operating Expenditure**

2015/16 Actual ('000)		2016/17 Budget ('000)	2016/17 Actual ('000)	Variance ('000)	%
1,536	Asset Management	1,089	1,393	(304)	28
1,474	Debt Servicing Interest	1,283	1,153	129	10
84	Contingency Funds - Operating	115	250	(135)	(117)
2,190	Crown Infrastructure Depreciation	2,762	2,762	-	-
230	Cook Islands Primary Schools 50 year Saver	0	0	-	-
38	Transfer to Emergency Response Trust Fund	453	453	-	-
386	Transfer to Reserve Trust Fund	411	411	-	-
1,868	Depreciation Contingency Reserve	1,772	1,772	-	-
<b>7,807</b>	<b>Total Other Operating</b>	<b>7,884</b>	<b>8,194</b>	<b>(310)</b>	<b>(4)</b>

Other operating costs for the General Government sector are -4 per cent above in March 17 quarter budget. Greater repairs and maintenance and utilisation of contingency funds were the contributing factors to the variance to budget.

**Figure 3**  
**Net Operating Expenditure Trends**

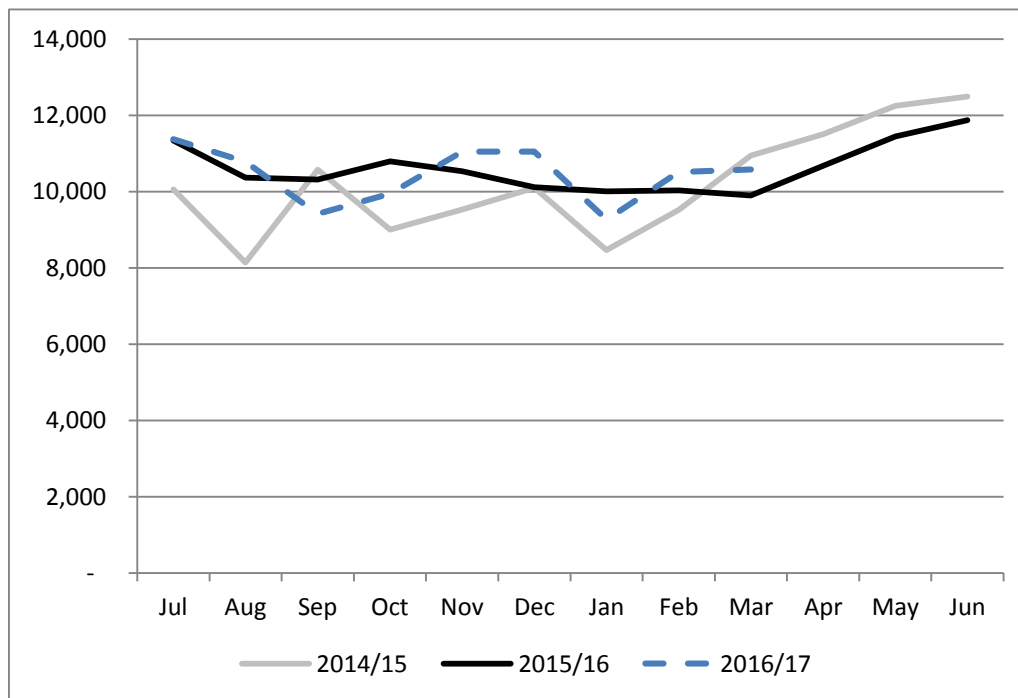


Figure 3 shows the trends over the previous two financial years of operating expenditure.

# Capital Expenditure

The table below summarises the March 2017 Capital Expenditure

**Table 11**  
**Capital Expenditure**

Ministry/Island	PROJECT/PROGRAMME	2016/17 (000)	Actual (000)	Variance (000)	%
<b>AITUTAKI ISLAND GOVERNMENT</b>					
Aitutaki	Aitutaki road sealing	0	149	(149)	
Aitutaki	Establishing new water galleries	359	11	348	97
		359	160	199	55
<b>AITUTAKI POWER SUPPLY</b>					
Aitutaki	Streetlights for Aitutaki	47	0	47	100
		47	0	47	100
<b>COOK ISLANDS INVESTMENT CORPORATION</b>					
Rarotonga	Apii Nikao design, demolition, construction	288	87	201	70
National	Provision for land rent reviews	482	768	(286)	(59)
Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	188	13	174	93
Pa Enea	Pa Enea Renewable Energy Projects-Land Acquisition	38	799	(762)	(2,032)
Pukapuka	Pukapuka Hospital Reconstruction	225	0	225	100
Pukapuka	Government House	20	5	15	75
Rarotonga	Vaikapuangi Government Building - design	135	0	135	100
Rarotonga	Vaikapuangi Government Building - construction	1,440	0	1,440	100
Rarotonga	Te Mato Vai - Stage 1: road & pipeline easement & Stage 2 land acquisition for water intakes	563	0	563	100
		3,377	1,672	1,705	50
<b>EDUCATION</b>					
National	Fund to be Prioritised by Education	270	270	0	0
National	ICT upgrades (computers & laptops)	66	0	66	100
		336	270	66	20
<b>HEALTH</b>					
National	Fund to be Prioritised by Health for Technical Equipment	206	235	(29)	(14)
Rarotonga	Ultrasound Machine	120	128	(8)	(7)
Rarotonga	Medical Service Bed End Panels	232	4	228	98
		558	367	191	34

Ministry/Island	PROJECT/PROGRAMME	2016/17	Actual (000)	Variance (000)	%
<b>INFRASTRUCTURE COOK ISLANDS</b>					
Atiu	Atiu Airport Runway Stabilisation	572	158	413	72
Atiu	Atiu Tipper Truck	0	20	(20)	
National	Bitumen Truck	0	5	(5)	
Rarotonga	Bridges & Drainage	1,011	339	672	66
Mangaia and Pal	Cargo barge repair program for Palmerston &	75	0	75	100
Various	Outboard Motor replacement program	53	50	2	5
Various	Cyclone Centre Program	300	10	290	97
Rarotonga	Avatiu Valley Stream embankment	270	1	269	100
Rarotonga	Rarotonga Road Sealing Programme	1,500	5	1,495	100
Mangaia	Mangaia Road Sealing	188	5	183	97
Mangaia, Atiu, MHV	Transport Trailer	135	43	92	68
Mangaia	HIAB (includes man cage & fork)	113	0	112	100
Mangaia	Central water project	94	92	2	2
Manihiki	Manihiki Island Airport Terminal - construction	45	3	42	93
Mauke	Medium Genset (42kVA)	15	26	(11)	(70)
Mitiaro	Manea Games Upgrade	75	59	16	21
Mitiaro	Water Upgrade	60	0	60	100
Penrhyn	Slasher	3	4	(1)	(33)
Penrhyn	Omoka Harbour Upgrade	188	0	188	100
Pukapuka	Upgrade of Airport terminal buildings	15	0	15	100
Pukapuka	Yato Cargo Shed Upgrade	6	31	(25)	(420)
Rakahanga	Large boat & outboard motor	75	0	75	100
Rarotonga	National Incinerator Feasibility Study	90	102	(12)	(13)
Pa Enea	Pa Enea Machinery Shelters	0	115	(115)	
Rarotonga	Project City Project Management Unit	0	0	-	
Rarotonga	Project City Stage 3 - ADB ERSP	0	138	(138)	
Rarotonga	Project City Stage 3 - Retention fund	154	0	154	100
Rarotonga	Road Network Maintenance	473	576	(103)	(22)
Rarotonga	RSA Cemetery Rock Wall	0	111	(111)	
Rarotonga	Rutaki Foreshore Rock Revetment	90	0	90	100
National	Sanitation Upgrade Programme	1,335	888	447	33
Rarotonga	TMV Titikaveka backroad ringmain pipeline	95	0	95	100
Rarotonga	Water Network Maintenance	375	181	194	52
		7,403	2,963	4,440	60
<b>INTERNAL AFFAIRS</b>					
Rarotonga	Vaka Maintenance Capital Projects	38	0	38	100
		38	0	38	100
<b>MARINE RESOURCES</b>					
Rarotonga	Central Laboratory	375	0	375	100
		375	0	375	100



Ministry/Island	PROJECT/PROGRAMME	2016/17	Actual (000)	Variance (000)	%
<b>MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT</b>					
Rarotonga	Government IT Network	0	0	-	
National	Banking payments system	450	0	450	100
Rarotonga	FMIS purchase and implementation	0	0	-	
Rarotonga	Rarotonga Watertank Subsidy - ADB ERSP	0	38	(38)	
Rarotonga	Te Mato Vai - Rarotonga Water Upgrade	4,731	733	3,998	85
		5,181	771	4,410	85
<b>JUSTICE</b>					
National	Online business registry	0	0	-	
		0	0	-	
<b>OFFICE OF THE PRIME MINISTER</b>					
Atiu	Atiu Power Distribution	296	145	151	51
Atiu	Atiu water distribution mains	210	250	(40)	(19)
Pa Enea	Renewable Energy - Capital works	8,838	0	8,838	100
National	Government IT Network	30	26	4	12
National	Computers and Printers	38	14	23	62
National	Renewable Management Project Management and Support	150	58	92	61
		9,562	494	9,068	95
<b>MINISTRY TOTAL</b>					
Capital Funds Administered BY MFEM		262	270	(8)	(3)
National	Capital Distribution Fund	180	0	180	100
Pa Enea	Outer Islands Small Capital Fund	83	83	(1)	(1)
	<i>Aitutaki</i>	12	10	2	18
	<i>Atiu</i>	9	5	4	45
	<i>Mangaia</i>	9	0	9	100
	<i>Manihiki</i>	8	0	8	100
	<i>Mauke</i>	8	0	8	100
	<i>Mitiaro</i>	6	44	(38)	(635)
	<i>Palmerston</i>	8	2	6	77
	<i>Penrhyn</i>	9	12	(3)	(29)
	<i>Pukapuka-Nassau</i>	9	4	5	61
	<i>Rakahanga</i>	6	7	(1)	(24)
		525	354	170	32
<b>GRAND TOTAL</b>		<b>27,760</b>	<b>7,050</b>	<b>20,709</b>	<b>75</b>

The variance in capital expenditure is thought to be mainly due to timing of spend and the ability to contract for services to date in addition to delays in Te Mato Vai Stage Two project and the expenditure of CIG budget for the Renewable Energy –Capital works will only be utilized after donor funds are expended.

## State Owned Entities (SOEs) Half Year Reporting

The table below summarises the March 2017 performances of Cook Islands Investment Corporation (CIIC), Airport Authority, Bank of the Cook Islands, Ports Authority and Te Aponga Uira. It should be noted that the budget figures below represent the respective internal budgets of the SOEs. The appropriations approved to SOEs by Parliament are the social responsibility contributions of government.

**Table 12**  
**SOEs Appropriation Analysis – December 2016 YTD**

2015/16 Actuals ('000)		Budget 2016/17 ('000)	Actuals 2016/17 ('000)	Variance	
				('000)	%
7,028	Personnel	7,908	7,114	794	10
15,179	Operating	16,714	18,778	(2,065)	(12)
5,988	Depreciation	5,104	5,343	(239)	(5)
28,541	Trading Revenue	30,069	33,901	3,832	13
<b>(346)</b>	<b>Net Activity Cost (Surplus)</b>	<b>(344)</b>	<b>(2,666)</b>	<b>2,323</b>	<b>(676)</b>

### Personnel

Personnel expenditure for March 2017 was \$0.79 million lower than Budget estimates (10 per cent). Existing vacancies are yet to be filled.

### Operating

Operating expenditure for March 2017 was \$2.07 million higher than the Budget estimates (-12 per cent). Land rental reviews payments, professional service costs and maintenance costs contributed to this variance.

### Depreciation

Depreciation expenditure was \$0.24 million higher than the budget (-5 per cent). This was mainly driven by Airport Authority's previously impaired assets being reinstated to its previous valuation.

### Trading Revenue

Trading revenue in March 2017 quarter was \$3.83 million higher than the Budget estimate (13 per cent). Te Aponga Uira and Airport Authority both reported better than budget trading revenue.

## Crown Borrowings

The Crown's gross borrowing at the March 2017 quarter was \$97.60 million, a decrease of \$1.16 million from the December 2016 quarter. The decrease was attributable to the principal repayments of \$1.47 and the unfavourable movement in exchange rates against the New Zealand Dollar (NZD) of \$0.31 million.

The exchange rates movement for this quarter are shown in the following table:

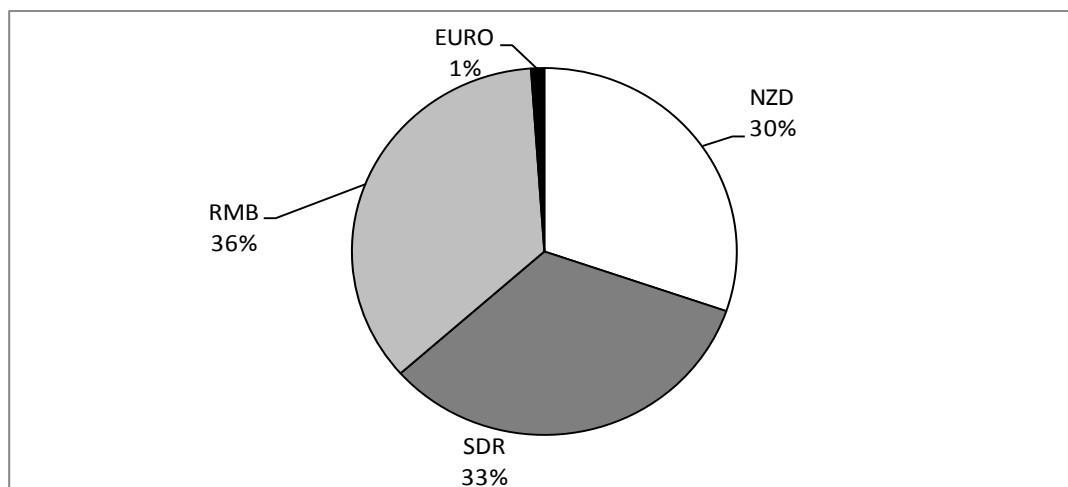
**Table 12**  
**Average Exchange Rates Used**

Foreign Exchange Currency	31-Dec-16	31-Mar-17	Changes
	Average	Average	
EUR	0.66	0.6543	-0.0057
USD	0.6968	0.6991	0.0023
CNY	4.8456	4.8168	-0.0288
SDR	0.5183	0.5152	-0.0031

The unrealised foreign exchange gain of \$0.31 million is largely the effect of the negative movement in the RMB of 36% and Special Drawing Rights (SDR) as about 33% per cent of the total government borrowing is denominated in RMB as illustrated in Figure 4.

Net borrowings by the General Government at this quarter were \$57.32 million, a \$1.08 million decrease from the December 2016 quarter. This decrease was attributable to the principal repayments of \$1.36 and offset by the unfavourable movement in exchange rates against the New Zealand Dollar (NZD) of \$0.28 million.

**Figure 4**  
**Composition of Crown Debt by Currency**



Managing the exchange risk is an ongoing task for the Crown. Working closely with local banks and the services of Bancorp over the global exchange rates movement to accommodate its annual debt servicing plan is paramount to the Crown.

Table 13 below summarised Crown's estimated debt position at March 2017.

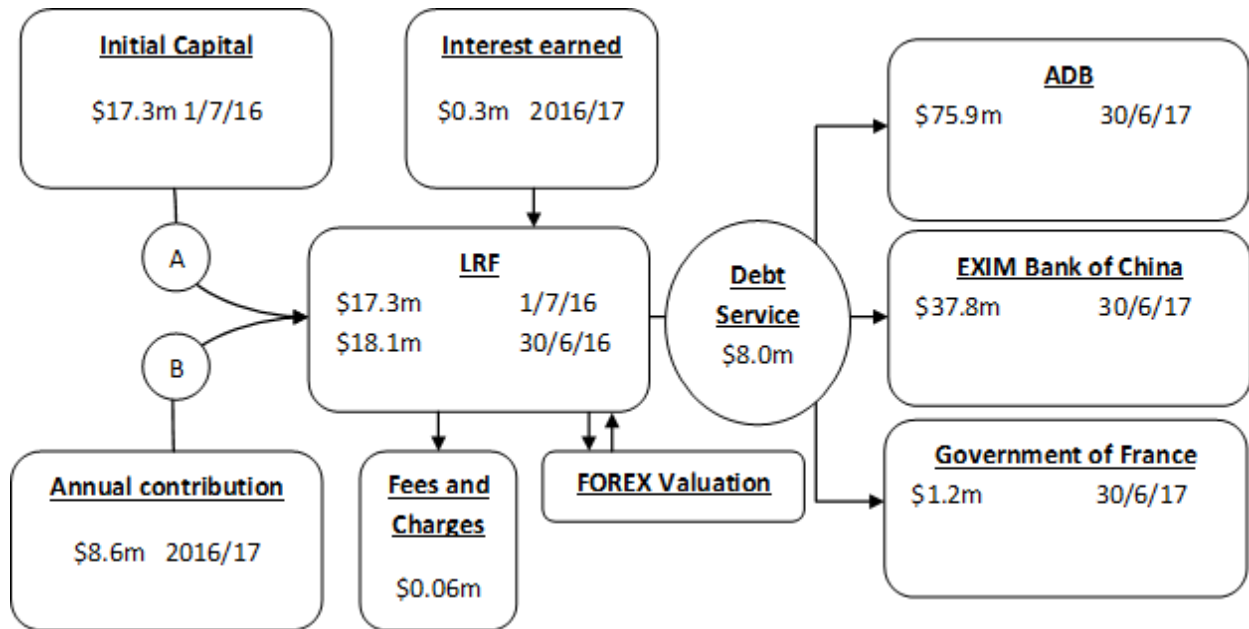
**Table 14**  
**Crown Borrowings – March 2017 YTD**

Loan	Source (Currency)	Original Loan Amount in Currency ('000)	Loan Start Date	Loan Finalisation Date	Dec 2016 Balance ('000)	Principal Payments ('000)	FOREX Adjustment ('000)	Revaluation/ Draw Down Adjustments	March 2017 Balance ('000)	Change Dec 16 Qtr ('000)
Caisse Francais Development Loans	EURO	5,413	Jan-99	Sep-18	1,094	(29)	10	-	1,075	(19)
Import-Export Bank of China	CNY	67,260	Aug-08	Aug-28	10,747	-	64	-	10,811	64
China - Rarotonga Water Ring Project	CNY	118,000	Dec-12	Dec-13	23,640	-	141	-	23,781	141
ADB 461 Multi Project Loan	SDR	1,000	Nov-80	Aug-20	404	(48)	(2)	-	354	(50)
ADB 567 01st CIDB Loan	SDR	1,500	Jul-82	Apr-22	408	-	1	-	409	1
ADB 849 2nd Multi-Project Loan	SDR	2,067	Dec-87	Aug-27	1,687	(72)	1	-	1,616	(71)
ADB 1031 TCI Loan	SDR	3,541	Oct-90	Aug-30	4,105	(139)	4	-	3,970	(135)
ADB 1155 2nd CIDB Loan	SDR	939	Mar-92	Dec-31	1,042	-	3	-	1,045	3
ADB 1171 TCI Emergency Loan	SDR	291	Aug-92	Jun-32	360	-	1	-	361	1
ADB 1309 Pearl Loan	SDR	336	Dec-94	Aug-34	407	(11)	1	-	397	(10)
ADB 1317 Education Loan	SDR	1,836	Feb-95	Aug-34	2,485	(65)	3	-	2,423	(62)
ADB 1380 3rd CIDB Loan	SDR	1,538	Jan-96	Sep-35	2,119	(54)	5	-	2,070	(49)
ADB 1466 Economic Restructuring Loan	SDR	3,430	Sep-96	Sep-36	4,809	(123)	18	-	4,704	(105)
ADB 1588 Cyclone Emergency Rehab Loan	SDR	1,895	Jun-05	Jun-45	808	(10)	12	-	810	2
ADB 1832 Waste Management Loan	SDR	1,695	Dec-01	Jun-33	2,085	-	7	-	2,092	7
ADB 2174 Cyclone Emergency Assist Loan	SDR	1,895	Jun-05	Jun-45	3,300	-	11	-	3,311	11
ADB 2472 Avatiu Port Development	NZD	10,309	Sep-09	Nov-33	9,492	-	-	-	9,492	-
ADB 2473 Avatiu Port Development	SDR	4,524	Sep-09	Nov-40	8,661	-	28	-	8,689	28
ADB 2739 Amend Avatiu Port Development	NZD	5,322	Dec-11	Nov-35	5,232	-	-	-	5,232	-
ADB 2946 Economic Restructuring Loan 2	NZD	7,250	Dec-12	Dec-28	6,646	(302)	-	-	6,344	(302)
ADB 2565 Economic Restructuring Loan 1	NZD	11,053	Jan-10	Oct-24	8,040	(503)	-	-	7,537	(503)
ADB 3913 Renewable Energy	NZD	12,980	Jan-15	Jun-36	1,077	-	-	-	1,077	-
ANZ - Airport Authority	NZD	8,100	Apr-11	Apr-16	110	(110)	-	-	-	(110)
<b>Total Gross Borrowings</b>					<b>98,758</b>	<b>(1,466)</b>	<b>308</b>	<b>-</b>	<b>97,600</b>	<b>(1,158)</b>
<i>Total Loans with ADB</i>					<b>63,167</b>	<b>(1,327)</b>	<b>93</b>	<b>-</b>	<b>61,933</b>	<b>(1,234)</b>
<i>Total Loans with Other Sources</i>					<b>35,591</b>	<b>(139)</b>	<b>215</b>	<b>-</b>	<b>35,667</b>	<b>76</b>
<b>Total Gross Borrowings</b>					<b>98,758</b>	<b>(1,466)</b>	<b>308</b>	<b>-</b>	<b>97,600</b>	<b>(1,158)</b>
Less Loan Reserve					16,866		-	-	16,866	-
<b>Net Borrowing by the Crown</b>					<b>81,892</b>	<b>(1,466)</b>	<b>308</b>	<b>-</b>	<b>80,734</b>	<b>(1,158)</b>
Less Avatiu Port Development					23,385	-	28	-	23,413	28
Less ANZ - Airport Authority					110	(110)	-	-	0	(110)
<b>Net Borrowing by the General Government</b>					<b>58,397</b>	<b>(1,356)</b>	<b>280</b>	<b>-</b>	<b>57,321</b>	<b>(1,076)</b>

## The Crown Loan Reserve Fund (LRF)

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

**Figure 5 - Loan Reserve Fund movements 2016/17**



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

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

**Table 15 Loan Reserve Fund Statement**

	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Opening LRF balance</b>	<b>16,641</b>	<b>17,255</b>	<b>18,970</b>	<b>19,500</b>	<b>18,645</b>
Contribution to LRF principle	5,424	7,490	7,551	7,601	7,161
Contribution to LRF interest	2,246	1,888	1,897	1,905	1,863
Transfer in	7,670	9,378	9,447	9,506	9,024
Interest earned (avg 2%)	359	345	379	390	373
<b>Total transfer in</b>	<b>8,029</b>	<b>9,723</b>	<b>9,827</b>	<b>9,896</b>	<b>9,397</b>
Repayment of SOE debt	-	-	-	-	-
Principal	1,367	732	763	796	796
Interest	131	159	155	150	138
<b>Total repayment from LRF</b>	<b>1,498</b>	<b>892</b>	<b>918</b>	<b>946</b>	<b>934</b>
Repayment of other debt	-	-	-	-	-
Principal	3,733	4,366	5,399	6,956	7,276
Interest	2,123	2,690	2,920	2,788	2,619
<b>Total repayment other debt</b>	<b>5,857</b>	<b>7,056</b>	<b>8,319</b>	<b>9,744</b>	<b>9,895</b>
Other service fees *	60	60	60	60	60
<b>LRF stock balance</b>	<b>17,255</b>	<b>18,970</b>	<b>19,500</b>	<b>18,645</b>	<b>17,153</b>

The table above illustrates the movements in the LRF in the next five years. The transfers into the RF have increased from \$8.029 million in 2015/16 to \$9.723 million in 2016/17 due largely to movements in exchange rates and the rescheduling of some debt payments. This transfer is divided into two components: a debt interest obligation (\$1.888 million) and a debt principal repayment (\$7.490 million); these are the estimated required payments into the LRF and are complimented by retained interest revenue of \$0.345 million.

The LRF payments are smoothed in order to reduce the volatility to Government cash reserves from new debt obligations and exchange rate shocks. Therefore, the payments made into the LRF will not match the debt servicing profile. For example, despite the debt servicing profile peaking at \$10.3 million in 2020/21, the cost to the Government only peaks at \$9.9 million in 2018/19 due to the smoothing effect of LRF contributions.

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

The transfers out of the LRF for principal and interest obligations are the estimated debt servicing requirements at the time of the Budget and will be subject to foreign exchange rate and debt drawdown variations.

## General Government Cash Reserves

General government cash reserves at the March 2017 quarter were \$46.37 million, an increase of \$2.22 million from the December 2016 quarter.

**Table 16**  
**Cash Reserves –March 2017 YTD**

	Sept 16 Qtr ('000)	Dec 16 Qtr ('000)	March 17 Qtr ('000)	Change Dec 16 Qtr ('000)
Total Term Deposit at the Bank				
Westpac	14,011	17,206	3,261 -	13,945
ANZ	20,615	21,999	34,376	12,377
BCI	19,434	21,115	26,131	5,016
Total Term Deposit at the Bank *	54,060	60,320	63,768	3,448
Operational Capital - Public account	15,615	13,086	11,901 -	1,185
	69,675	73,406	75,669	2,263
Committed:				
Trust Fund General Reserve	2,911	2,911	2,911	-
Disaster Response Trust 1	1,663	1,663	1,663	0
Loan Reserve Fund 2	16,718	18,078	18,122	44
Trust Account Deposit 4	3,074	3,106	3,106 -	0
Carry Forward Contingency – OPEX 5	500	500	500	-
Working Capital 6	3,000	3,000	3,000	-
Total Commitment for this year	27,866	29,258	29,303	45
Estimated General Cash Reserve	41,809	44,148	46,367	2,219

\* - This does not include cash balances on the Ministry Operating Bank Accounts or Crown cash operating accounts.

<sup>1</sup> Disaster Response Trust – funds set aside for emergency response in the event of disasters

<sup>2</sup> Loan Reserve Fund – established in 2001 to hold SOE loan repayments to the Crown

<sup>3</sup> ADB USD 10 million loan – ADB Economic Recovery Support Program loan funds used to fund Project City

<sup>4</sup> Trust Account Deposit – funds held on behalf of Land Trust and Workers Compensation Trust

<sup>5</sup> Carry Forward Contingency – funds tagged for any carry forwards of operating expenditure

<sup>6</sup> Working Capital – funds tagged to cover overall Government cash flow requirements

## OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

Cook Islands ODA March 2017 Update	
<b>FY2016/17 ODA Budget (NZ\$'000)</b>	<b>71,805</b>
<b>FY2016/17 ODA Actuals (NZ\$'000)</b>	<b>18,340</b>
<b>ODA conversion rate March 2017 (%)</b>	<b>26</b>
<b>Number Development Partners</b>	<b>44</b>
<i>In country incl NZ, ADB and UN affiliates</i>	18
<i>Overseas Development Partners incl affiliates</i>	26
<b>Number of ODA Programs/Projects</b>	<b>85</b>
<i>Approved Third Party Programs/Projects</i>	41
<i>Cook Islands Government Budget Support</i>	5
<i>Approved Grants including Small Grants</i>	39

Official Development Assistance budgeted for 2016/17 appropriated the annual ODA expenditure at the value of \$60 million compared to the annual budget in 2015/16 at \$49 million reflecting new ODA programmes and the carry forward of some existing programmes from the 2015/16 financial year to 2016/17. As per publication of Budget 2016/17 in parliament, the estimated spend from July to December 2016 is reported at \$18.5 million representing a 25.7% spend against the total budget for 2016/17 of \$72 million which includes programmes under 3<sup>rd</sup> Party spends and new ODA programmes. Note delays in significant capital projects such as Te Mato Vai, Apii Nikao, and Sanitation Programme have resulted in lower ODA spends in 2016/17 which is beyond the control of the Development Coordination Division however we should see an increased spend in 2018/19 as a result of this. The following are updates only on development partner programmes with annual budgets of \$150,000 and over.

### **NEW ZEALAND PROGRAMMES**

#### **Cook Islands Core Sector Support (Formerly Performance Based Budget Support)**

The total Core sector support budget is valued up to \$21 million which is budgeted for two financial years 2016/17 to 2017/18, approximately a quarter of this funding has been allocated for Public Sector technical assistance under output 4. The Government of the Cook Islands and New Zealand have recently approved several projects under Output 4 component which includes the implementation of Centralised Financial Management Information System (FMIS), Phase 4 of the Revenue management system – CUSMOD, Centralised Asset Management Registry and an Audit House Keeping TA support.

There are other priorities that have been supported in principle under Output 4, however concept notes and terms of reference are being formulated by the responsible key agencies, before approval can be given, these include:

1. Resourcing for Aviation and Maritime International Compliance;
2. Public Expenditure Reviews of the economic, social, and environmental sectors;
3. Analysis of the extent and composition of Foreign Direct Investments (FDI) in the Cook Islands;
4. Health and Safety Legislation Review;
5. Strengthening Delivery and Quality of Statistics;
6. Review policy and update legislation related to SOE;
7. Roadmap for centralisation; and
8. Resourcing for CIG Annual Audit backlogs



The above priorities could potentially involve expenditures prior to 2016/17 year end and be reflected in next quarters report.

Total spend as at March 2017 is \$4,687,237.

## **Cook Islands Core Sector Support – Output 4 Programmes**

### **Revenue Management System Phase 4 – CUSMOD**

The Data Torque Revenue Management System (RMS) was originally implemented for the Cook Islands Ministry of Finance and Economic Management (MFEM) in 1997, In June 2010 MFEM successfully upgraded to the latest version, RMS7. Phases 1 & 2 covered the implementation of online filing of all tax types were completed on the 7<sup>th</sup> August 2015 and 18<sup>th</sup> of March 2016 respectfully. Phase 3 included the enhancement to income tax and automated taxpayer notifications and finally Phase 4 will look at the introduction of CUSMOD automatic portal, automated refund processing, debt and audit case management workflows, exception reporting and credit transfer enhancement. Phase 4 –CUSMOD is has already commenced with first payment being disbursed.

Funds of \$391,251 have been received from New Zealand for the milestones 1 & 2 per the contract, with the first payment issued at \$228,230.

### **Financial Management Information Systems**

The Cook Islands Government (CIG) through the Ministry of Finance is interested in identifying and procuring a suitable integrated Financial Management Information system (FMIS) that will provide improved audit outcomes, increase transparency across Government and strengthened Public Sector financial management. The CIG currently uses a decentralised model of Government where Agency leaders assume responsibility for finances and financial reporting. There are 46 Government Agencies and each currently uses its own standalone accounting system, typically an off the shelf, SME solution with limited reporting functions, poor transactions control and transparency.

It is envisage that a centralised FMIS will address these issues and more. The concept of investing in a single FMIS system for the GIG has originated from a number of studies that have been done in recent years in regards to the Cook Islands one of these studies include the Public Finance Management. FMIS is set to proceed to procurement of system stage. FMIS also represents a large portion of Output 4 TA.

### **Audit House Keeping TA**

This priority is designed to provide on-the-ground technical assistance (TA) to address critical areas of need in the area of public financial management and help with agencies' financial procedures and accounts. The TA will review previous audit findings, prioritise with MFEM and CIAO the most critical ministries and agencies for immediate attention, and work with ministries and agencies to prepare properly for audit. The TA will also work with ministries and agencies to improve adherence to procedures and reduce information gaps for future audits. The project will be managed by MFEM in close collaboration with CIAO.

This assignment will also help develop capacity in agency staff to implement and maintain accurate and up to date financial procedures, records and accounts files. The improved capability that will give agencies and the CIAO the best possible audit outcomes in terms of quality and efficiency. It is envisage that this TA will commence on the 1<sup>st</sup> of July 2017

### **Asset Management Registry TA**

This Priority is focused on the discovery, identification and management of the Crown's fixed assets as an area of critical need in best maintenance practices and good public financial management. The assignment will include, capability building to ensure the sustainable efficacy of the asset management system. The expected activities of this TA will be to: undertake a stock take of all government assets, known or currently unknown, update the Government Asset Register system (AssetFinda), Design, develop and deliver AssetFinda training to key

government administrators, including the AMO that will build the capacity of surrogates across government in improving asset management and embed best practices

The duration of TA is envisioned to be 12 to 18 months. At the end of the assignment CIG will have an up-to-date asset baseline and be able to more accurately manage and budget for repairs, maintenance and programme the replacement of assets. Tentative dates on when the TA will commence are still yet to be confirmed.

### **Tereora College Redevelopment (Phase 1)**

#### **Executing Agency: Cook Islands Investment Corporation**

Phase 1 of the Tereora College Redevelopment Project funded by NZGovt was tendered in the July-September quarter. The contract was awarded to Landholdings Ltd in October 2016. Work on the Technologies centre remains ahead of schedule with all precast beams fabricated and the majority now in place. 90% of the ground floor slab and 50% of the exterior block work is complete. Work on the first floor slab will commence as soon as the much needed structural elements arrive in April. In the meantime, construction of the first floor formwork and installation of plumbing and electrical services will continue.

Work at the Student Research Centre and Administration building has advanced despite unfavourable weather conditions and shipping delays. 80% of the ground floor and 25% of the exterior block work is complete. 40% of the precast wall panels have been fabricated and the installation of plumbing and electrical services continues.

The continued work plan for the next two weeks includes block work and service installations for both buildings, pouring beams for Technologies Centre first floor, Casting wall panels and foundation work for Student Research/Admin building as well as prepare for installing wall panels for Seminar room and the commencement of Stahlton flooring installation on Technologies Centre. .

Of the 10.85m grant from NZ, CIGov has received 4.05 million, this was received in 2015/16. A further 4.2 million has been received in 2016/17, with the remaining 2.6 million to be received in 2017/18.

ODA spending to date is \$4.25m for construction of building and associated works and components (furnishing, equipment, utilities, landscaping, etc).

### **Manihiki Lagoon Clean-Up**

#### **Executing Agencies: MFEM, MMR and Manihiki Island Government**

The Pacific Divers Ltd (PDL) were awarded the Tender Contract in December 2016. The Manihiki Lagoon clean up activity was expected to commence in early February however, due to shipping delays of equipment the project is now scheduled to commence 27<sup>th</sup> March. Due to these delays, the projects' completion date is now 11<sup>th</sup> August 2017.

The first quarters' main activity involved the initial meetings between PDL and Manihiki Island Government (MIG) to discuss the logistics of the project. A separate meeting was also held between PDL and the Ministry of Marine Resources (MMR) Manihiki Island Representative to confirm mapping points for work to be carried out. The Project Manager – Raymond Newnham is expected to be on island 04<sup>th</sup> April 2017. A public notice was placed in the social/media as well as MFEM website to inform the public of work to be carried out. Manihiki Island Government (MIG) is the point of contact for any complaints or issues that may arise with farmers. Their report on Output 1: Pit Site Establishment as per MOU between MFEM and MIG was submitted during the first quarter.

A Scuba Diving Expert – Mr Greg Wilson of Cook Island Divers Ltd has been contracted by MFEM to ensure the clean-up work is completed successfully without any harm or injury to the workers engaged in full accordance with the Cook Islands and New Zealand Government's Health and Safety (H&S) policies and legislation.

Total spend Total spend as at March 2017 is \$184,066.60 reflecting costings associated to Pacific Divers Ltd progress payments, Manihiki Island Government disbursements as per Outputs as well as Project Manager expense for services.

## **Ministry of Transport – Pacific Maritime and Civil Aviation**

### **Pacific Maritime Technical Assistance**

Work continued as per the agreed project plan and time lines. Some key work items completed in the January to March quarter included the following;

- a) Revision of MoT (Maritime) job descriptions, including provision of key administration items, was reviewed by PSC, with an unsatisfactory job scoring. Jillian confirmed with NZ MFAT that transition funding could be made available to enable hiring into the position, with the funding used to augment the salary level identified by PSC.
- b) Meeting with Crown Law, MoT, and Ports Authority resulted in agreement in principle for the approach to be taken with the Pilotage Regulation. Further work will continue in April.
- c) Reivew of Acts and subordinate legislation related to the Maritime Labour Convention was updated and an template document reviewed for the presentation of the work.
- d) MoT website was made active. Although no official 'launch' notification was made, the site is now fully functioning. MoT staff were reminded to monitor the 'contact us' e-mail box and provide timely response (initial response within 1 working day, follow up on response – if required – within 5 working days).

Work is continuing as per the agreed contract variation and associated project plan. As confirmed with DCD in January 2017 it was agreed that the project output 5b (related to vessel for the Pa Enuua) was not appropriate. This output was amended to reflect development of the action table for the International Authority on Lighthouses (IALA).

Total spend as at March 2017 is \$193,960.

### **Cook Islands Civil Aviation Technical Assistance**

There has been some developments in terms of seeking Technical Assistance (TA) from New Zealand to help the Ministry of Transport as a regulator to come into compliance with its existing international obligations in civil aviation (International Civil Aviation Organisation ICAO). MFEM is assisting MoT in developing TOR's for TA

### **NZ Third Party Spends**

There has been a total spend of \$235,695.74 this quarter in third party spends for the below New Zealand funded programmes.

<b>Programme</b>	<b>Quarter Spend as at March 2017</b>
Targeted Sector Support	12,997.00
Tertiary Scholarships NZ	93,924.07
Tertiary Scholarships Pacific Regional	66,410.88
Training and Professional Development	4,800.00
Head of Mission Fund: Cook Islands	42,424.12
Commonwealth Scholars	3,360.00
Cook Islands Emergency Response Ambulance	11,779.67
<b>TOTAL</b>	<b>235,695.74</b>

## **EUROPEAN UNION PROGRAMMES**

### **EU Budget Support**

The European Union (EU) continues its Official Development Assistance via the budget support modality. The unfortunate delay in the implementation of sanitation upgrades resulted in the absence of funding in 2014/15, this

has since been remedied with the CIG receiving the final tranche of the EDF 10 budget, EURO 1 million in October 2016. The 10th cycle of funding (EDF10) has now concluded with focus moving to the 11th cycle (EDF11) of funding to continue with its incentivized budget support to allocate funding using national systems up until the year 2020. The EU will continue its budget support under the 11th EDF with a continued focus on improving the Sanitation Sector.

Two submissions were made to the EU for Technical Assistance (TA) to be funded under the 10<sup>th</sup> EDF. The first TA proposal relates to interdisciplinary studies to be carried out on the Muri Lagoon area which commenced in early March 2017. The second TA is for feasibility studies to be conducted for a Centralised Laboratory on Rarotonga with work beginning in late March 2017. Both studies are to be carried out over the next few months and is expected to be completed in the new financial year.

DCD has sent a submission through to the EU for funding under the 11th EDF cycle. The focus of this submission is on upgrading commercial facility sewage systems on Aitutaki and Rarotonga to meet the Public Health (Sewage and Wastewater Treatment and Disposal) Regulations 2014. The submissions has been sent to Brussels for final consideration and approval.

There have been no spends for the Cook Islands under the Pacific Island Integration Technical Assistance Project (PITAP) for the quarter under the 10th EDF which is accessed from the regional indicative package. There is no specific country allocation. It is organized so that funds are expended on regional initiatives as EU recognizes that National Indicative Packages are available to Member States for national specific priorities. With the completion of the 10<sup>th</sup> EDF round, focus has now moved to the 11<sup>th</sup> EDF.

#### **EU Partnership Multiyear Fisheries Policy Support**

This agreement for sustainable fisheries partnership includes an annual fisheries sector contribution of EURO350,000 by the European Commission under the 4 year protocol. The first tranche of the protocol was received by the CIG in December 2016. Bulk Funding for the 1<sup>st</sup> Quarter of the calendar year has been paid out to MMR to begin implementation of the Multiannual Programme Matrix.

To date, the Ministry of Marine Resources reports no spend.

#### **EU-GIZ ACSE Northern Island Water Project Phase II**

The 35.5 million Euro regional European Union (EU) programme Adapting to Climate Change and Sustainable Energy (ACSE) is funded out of the 10<sup>th</sup> European Development Fund (EDF 10).

Under this regional programme, the EU-GIZ ACSE component is administered by the Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ). It aims to enhance sustainable livelihoods in fourteen Pacific Island Countries and Timor Leste by strengthening the countries' capacities to adapt to the adverse effects of climate change and enhancing their energy security at the national, provincial and local/community levels.

The 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 precious water resources.

Total cost of project is \$400,000 Euro. Initial funds from GIZ were received in May 2016 however, there were delays in the recruitment of an In-country coordinator. This position was finally filled and confirmed in October 2016.

A Project Management Committee has been set up with Terms of Reference in the process of being endorsed.

The In-Country Coordinator (ICC) Taukea Rau is currently visiting the Northern Group (specifically Penrhyn, Manihiki, Rakahanga and Pukapuka) together with the Pa Enea Director as well as the Water Security component

team of the Office of the Prime Minister (OPM). Main purpose of the visit is to carry out on Island consultation as well as the implementation stage for some of the islands mentioned.

Total spend as at March 2017 is \$15,297.16.

### ***SECRETARIAT OF THE PACIFIC COMMUNITIES (SPC) PROGRAMMES***

#### **Cook Islands Household Income & Expenditure Survey**

The Statistics Office is almost at the end of field work data collection activities since the start of this one year survey in November 2015. Some delays experience during this quarter with data collection issues in Aitutaki and Manihiki. Rarotonga Field work supervisors have had to step in and assist with data audit checks required of field work supervisors from these two islands.

Data entry and verification of data collected is also in process and continues to be in collaboration with the Statistics Programme at SPC.

Total spend as at March 2017 is \$ 136,027.

### ***UNITED NATIONS ADMINISTERED PROGRAMMES***

#### **FAO Improved production, processing and marketing of agricultural produce**

For 2013-2017, this is the focus under the Pacific Multi Country Programming Framework (CPF) with the aim to improve agriculture produce supply chain and increase in households engaged in agriculture for own use and for sale. **To date, no monies have been spent** nor direct payment to suppliers from this grant. In the pipeline will be negotiations for priority areas for CPF funding for the next 5 years.

#### **GEF Small Grants Programme**

The Cook Islands Global E GEF Small Grants Programme (SGP) was established in 2005 and until 2015 was part of the SGP Samoa. As of late 2014, The Cook Islands Red Cross Society now serve as the SGP host institution with the GEF SGP Cook Islands now a separate programme. This year's country programme strategy aims Operation Phase 6 (OP6) is 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". Focus of support for community based organised activities are on conservation of biodiversity, waste management, prevention of land degradation, capacity building and awareness programmes to address climate changes through community based support. OP6 budget funds are estimated at US\$250,000 with a remaining OP5 balance of US\$26,000. After a two year hiatus from sub regional issue beyond the control of the Cook Islands the following are community projects approved and/or in progress this period of have been completed for this period following endorsement by the GEF SGP Committee and approved by UNOPS.

<b>Red Cross GEF Small Grants Programme: July 2017 - March 2017</b>				
Recipient	Project Title	Approved Grant type	Budget in FY2016/17	FY2016/17 Actual in NZ\$
Tapere Avatiu Central Committee	Avatiu Water Station	Project	9,000	10,970
Muri Environment Care	Muri Beach Erosion Assessment	Planning	3,250	4,613.63

Tamarua Oire Association Incorporated	Tamarua Village Packing Shed and Water Catchment	Planning	1,700	2,100
Aitutaki Conservation Trust	Enviroloo Project	Project	24,300	34,469
Te Ipukarea Society	Waste management improvement: Reduction of PoPs and Greenhouse emissions	Project	44,568	64,170
GEF SGP Project Management				111,000
<b>TOTAL</b>			<b>82,818</b>	<b>227,323</b>

### Participation Programme (UNESCO)

Every year, UNESCO provide the Cook Islands financial assistance through the Ministry of Education. To date, the Cook Islands have received a total of NZD109,510 and the funds have been allocated according to the following Participation Programmes.

- Cook Islands to attend the Pacific Festival to Guam which has been fully expended with the National Commission, the Ministry of Education is awaiting a completion report from the Ministry of Cultural Development, budget allocation \$27,447.82.
- Providing funding through the Ministry of Education for “woman as instigators of imene tuki” as a project to record the Imene Tuki. This has commenced with work starting on the recording and mastering of the CD, budget allocation \$27,166.67.
- Activity for the project on the Maungaroa National Heritage Site is well underway. The publication has been changed from print to DVD. There are still some further supplies to be purchased for securing work at the site however the delivery of this project is on schedule, budget allocation \$27,447.82.
- The project on Sexual Health for Youth is underway with CIFWA planning a series of workshops in Term 2 for teachers and then out to the community, budget allocation \$27,447.82.

All activities have until December 2017 to complete expected outcomes and expenditure and total spend as at March 2017 is \$109,510.12.

### Green Climate Fund Readiness

The Green Climate Readiness support focuses on strengthening the National Designated Authority and effectively managing climate finance within the Ministry of Finance and Economic Management. The Readiness support has enabled the Government of the Cook Islands to strengthen the capacity of the National Designated Authority within the Climate Change Cook Islands Division (CCCI), OPM and Development Coordination Division, MFEM through the recruitment of two national consultants to progress the Cook Islands engagement with the Fund.

The Green Climate Fund team have been working on two submissions to the Green Climate Fund, one to develop a country programme readiness proposal which will include national prioritised climate change project proposal ideas and the other is to develop a proposal to the GCF board on direct access to the Green Climate Fund. The Cook Islands have recently been approved by the Green Climate Fund to apply for accreditation under the fast-tracked method as a result of the Cook Islands gaining accreditation to the Adaptation Fund in Washington DC on July 14th 2016 under the streamlined approach. The Fast-track approach is an achievement for the Cook Islands as it means we can apply under special conditions as highlighted in the Fast-track application process.

MFEM have recently engaged a consultant to complete the online accreditation proposal to the GCF secretariat and board. The online accreditation is complete and MFEM now have a draft to review before submitting to the GCF. It is envisioned that the proposal will be submitted before the end of April 2017.

In hiring the national consultants, the Readiness Support has prompted the development of a second readiness application to the GCF. This is to develop a country programme which will consolidate national priority areas that addresses our national low-carbon development aspirations and to strengthen the resilience of our communities and our economies. This second readiness application will also be applied to assist with the growth and progression of relevant national frameworks and their implementation. The Readiness support has also prompted the strengthening of our institutional processes and in doing so, it has bolstered national ownership, and it underscores the importance of Implementing Entities proposing partnerships that align with national priorities and vice versa.

The Cook Islands has submitted a second readiness proposal to the GCF secretariat at the value of USD \$600,000 over a period of two years to develop our country programme to consolidate key priorities to be funded through the GCF. The GCF readiness review committee have provided feedback to MFEM and the NDA to consider and incorporate into an updated readiness proposal for the next review meeting scheduled for May 2017.

Total spend as at March 2017 is \$82,354.15.

### **UNDP Ridge to Reef**

Key activities involving the Pa Enua were continued over the Quarter 1 period. Continuous training and capacity building is key in the implementation of this project.

A Communications Officer for Ministry of Marine Resources (MMR) as well as a Ra'ui Coordinator for National Environment Service (NES) was advertised in December 2016. The appointments are yet to be confirmed.

Furthermore, Cook Islands Tourism Corporation are continuing their partnership with CITC to support the launch of the Cook Islands Sustainable Tourism Strategy. The strategy strengthens the commitment of the Tourism Industry to raising awareness on biodiversity conservation. It is envisaged that Tourism will be preparing videos to support the implementation of the strategy including the Ridge to Reef concept.

Recently, the UNDP representatives, Yvette Kerslake (Project Manager) and Ioane Iosefo (Program Finance Manager) visited the Rarotonga, Cook Islands. The objectives of their mission to the Cook Islands for the Ridge to Reef project was to finalise the institutional audit for NES as well as a courtesy visit to NES regarding the R2R, National Biodiversity Planning to Support CBD (NBSAP) and Nagoya Protocol on Access to Genetic Resources (ABS).

Total spend as at March 2017 is \$222,770.

### **UNDP GEF Strengthening the Resilience of our Islands and Communities to Climate Change (SRIC)**

The SRIC programme has been progressing extremely well. For the quarter, a total of 58 projects have been reported, of these projects 18 are new, 40 are continuing and 5 have been completed as listed below:

- a) Atiu – Jams & Chutney Food Processing Project
- b) Atiu – Composting & Mulching Project
- c) Mangaia – Signage Boards for Cultural Heritage, Tourism Sites, Education and Community
- d) Penrhyn – Pitaka Project – Te Hare Natura Turtle Observatory
- e) Pukapuka – Taro Plantation Fencing

The SRIC team have participated in a total of x4 – Te Kai Maori, NCD Expo, National Parliamentary Workshop & National Women Business Forum.

The communications component of SRIC has been extremely active through Media and Print, specifically via the Cook Islands Radio, Cook Islands TV and the Cook Islands News Paper. SRIC's reach on social media has been huge this quarter compared to previous quarters. The summary to date of Social Media activity on Facebook is a reach of 65,546. The total likes are now currently 2,522 which is a great achievement.

Cook Islands News Paper have printed x6 news articles on SRIC and the project has appeared in the following international Print Media – Fiji Times, Samoan Observer and Radio New Zealand.

Total spend as at March 2017 is \$1,411,755.

### **UNDP Nagoya Protocol**

Ongoing reviews of the draft legislation Cabinet Submission on ABS is currently being undertaken as well as awareness raising of the implementation of the Nagoya Protocol and National ABS Framework. It should be further noted that the legal paperwork is now ready for signing by the Koutu Nui under phase one of the corporate structure design that has been established for an improved Access and Benefit Sharing Agreement (ABS) framework.

The first direct payment from UNDP to Matheson Enterprises for Component 3 implementation was processed in December 2016. Part payment of the Component 3 in Quarter 1 of 2017 to Matheson Enterprises was also processed in February 2017. This will assist in resolving issues with the USD/Local Currency exchange rates variances. Expenditure for this quarter included reimbursement for the project coordinator salary since June 2016. There is one more year left for the implementation of this project.

Total spend as at March 2017 is \$35,944.

### **UNDP National Biodiversity Planning to Support the implementation of the CBD 2011-2020 Strategic Plan in the Cook Islands**

NBSAP International Consultant continues his work for the development of a revised NBSAP. A video promotion for the awareness of the Cook Islands Biodiversity is currently in progress and has been released to the public for the first quarter. A second video promotion will be released in Quarter 2.

The Project Coordinator has resigned and NES representatives will continue to complete the project outcomes.

Total spend as at March 2017 is \$63,009.78.

### **UNDP Pacific Regional Ridge to Reef – Infrastructure Cook Islands (ICI)**

Infrastructure Cook Islands (ICI) have appointed Keu Mataroa as the Project Manager for the Pacific Regional Ridge to Reef project. He attended the Capacity Building and Orientation workshop which was held in Fiji. The Inception Report is still to be provided and the first quarterly report is due 05<sup>th</sup> April 2017 to South Pacific Commission (SPC). A Steering Committee is also to be finalised in order to endorse decisions proposed by the Project Manager on this project.

Total spend as at March 2017 is \$3,491.68.

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

The National Communications program welcomed coordinator Rima Moeka'a and assistant coordinator James Kora on January 2017. They both will be working closely with the very experienced Celine Dyer and Dr Teina Rongo. Dr Teina Rongo with the assistant of James Kora undertook a coral bleaching assessment during 13<sup>th</sup> – 17<sup>th</sup> February. This was to assess the warm temperatures currently facing the Cook Islands and whether there was



thermal stress on corals. The assessment was to see the extent of the coral bleaching, on coral species, coral colony sizes and the areas affected.

The survey found that the lagoon, reef, fore reef and even to depths of 25m, were extensively bleached. Analysis showed that bleaching was above 80% and affected all colony sizes, even larger ones. This is discouraging to see as a recent reef community survey was done in Oct/Nov 2016 where reef recovery was on the rise and showed the fore reef average of hard coral cover was 27%. After this bleaching event, hard coral cover is expected to fall. Footage from this assessment was put together to form a short 3min documentary of the coral bleaching. This short documentary was used to raise awareness for the community and was advertised through local media outlets such as CITV and social media, namely Facebook.

Dr Teina Rongo presented a report to stakeholders at the Platform meeting on March 14th 2017. Furthermore produced a short documentary which was publicised on local television to raise awareness. The team also will be working with the Rutaki and Aroa Christian youth group on the 17th April 2017 to raise awareness and educate the youth on climate change.

The recruitment process for the greenhouse gas and mitigation was conducted and completed with the successful applicants appointed and due to commence in June/July 2017.

Presentation of the Third National Communication update was made to the stakeholders Platform meeting on March 14th 2017 by coordinator Rima Moeka'a

Total spend as at March 2017 is \$45,674.60

### **World Health Organisation Technical Cooperation Biennium Budget Support**

Biannual funding to the Cook Islands is about US\$400,000 for 2016-17 calendar years. Human resources development including fellowships aligned to the Clinical Workforce Development Plan. Ongoing focus is also on activities towards non communicable diseases action plans, health promotion, nutrition and tobacco control towards implementation of National Health Strategy and the National Strategy and action plan for NCDs.

A review of the National Health Strategy is in the pipeline with emphasis on avoiding duplication of effort especially in the water and sanitation areas with WHO identified to provide technical assistance.

Ministry of Health February 2017 month financial report show year to date spend at \$203,722.

### ***INDIA GRANT FUND***

In Quarter 1, a total of USD\$690,846 (equivalent to NZD\$966,000) was granted for the 16 approved grassroots projects of India Grant Fund 2016/2017 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 addresses 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.

A training session was held at the Ministry of Finance and Economic Management (MFEM) to promote understanding of the India Grant Fund activities and expectations in the Cook Islands and their engagement. Training was also provided on the disbursement of funds process and reporting requirements from recipient of

funds. It was the first time such a training had been conducted to ensure that the processes carried out is conducted in a fair, transparent and accountable manner.

The official handover ceremony of grant funding between the Government of India was represented by his Excellency, Vishvas Sapkal, High Commissioner of India and the Government of the Cook Islands, Prime Minister Honourable Henry Puna and Honourable Mark Brown, Minister of Finance.

Total spend as at March 2017 is NZD\$599,902.78.

### ***KOREA GRANT FUND***

The Republic of Korea Government has allocated Official Development Assistance (ODA) through the Korean Small Grants Programme to the Cook Islands for amounts up to USD200,000 annually.

Under the current funding round for 2017/18, a proposal at the value of USD \$200,000 for a medical waste incinerator for the Rarotonga Hospital was submitted in February 2017 for consideration by the Korean Government. Proposal to Korean Embassy was unsuccessful, therefore annual application to this Grant was unsuccessful for the FY2016/17 with no funds expected for the rest of the fiscal year.

### ***CHINA PROGRAMMES***

The CIG hosted a Chinese delegation who conducted on-site inspections and feasibility study for maintenance and repairs work on the Ministry of Justice building, National Police Headquarters and Bluesky Sports Arena (formerly Telecom Sports Arena). The team was led by Mr. Yuan Wei which comprised of structural, architectural, electrical, heat & ventilation/air conditioning, water and sanitation experts and engineers accompanied by an interpreter.

The outcome of the visit saw the signing of the comprehensive list of contents for repairs and maintenance works on the three buildings between CIIC CEO Tutangata and team leader Wei.

On Friday 18 November 2016, the Economic and Technical Cooperation Agreement (ETCA) for renovations to the Ministry of Justice, but not limited to this project, was signed by High Commissioner Teremoana Yala on behalf of the CIG and the Chinese Ambassador Wang Lutong for the PRC to support the maintenance works at the value of RMB Yuan 20 million (approx. NZD \$4.2 million).

Ongoing discussions between CIIC, MFAI and the PRC to finalise the Letter of Exchange relating to the repairs and maintenance work on the Ministry of Justice building, National Police Headquarters and Bluesky Sports Arena continue with the hopes of signing in early 2017.

During his brief visit to the Cook Islands in November, Counsellor Zhang acknowledged that the Apii Nikao is the last of the major projects that China is involved with and encourages the CIG to identify other priority sectors that may require funding to keep the momentum of cooperation and good relations between the PRC and the Cook Islands.

### ***Apii Nikao Construction***

The Cook Islands Investment Corporation (CIIC) received draft preliminary designs for the Apii Nikao School in September 2016 and provided comments to the PRCs design team in October 2016 regarding amendments to the designs. The PRC design team arrived on Rarotonga in late November 2016 to finalise the preliminary design with CIIC. On 5 December 2016, the Apii Nikao Preliminary Design was approved by CIIC.

According to the timelines in the Implementation Agreement for the Apii Nikao Rebuild, with the approval of the preliminary designs now signed off, the project has moved to the Construction Design phase which is expected to take up to 4 months for the PRC design team and CIIC to prepare the construction drawings. A further month has been allowed for approving these drawings, before mobilisation begins.

## **FORUM FISHERIES AGENCY (FFA)**

### **Project Development Fund – US Fisheries Treaty**

The US Multilateral Treaty for fisheries includes an annual allocation of US\$150,000 per Pacific Island party development fisheries projects. Funds are held in trust by the treaty with FFA with direct administration by Ministry of Marine Resources.

To date, the Ministry of Marine Resources was unable to provide updates to spend for this Grant.

## **MULTILATERAL PROGRAMMES**

### **Renewable Energy**

It is Government's ambition to increase power generation from renewable sources and enhance the government's institutional capacity for implementing the Cook Islands Renewable Energy Chart Implementation Plan (CIRECIP), 2012–2020, which sets a target of supplying electricity from renewable energy sources on all inhabited islands by 2020.

The goal of the Renewable Energy Programme Support is to establish a solid foundation for renewable energy sector development and operations in the Cook Islands.

New Zealand funding has been used for the construction of renewable energy infrastructure on Rarotonga and islands of the Northern Group and involves the installation of following renewable energy generation infrastructure.

This project is now completed.

### **The focus now moves to the Southern Group.**

The Renewable Energy Programme is in progress with the Cook Islands Renewable Energy Sector Project (CO046453-002) Phase 1 contract for Atiu, Mauke, Mitiaro, Mangaia, signed during this period with NETCON Limited of New Zealand. This is the major component of this project valued at NZ\$7.7 million and EU1 million.

The tender for the Rarotonga Battery Energy Storage (BESS) was completed this quarter and a contract should be signed early next quarter. This Project will be funded under the GEF6 for about NZ\$5.5 million.

An additional \$12mil Grant was agreed by the Green Climate Fund Board in December 2016 to implement 3 battery storage sites in Rarotonga. This grant will be processed through the budget process next financial year.

Total spend as at March 2017 is \$2,485,018.

### **Sanitation Upgrade Programme**

The Sanitation Upgrade Programme (SUP), which commenced following completion of the WMI, was designed to install up to a further 1,000 on-site systems on Rarotonga and Aitutaki. The SUP grant arrangement between the Governments of New Zealand and the Cook Islands was signed in June 2014, and the programme was expected to end on 30 June 2018. This \$18million programme includes funding from New Zealand (\$10 million), the European Union (\$4million), and the Cook Islands (\$4million).

The Sanitation Upgrade Programme was a continuation from the Muri Pilot Waste Management Initiative (WMI). The intention of the SUP was to continue with the installation of on-site effluent treatment systems beyond the Muri area. This work has continued but progress was slow.

The slow progress, and doubts about the impact of the programme led New Zealand to suspend its funding towards SUP from September 2015 and the EU to withhold a \$500,000 Euro payment. These issues and an extensive outbreak of algae and seaweed growth in Muri Lagoon in late 2015, led to a review the Muri Pilot Waste Management Initiative.

This review was commissioned and conducted in December 2015. The recommendations of this review were largely in accord with other reports and suggested that a reticulated collection, treatment and disposal system was the only effective way to completely remove domestic and commercial wastewater from the Muri lagoon environment. The report highlighted gaps in the on-site Sanitation Upgrade Programme which may be a contributor to the slow delivery of the programme. Cabinet accepted this report's findings and recommendation and directed MFEM to negotiate the redirection of funds with the development partners towards this end.

Following a request received from of the Cook Islands Government, NZ MFAT engaged Calibre Consulting in June 2016 to develop a plan to achieve Cabinets directives. Calibre has completed this work and broadly itemised two parallel work streams, (1) an institutional/organizational work stream, and (2) a technical work stream.

For the technical work stream, as a first step, Calibre identified that essential Project Preparatory Technical Assistance (PPTA) is required to be in a position to provide Cabinet with the additional information it has previously requested. Work to be carried out will includes site investigations, full assessment of collection, treatment disposal options, cost benefit analysis and consultation with relevant stakeholders. This work will require a multi-disciplinary technical assistance package of support. It may be provided by one or multiple consultancies. The 500K Euro technical assistance will be used to complete some of these activities. The work may take up to eighteen months to complete. A specific task to be completed in the PPTA phase is the development of an On-site Effluent Treatment Plan for Rarotonga and Aitutaki. Once this plan is completed, it will be possible to resume with a revised SUP programme if this is delivers an acceptable impact on achieving the long term goal of the protection of public health and the environment. New Zealand spend to date is \$34,580.

Calibre recommended that work on the institutional/organisational work stream be completed in parallel but separate to the technical work stream. This work was considered equally important to ensure that there is a viable and sustainable institutional framework in place beyond the life of the project (technical work stream).

The clear delineation of the work streams allows specific focus onto each one. The technical work can be continued under the guidance of an expanded TMV PSG/PMU, while the essential institutional/organisational work is driven independently by the Cook Islands Government.

On the 8 November 2016, Cabinet endorsed a proposal to establish a more effective approach to water and waste water (sanitation) planning and management. The existing project management unit (PMU) for Te Mato Vai will incorporate the management of the Wastewater Project (currently the Sanitation Upgrade Programme). This new approach will bring together key government agencies under one governance structure and steering group enabling consistent government policy development and direction, more effective and broader community and industry consultation and access to finance for technical expertise not available within government agencies. The lessons learnt during the design and delivery of Te Mato Vai Project will strengthen this new approach. This approach is expected to provide a high degree of certainty and confidence to our communities and industry.

On 24 January 2017, the Government signed a contract with GHD Ltd New Zealand to provide Project Management Services for A. The TMV Project, B. Wastewater and Associated Service Programme (WASP), and C. State Owned Enterprise Establishment. The contract end date is 31 January 2019.

The environmental impacts of the growth in domestic housing and tourism development in Rarotonga and Aitutaki in our foreshore area are major concern and need to be addressed urgently. The GHD team will lead this endeavour.

The existing water quality data and bathymetry studies will be enhanced to support effective decisions making as well as the consultative process with the communities and general public.

As an immediate step, a full assessment of options to determine the most cost-effective and technically viable long-term solutions for the collection, treatment and disposal of wastewater on Rarotonga and Aitutaki is required. This preparatory work will commence immediately and is expected to take up to 18 months before construction commences.

Government recognises that in the interim period before effective systems are in place that address the treatment of our wastewater, decisions will be made to mitigate the environmental impacts of substandard systems. With special reference to Muri lagoon, government will work within the law, and work with communities to develop interim solutions that minimise the environmental impacts on our lagoons.

The direction of the current onsite domestic system upgrade will be outlined in a detailed work plan under development to determine where the on-site treatment can be installed with maximum effect. A temporary pause to the on-site wastewater treatment upgrade on Rarotonga is required while this plan is being completed.

Developing an effective solution to managing our wastewater and its impacts on our environment, our communities and our economy is a complex process and government looks forward to undertaking this process in a participative and consultative manner based upon sound science in the best interest of all.

To this effect, GHD undertook stakeholder group meetings with the Muri community on 14 February 2017, and with stakeholders in Aitutaki from 22-24 February 2017.

With regard to ODA spending for the quarter Jan- Mar 2017, no funds have been spent. All expenses came from Government shared costs budgets for this project.

### **Te Mato Vai (TMV)**

The TMV project is the largest single infrastructure project in the Cook Islands since the construction of the international airport in Rarotonga in 1974. The project is broadly divided into two stages – Stage 1, the replacement of the ring main; and Stage 2, refurbishment of intakes and provision of storage, filtration and trunk mains. Stage 1 was delivered by the China Civil Engineering Construction Corporation (CCECC) and is practically near complete.

Implementation of the TMV project is being managed by the Project Management Unit (TMV PMU) now led by GHD Ltd. The TMV PMU reports on the following activities:

#### **Stage 1**

The ring main pipeline construction works, carried out by the China Civil Engineering Construction Corporation (CCECC) is completed, and the defects period of 12 months has commenced. During this period, if there are any defects in the construction works, CCECC will remedy the defects found.

Another component of the stage 1 project is to commission the new ringmain, the ringmain carry's the water distributed from all of the intakes around the island. There are existing cross connections located around the island on the main and back roads at 1km intervals, these cross connections distribute water from the existing ringmain pipe line to the submain pipeline where everyone is connected on.

This commissioning project involves connecting the existing cross connections to the new ringmain, this project will involve disruptions to the existing water supply around the island. It is planned to commission the ringmain in 1km sections to minimise disruption to the existing system. It is expected the physical works will start in

February 2017, but prior to the work starting in a particular section of Rarotonga, the public will be advised that disruptions will take place within that section.

## **Stage 2**

Meetings were conducted with landowners of all 10 intakes that are to be upgraded for the Te Mato Vai project, the meetings were conducted from August to December 2016. The purpose of the landowner meetings was to seek agreements from the landowners to allow contractor's early site access to carry out survey works to complete the final designs. The consent form was originally drafted by lawyer Tim Arnold and Manavaroa Philip Nicholas for Avana intake but was adopted for the other 9 intakes. The consent describes obtaining landowner consent for the design contractor early site access to prepare detailed plans which will give the landowners full details of exactly what areas of land will be directly affected by that upgrade. That information will let owners of those areas, for themselves, make a full, informed, decision whether to allow that work to proceed without objection; and whether to seek compensation for loss or damage suffered.

The consent also allows landowners to be present on site when the design and survey works are being carried out. Landowners will be advised to meet and discuss construction works, once the detailed designs and surveys are complete.

To date consents for early site access have been obtained from all intakes. Stage 2 work is scheduled to commence in May 2017.

The Cook Island and New Zealand Governments would like to thank all landowners that attended the landowner meetings and for allowing their consent to allow contractor's early site access to carry out survey works

## **Special TMV Select Committee**

The Te Mato Vai Project Special Select Committee was established by Parliament in June 2016 to consider the grievances and concerns of the petitioners of the Te Mato Vai project in light of the existing status and progress of the project and to report the findings and conclusions of the Committee to Parliament by December 2016.

Committee meetings were held at Parliament Chamber on 24 & 27 October, 03, 10 & 23 November to discuss the petition and to hear presentations from the petitioners, landowner representatives, staff from CIIC, MFEM, NES and the TMV Project Management Unit. A final report of the Select Committee is expected to be presented to Parliament during the next quarter.

The staff from the different agencies dedicated their time to attend the committee meetings over the period but welcomed the opportunity to work with the Special Select Committee

To date, NZD10,000 have been spent. All other expenses came from Government budgets.

## **Cook Islands Ministry of Justice Online Registry**

Technical Assistance (TA) is being sought to support the Online Registry project through the Core sector support Output 4. To date a concept note is being developed which will basically outline the purpose of the TA. It should be noted that NZ has already committed funding of \$162,000 to help with system purchase, this funding will be more than likely carried forward to the 2017/18 Financial Year pending project progress this Financial year.

## **Aid Effectiveness**

The Aid Effectiveness budget is drawn from the interest earned on development partner trust accounts and is used by the MFEM to support the implementation of the official development assistance policy. The programme currently contributes to several projects including the following: annual meeting of development partners, development of Te Tarai Vaka, surge capacity to catch up and standardise Crown financial statements, training and set-up of project financial management software. The Aid Effectiveness funds was also utilised to commission a national consultant to prepare completion reports for programmes and the Islands submission of the Cook Islands assessment in accordance to the Global Partnership for Effective Development Co-operation Monitoring Framework. The framework assesses our country systems and measuring aid effectiveness principals as outlined in the ODA Policy 2015 of the Cook Islands in accordance to international standards.

An increased budget of 160,000 was allocated for the 2015/2016, and also to the 2016/2017 and 2017/2018 financial years. The Development Partners roundtable has been approved by cabinet shifting to biennially and is currently planned to fall within the 2016/2017 financial year, around late 2016.

Funding, in the interim, will also be allocated to support the new Finance Manager post within the Development Coordination Division, increasingly required within office to uphold fiduciary standards of ODA funds.

### ***NEW PROGRAMMES APPROVED FOR IMPLEMENTATION***

In August 2016, it was brought to the attention of the Development Coordination Division of the Ministry of Finance and Economic Management that several government agencies received funding from Donor partners to execute programmes in the financial year 2016/17. These new programmes where not included in the appropriation schedule for FY2016-17 due non inclusion in the annual budget process. Given that these omissions are less than 5% of the total appropriation for ODA, legal advice allowed for the implementing agencies to expend funds to ensure timely implementation of programmes and transparency in reporting of programmes already implemented but not captured in the ODA appropriation. The table below outlines ten new programmes and projects to be implemented. The programmes will formally be appropriated in Parliament during the supplementary budget process scheduled for the end of 2016 as the Appropriation Amendment Bill 2016/17.

Govt Agency	Project Name	Development Partner	Start Date	End Date	FY2016-17 Budget NZD <sup>1</sup>
MOCD	National Auditorium Indoor and Outdoor Sound Equipment	China	Jul-16	Dec-16	586,180
NES	HCFC Phase-out Management Plan for PIC Countries through Regional Approach Stage 1 Second tranche	MLF/UNEP	Jul-16	Jun-21	35,308
NES	Review and Update the National Implementation Plan for the Stockholm Convention on Persistent Organic Pollutants (POPs) in the Cook Islands	UN Environment Programme (UNEP)	2016	2018	76,831
NES	Pacific POPs Release Project	GEF/UNEP/SPREP	Jul-16	Jun-18	25,173
NES	Development of Minamata Convention Mercury Initial Assessment in Pacific	GEF/UNEP/SPREP	2016	2018	39,296
NES	Survey of ODS Alternatives at the National level in the Cook Islands	GEF/UNEP/SPREP	2016	2018	35,714
MFEM	RSA Cemetery NZ PDCT Project	New Zealand	2016	2017	50,000
MFEM	Grass Roots Grant Fund	Japan	2016	2017	316,724
	<i>The Project for the Upgrade of Avana Harbour</i>	<i>Japan</i>	<i>2016</i>	<i>2017</i>	<i>110,071</i>
	<i>The Project for the Improvement of the Fire Station in Teimurimotia</i>	<i>Japan</i>	<i>2016</i>	<i>2017</i>	<i>93,653</i>
MFEM	The Project for the Improvement of the Te Kainga Mental Health Respite Centre	Japan	2016	2017	113,000
MFEM	Non Project Grant Aid	Japan	2016	2017	1,335,113
MFEM	JICA Training Program	Japan	2016	2017	124,993
	<i>Project for Reinforcing Meteorological Training Function of FMS</i>	<i>JICA (Japan)</i>	<i>2016</i>	<i>2017</i>	<i>1,095</i>
	<i>JICA Training Program for Young Leaders/Local Governance Course</i>	<i>JICA (Japan)</i>	<i>2016</i>	<i>2017</i>	<i>33,151</i>

<sup>1</sup> Exchange rate is based on rates provided by BSP dated 18.08.2016. USD conversion rate is 0.7647



<b>Govt Agency</b>	<b>Project Name</b>	<b>Development Partner</b>	<b>Start Date</b>	<b>End Date</b>	<b>FY2016-17 Budget NZD<sup>1</sup></b>
	<i>JICA Training Program for Basic Education science, maths, local governance and law and order</i>	<i>JICA (Japan)</i>	<i>2016</i>	<i>2017</i>	<i>90,748</i>
<b>MFEM</b>	<b>Germany Small Grants - Fire Station in Teimurimotia</b>	<b>Germany</b>	<b>2016</b>	<b>2017</b>	<b>14,400</b>
<b>Total</b>					<b>2,639,733</b>

## Glossary

Below are a list of terms which are mentioned at various points in this report and what they are for the purposes of this report:

### *Revenue*

Revenue is measured at fair value of the consideration received or receivable.

### *Revenue Levied Through the Crown's Sovereign Power*

Payment of tax does not of itself entitle a taxpayer to an equivalent value of services or benefits; such revenue is received through the exercise of the Crown's sovereign power. Revenue arising through taxes is recognised when the taxable event occurs and when the criteria for recognition of an asset are met.

<i>Revenue Type</i>	<i>Revenue Recognition Point</i>
Individual Income Tax	When an individual earns income that is subject to PAYE or provisional tax. This also includes withholding taxes.
Company Income Tax	When the corporate community earns taxable income.
Value Added Tax	When the liability to the Crown is incurred. For example, the liability arising from sales in June being paid in July however recognised as revenue in June.
Customs levies	When goods liable to duty are assessed, except for Oil Companies which are accounted for when the liability to the Crown is incurred.
Departure Tax	When airlines remit the departure tax component of tickets sold.
Other Revenue	When the debt to the Crown arises.

### *Expenses*

Expenses are recognised when incurred and are reported in the financial period to which they relate.

### *Foreign Currencies*

Transactions in foreign currencies are translated into New Zealand dollar using the exchange rate on the date of the transaction. Foreign exchange gain and losses arising from these transactions are included in the Statement of Financial Performance.

Any monetary assets and monetary liabilities held at year end are translated at the exchange rate at the balance sheet date.

### *Aid Expenses*

Expenses are recognised when incurred on approved projects and are reported in the financial period to which they relate.

### *Appropriation*

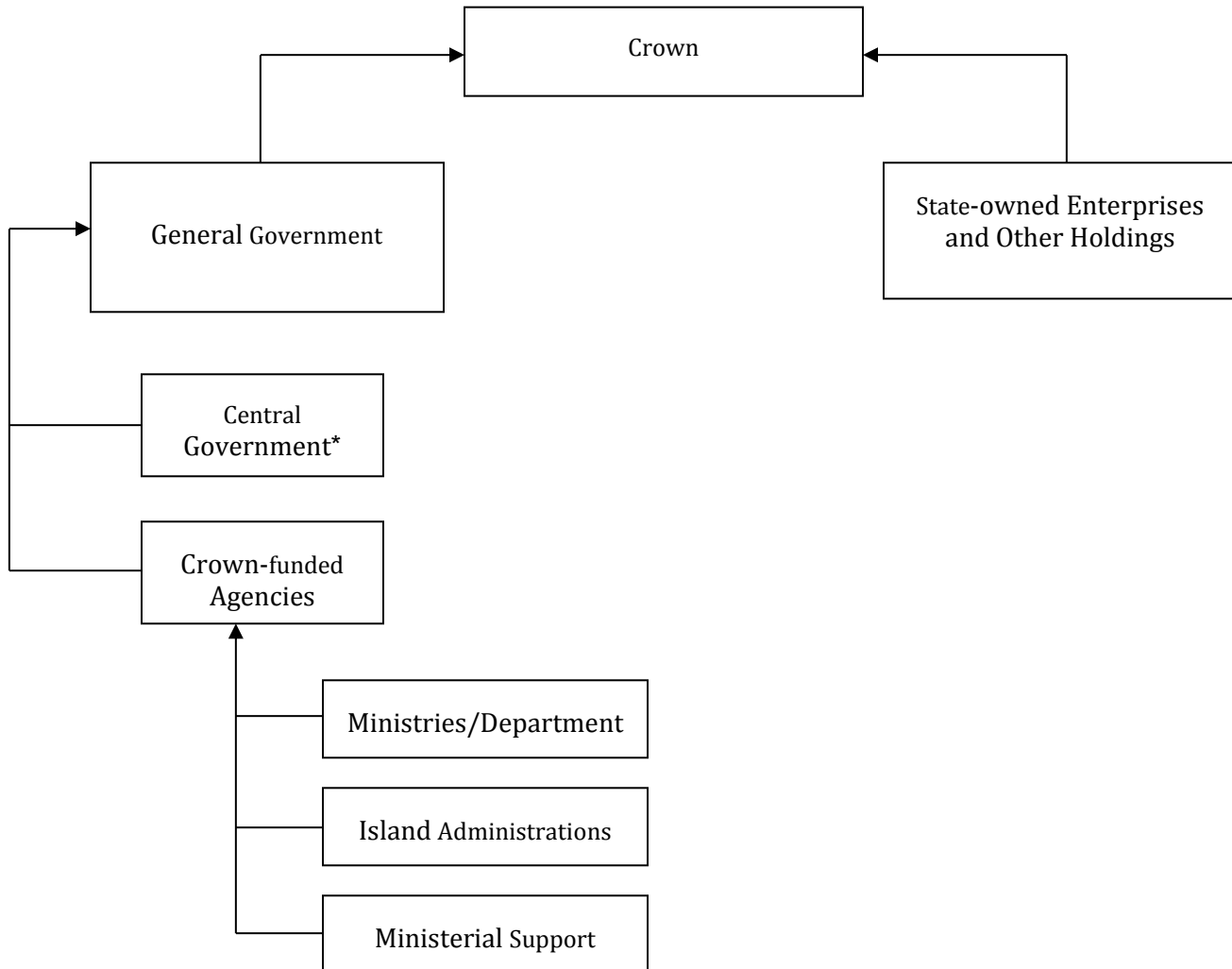
Appropriations are the funding-source provided by the Crown (as a Central Government entity) to allow the recipients (Crown-funded Agencies – see term below) to carry out their purposed operations.

*Crown-funded Agencies/Agencies*

These are recipients of funding via an appropriation. Crown-funded Agencies refer to ministries/departments, island administrations, and ministerial support offices.

*General Government*

General Government consists of Central Government and Crown-funded Agencies. It does not include State-Owned Enterprises or holdings in other entities (eg. Telecom). The diagram below shows how all relate.



\* Parliament and the Head of State are included in the Central Government section