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# **Cook Islands Government**

## **Quarterly Financial Report**

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**December 2012**

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

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# Table of Contents

Table of Contents.....	2
Key Points .....	3
Summary of the Financial Position of the General Government .....	4
General Government Revenue Analysis.....	5
General Government Operating Expenditure Analysis .....	7
Payments on Behalf of Crown (POBOCs) .....	7
Other General Government Operating Expenditure.....	9
Crown Borrowings .....	9
General Government Cash Reserves .....	12
Official Development Assistance .....	13
Appendix – Key Operating Trends .....	14
Glossary .....	15

## Key Points

The net operating balance of the General Government Sector as at 31 December 2012 was a surplus of \$6.3 million.

- Operating revenue was \$61.0 million; and
- Operating expenditure was \$54.7 million.

**Table 1**  
**Net Operating Balance General Government – December Quarter 2012**

	<b>Budget</b>	<b>Actuals</b>	<b>Variance</b>	
	<b>('000)</b>	<b>('000)</b>	<b>('000)</b>	<b>Per cent</b>
Operating Revenue	57,762	61,045	3,283	6%
Operating Expenditure	56,966	54,678	-2,288	-4%
<b>Net Operating Balance</b>	<b>796</b>	<b>6,367</b>	<b>5,571</b>	<b>700%</b>

**Table 2**  
**Fiscal Balance of General Government – December Quarter 2012**

	<b>Budget</b>	<b>Actuals</b>	<b>Variance</b>	
	<b>('000)</b>	<b>('000)</b>	<b>('000)</b>	<b>Per cent</b>
Net Operating Balance	796	6,367	5,571	-700%
<i>Add</i> Depreciation	1,730	1,258	-472	-27%
<i>Less</i> Capital Expenditure	3,041	4,730	1,689	56%
<b>Fiscal Balance</b>	<b>-515</b>	<b>2,895</b>	<b>3,410</b>	<b>662%</b>

Total revenue collected was higher than the budget estimate for the quarter and was mainly attributable to the favourable collection of VAT revenue as a result of the high visitor numbers.

The lower level of operating expenses compared to the budget estimate for the quarter is largely attributed to lower expenditure from the Air New Zealand underwrite (29 per cent) and lower levels of line ministries spending (4 per cent).

## Summary of the Financial Position of the General Government

The net operating balance of the General Government Sector as at the December 2012 quarter was a savings of \$6.367 million, representing an increase of \$5.6 million on the 2012/13 budget estimates.

Overall, revenue was \$3.3 million higher than the 2012/13 budget estimate and operating expenditure was lower than the \$2.3 million than the 2012/13 budget estimate.

Prudence needs to be exercised when analysing these figures as revenues and expenses do vary from quarter to quarter and it is difficult to identify any obvious trend after six months.

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 December 2012**

	Budget ('000)	Actuals ('000)	Variance ('000)
<b>Operating Revenue</b>			
Taxation Revenue	51,273	52,643	1,370
Other Crown Receipts	1,450	4,317	2,867
Trading Revenue	2,635	2,827	192
Interest on Loans to Subsidiaries	912	0	-912
Dividends	575	267	-308
Interest on Funds	917	991	74
<b>Total Operating Revenue</b>	<b>57,762</b>	<b>61,045</b>	<b>3,283</b>
<b>Operating Expenditure</b>			
Ministry Expenditure Outputs	30,704	29,483	1,221
Air NZ Underwrite	6,800	4,804	1,996
TOA Guarantee	750	679	71
Other POBOCs	14,041	14,608	-567
Total POBOCs	21,591	20,091	1,500
Airport Authority	1,120	1,295	-175
Bank of Cook Islands	91	91	0
Te Aponga Uira	175	175	0
Ports Authority	100	100	0
Debt Servicing Interest	497	367	130
Building Maintenance	900	1,265	-365
Crown Infrastructure Depreciation	1,739	1,739	0
Disaster/Contingency	50	72	-22
<b>Total Operating Expenditure</b>	<b>56,966</b>	<b>54,678</b>	<b>2,288</b>
<b>Net Operating Balance</b>	<b>796</b>	<b>6,367</b>	<b>5,571</b>

**Key Balance Sheet Items in General Government:**

Cash and Equivalents	49,269
Committed Cash	-35,787
Net Cash Reserve	13,482
Gross General Government Borrowings	82,370
Net General Government Borrowings	38,805

*Note: the cash reserves detailed at the bottom of Table 3 do not include cash held with the Crown-funded Agencies.*

## General Government Revenue Analysis

General Government sector revenue as at 31 December 2012 was:

- higher than the 2012/13 December quarter budget estimate (\$3.3million or 6 per cent); and
- higher than the 2011/12 December quarter outcome (\$6.1 million or 11 per cent).

**Table 4**

### General Government Revenue Summary – December 2012 YTD

	2011/12 Actuals ('000)	2012/13 Budget ('000)	2012/13 Actuals ('000)	Variance vs 2011/12 ('000)	Percent Variance	Variance vs Budget ('000)	Percent Variance
Value-added Tax	19,637	20,415	22,467	2,830	14%	2,052	10%
Income Tax	13,208	13,859	13,940	732	6%	81	1%
Company Tax	5,301	6,036	5,826	524	10%	(210)	-3%
Import Levies	6,022	6,751	6,656	634	11%	(94)	-1%
Withholding Tax	0	448	426	426	0%	(22)	-5%
Departure Tax	3,283	3,764	3,328	44	1%	(436)	-12%
Trading Revenue	2,650	2,635	2,827	177	7%	192	7%
Other Revenue	4,867	3,854	5,575	708	15%	1,721	45%
<b>Total Revenue</b>	<b>54,969</b>	<b>57,762</b>	<b>61,045</b>	<b>6,076</b>	<b>11%</b>	<b>3,283</b>	<b>6%</b>

#### Value Added Tax

The strong VAT figures reflect higher than expected commercial activity over the quarter. VAT was above the budget estimate for the quarter (10%) and also the 2011/12 December quarter (14%). This increase was mainly attributable to the higher than estimated visitor numbers for the quarter (total arrivals 34,439) compared with last year (total arrivals 32,004).

#### Income Tax

Income tax was slightly above the budget estimate (1%) and higher than the 2011/12 December quarter (6%).

#### Company Tax

Company tax was just below the budget estimate for the quarter (-3%), and higher (10%) than the 2011/12 December quarter. The increase on the 2011/12 quarter reflects the additional MFEM efforts being put into collections and compliance.

#### Import Levies

Import levies were slightly below the budget estimate for the quarter (-1%) and higher than the 2011/12 December quarter (11%). Import levies are directly proportionate to the number of vessels per quarter. A total of 11 cargo/gas/oil vessels were cleared by Customs during this quarter.

#### Withholding Tax

Withholding tax was also slightly lower than the budget estimate for the quarter (-5%).

#### Departure Tax

Departure tax was lower than the budget estimate for the quarter (-12%) and slightly higher than the 2011/12 December quarter (1%). The variance to budget is a result of the departure tax being incorporated into ticket prices and no longer being collected at the airport. This meant that some departure tax was uncollectable on some prepaid tickets in December, and the remittance of departure tax for December was not received from the airlines till January 2013.

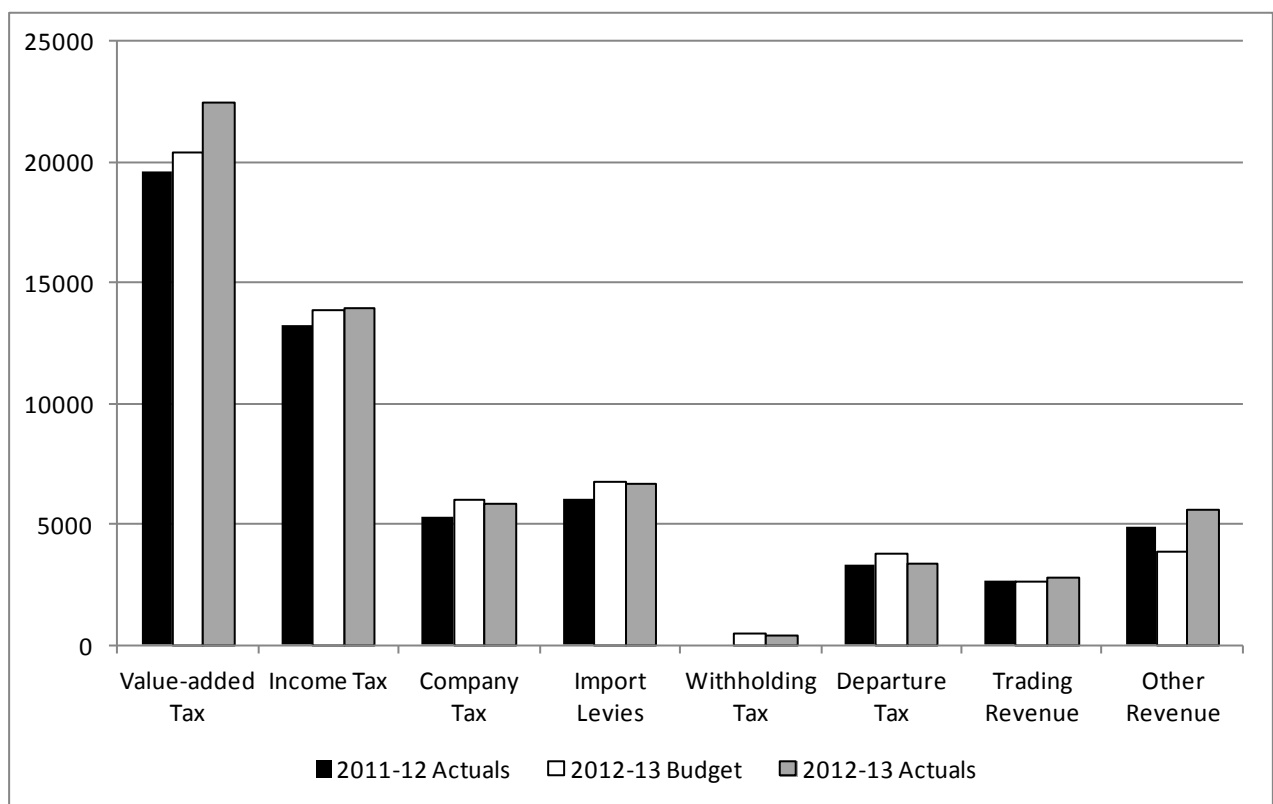
Trading Revenue

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

Other Crown Revenue

Other Crown Revenue was higher than the budget estimate for the quarter (45%) and also higher than the 2011/12 December quarter (15%). The increase to budget is predominantly due to the increase collection of a number of revenue items, namely fishing licenses (90%), sale of currency (134%) and liquor licenses (81%). There was a receipt of \$1.2 million received for fishing license that contributed to the increase to budget for the quarter.

**Figure 1**  
**General Government Revenue – December 2012 YTD (\$000)**



# General Government Operating Expenditure Analysis

## Payments on Behalf of Crown (POBOCs)

**Table 5**

### *Payments on Behalf of Crown – December 2012 YTD*

	Budget (‘000)	Actuals (‘000)	Variance (‘000)	Per cent
Air New Zealand Underwrite	6,800	4,804	1,996	29%
Apex (Toa) Profit Support	750	679	71	10%
Other POBOCs	14,041	14,608	-567	-4%
<b>Total POBOCs</b>	<b>21,591</b>	<b>20,091</b>	<b>1,500</b>	<b>7%</b>

Expenditure on underwrite of the Air New Zealand Sydney and Los Angeles long haul routes were 29 per cent below budget due to the favourable drop in fuel prices and better loading.

Other POBOCs expenditure exceeded the quarter budget by 4 per cent. The overspending in the Te Maire Maeva Nui and the phasing issues reflected by other significant POBOCs were the major contributing factors of this variance.

## Appropriation Analysis

**Table 6**

### *Appropriation Analysis – December 2012 YTD*

	2011/12 Actuals	2012/13 Budget	2012/13 Actuals	Var vs 2011/12	% Var	Variance vs Budget	% Var
Personnel	21,667	21,030	20,658	-1,009	-5%	-372	-2%
Operating	8,024	7,944	7,567	-457	-6%	-377	-5%
Depreciation	1,350	1,730	1,258	-92	-7%	-472	-27%
Trading Revenue	2,650	2,635	2,827	177	7%	192	7%
<b>Net Appropriation</b>	<b>28,391</b>	<b>28,069</b>	<b>26,656</b>	<b>-1,735</b>	<b>-6%</b>	<b>-1,029</b>	<b>-4%</b>

Six months into the financial year, there is an overall saving of four per cent in the Net Appropriation for Crown-funded Agencies amounting to \$1.0 million.

- The majority of ministries were below budget as operating expenditures were off-set by slight increases in trading revenue and vacant positions public sector.

### **Personnel**

Personnel expenditure remains at 2% under December 2012/13 budget. This is a result of vacant positions across the sector yet to be filled.

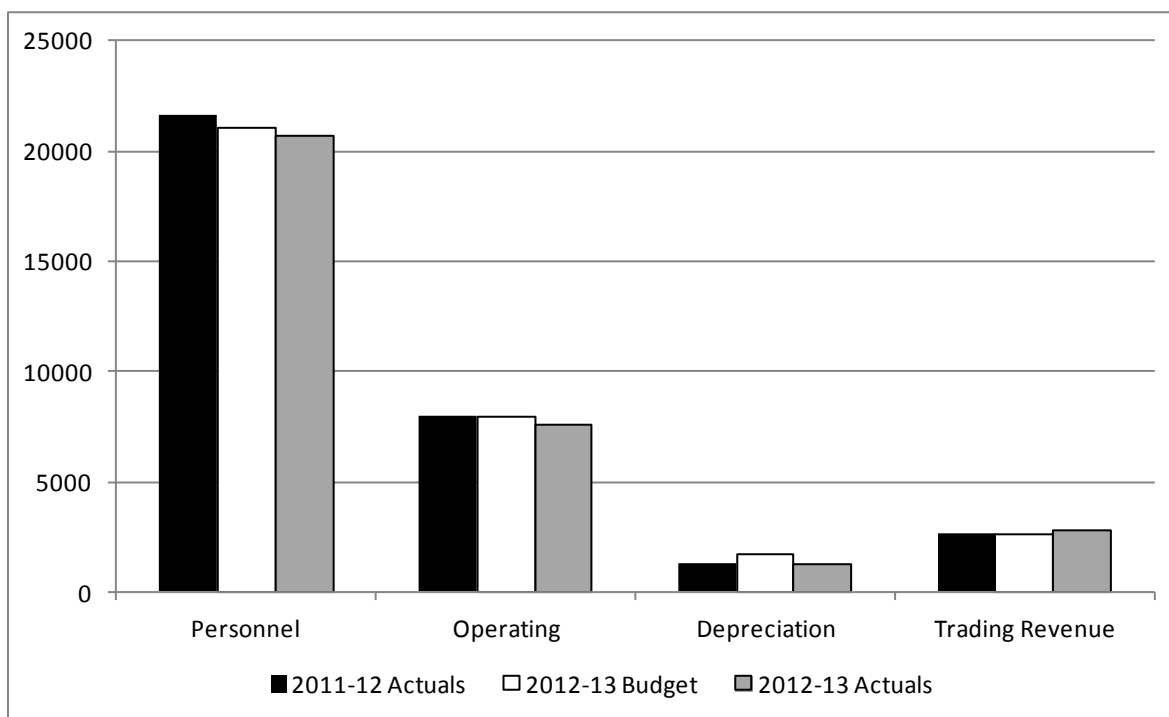
## Operating

Operating expenditure for this quarter shows a savings of 5 per cent to budget and 6 per cent to the December 2011/12 quarter.

## Trading Revenue

Ministry trading revenue is higher than budget (7%) and also higher in comparison to the 2011/12 December quarter (7%). The Ministry of Finance and Economic Management (MFEM) is the major contributor to this increase due to the after-hour flight processing. Ministry of Health (through increased user pay receipts) and the Audit office (through receipts for two major audits) have also contributed to this increase.

**Figure 2**  
**Appropriation Analysis – December 2012 YTD**





## Other General Government Operating Expenditure

**Table 7**  
**Other General Government Operating Expenditure**

	Budget (‘000)	Actuals (‘000)	Variance (‘000)	Per cent
Airport Authority	1,120	1,295	-175	-16%
Bank of Cook Islands	91	91	-1	-1%
Te Aponga Uira	175	175	0	0%
Debt Servicing Interest	497	367	130	26%
Building Maintenance	900	1,265	-365	-41%
Crown Infrastructure Depreciation	1,739	1,739	0	0%
Disaster/Contingency	50	72	-22	-44%
<b>Total Other Operating</b>	<b>4,571</b>	<b>5,004</b>	<b>-433</b>	<b>-9%</b>

Other operating costs for the General Government sector are nine per cent over the 2012/13 budget. The most significant variation contributing to this is the increase repairs and maintenance costs for the quarter and work at the airport.

### Crown Borrowings

Crown’s gross borrowing for the December 2012 quarter is \$82.37 million, an increase of \$5.30 million from the September 2012 quarter. The cause of this increase was derived from:

- an unfavourable movement in exchange rates against the New Zealand dollars of \$6.19 million;
- principal repayment of -\$0.89 million during the quarter.

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

**Table 8**  
**Average Exchange Rates Used**

Foreign Exchange Currency	31 December 2012 Average	30 September 2012 Average	Changes
EUR	0.6346	0.6357	(0.0011)
USD	0.8318	0.8174	0.0144
CNY	5.1846	5.1693	0.0153
SDR	0.5341	0.6502	(0.1161)

The unrealised foreign exchange loss of \$6.19 million is largely the effect of the negative movement in the Special Drawing Rights (SDR) as about 33 per cent of the total government borrowing is denominated in SDR.

Net borrowing by the General Government for this quarter is \$38.81 million, a \$4.08 million reduction from the September 2012 quarter. This reduction is made up of \$0.89 million in principal repayments and \$4.97 million foreign exchange adjustment.

The second tranche of the ADB Economic Recovery Loan of NZD \$7.25 million is not included in this report because it has not been drawn down yet. The loan is currently under negotiation and is expected to be utilised during the latter half of this financial year.

The Crown also has received the approval of ADB to convert three of its OCR loans to the local currency. The terms and conditions of these loans are still under negotiation due to the change in the original currency which is now being converted to the local New Zealand dollar.

Managing the exchange risk is an ongoing task for the Crown and it will continue to do so by working closely with local banks counterpart over the global exchange rates movement to accommodate its annual debt servicing plan.

Table 9 below summarised Crown's estimated debt position for December 2012 quarter:

**Table 9**  
**General Government Borrowings – December 2012 YTD**

Loan	Source (Currency)	Original Loan Amount in Currency ('000)	Loan Start Date	Loan Finalisation Date	Sep 12 Balance ('000)	Principal Payments ('000)	FOREX Adjustment ('000)	Loan Drawn Down	Dec 12 Balance ('000)	Change Sep 12 Qtr ('000)
New Zealand GSF Loan	NZD	5,849	Nov-80	Jun-13	929	-490	0	0	439	-490
Caisse Francais Development Loans	EURO	5,413	Jan-99	Sep-18	3,690	-256	7	0	3,441	-249
Import-Export Bank of China	CNY	67,260	Aug-08	Aug-28	13,011	0	-38	0	12,973	-38
ADB 461 Multi Project Loan	SDR	1,000	Nov-80	Aug-20	691	0	150	0	841	150
ADB 567 01st CIDB Loan	SDR	1,500	Jul-82	Apr-22	596	-36	127	0	687	91
ADB 849 2nd Multi-Project Loan	SDR	2,067	Dec-87	Aug-27	1,907	0	415	0	2,322	415
ADB 1031 TCI Loan	SDR	3,541	Oct-90	Aug-30	4,353	0	946	0	5,299	946
ADB 1155 2nd CIDB Loan	SDR	939	Mar-92	Dec-31	1,086	-34	236	0	1,288	202
ADB 1171 TCI Emergency Loan	SDR	291	Aug-92	Jun-32	373	-11	82	0	444	71
ADB 1309 Pearl Loan	SDR	336	Dec-94	Aug-34	386	0	92	0	478	92
ADB 1317 Education Loan	SDR	1,836	Feb-95	Aug-34	2,354	-0	513	0	2,867	513
ADB 1380 3rd CIDB Loan	SDR	1,538	Jan-96	Sep-35	1,946	0	422	0	2,368	422
ADB 1466 Economic Restructuring Loan	SDR	3,430	Sep-96	Sep-36	4,294	0	933	0	5,227	933
ADB 1588 Cyclone Emergency Rehab Loan	SDR	1,895	Jun-05	Jun-45	719	0	155	0	874	155
ADB 1832 Waste Management Loan	SDR	1,695	Dec-01	Jun-33	2,130	-61	462	0	2,531	401
ADB 2174 Cyclone Emergency Assist Loan	SDR	1,895	Jun-05	Jun-45	3,105	0	675	0	3,780	675
ADB 2472 Avatiu Port Development	USD	8,630	Sep-09	Nov-33	10,558	0	-183	0	10,375	-183
ADB 2473 Avatiu Port Development	SDR	4,524	Sep-09	Nov-40	6,958	0	1,507	0	8,465	1,507
ADB 2739 Amend Avatiu Port Development	USD	4,700	Dec-11	Nov-35	5,749	0	-100	0	5,649	-100
ADB 2565 Economic Restructuring Loan 1	USD	10,000	Jan-10	Oct-24	12,234	0	-212	0	12,022	-212
<b>Total Gross Borrowings</b>					<b>77,069</b>	<b>-888</b>	<b>6,189</b>	<b>0</b>	<b>82,370</b>	<b>82,370</b>
<i>Total Loans with ADB</i>					<b>59,439</b>	<b>-360</b>	<b>-142</b>	<b>6,220</b>	<b>65,517</b>	<b>6,078</b>
<i>Total Loans with Other Sources</i>					<b>17,630</b>	<b>-27</b>	<b>-746</b>	<b>-31</b>	<b>16,853</b>	<b>-777</b>
<b>Total Gross Borrowings</b>					<b>78,928</b>	<b>-387</b>	<b>-888</b>	<b>-6,189</b>	<b>82,370</b>	<b>5,301</b>
Less Loan Reserve					19,076	0	0	0	19,076	0
<b>Net Borrowing by the Crown</b>					<b>57,993</b>	<b>-888</b>	<b>6,189</b>	<b>0</b>	<b>63,294</b>	<b>5,301</b>
Less Avatiu Port Development					23,265	0	1,224	0	24,489	1,224
<b>Net Borrowing by the General Government</b>					<b>34,728</b>	<b>-888</b>	<b>4,965</b>	<b>0</b>	<b>38,805</b>	<b>4,077</b>

Note: This excludes debt held by State Owned Enterprises.

## General Government Cash Reserves

General government cash reserves at the December 2012 quarter stands at \$13.48 million, an increase of \$0.49 million from the September 2012 quarter.

This increase in cash reserves reflects the savings in expenses and the favourable variance to budgeted income for the quarter as explained earlier in this report.

**Table 10**  
**Cash Reserves – December 2012 YTD**

	June 12 Qtr ('000)	Sep12 Qtr ('000)	Dec 12 Qtr ('000)	Change Sep 12 Qtr ('000)
<b>Total Term Deposit at the Bank</b>				
Westpac	8,778	8,814	8,903	89
ANZ	18,927	22,218	22,487	269
ANZ - NZAID Fund 5 million	5,512	,3,052	3,065	13
ANZ - ADB USD 10 million	7,443	7,511	4,336	-3,175
BCI	9,999	10,304	10,478	174
<b>Total Term Deposit at the Bank</b>	<b>50,659</b>	<b>51,899</b>	<b>49,269</b>	<b>-2,630</b>
	*			
<b>Committed:</b>				
Trust Fund General Reserve	2,935	2,935	2,935	0
Disaster Response Trust	200	200	200	0
Debt/Loan Reserve	19,076	19,076	19,076	0
ADB USD 10 million loan - Project pending	7,443	7,511	4,336	-3,175
DCD - NZAID Project Fund 5 million	5,512	3,052	3,065	13
Trust Account Deposit	2,628	2,631	2,675	44
Carry Forward Approved - CAPEX	2,884	0	0	0
Carry Forward Contingency - OPEX	500	500	500	0
Working Capital	3,000	3,000	3,000	0
	#			
<b>Total Commitment for this year</b>	<b>44,178</b>	<b>38,905</b>	<b>35,787</b>	<b>-3,118</b>
<b>Estimated General Cash Reserve</b>	<b>6,481</b>	<b>12,994</b>	<b>13,482</b>	<b>488</b>

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

# - This is the Working Capital Reserve.

## Official Development Assistance

The Development Coordination Division (DCD) of MFEM administers all foreign aid.

### Balance of Funds on Hand

This represents the bank accounts that are held by DCD for various partners. These take the following form:

- NZ dollar accounts \$8.68 million
- US dollar accounts USD \$0.11 million

**Table 11**

### ODA Expenditure for the quarters ending October, November and December 2012 (\$)

	October 2012	November 2012	December 2012	Total
NZ Aid Program	1,575,712	898,797	793,494	3,268,003
UNDP	8,200	42,907	25,607	76,714
India		5,540	372	5,912
CI Red Cross		19,646		19,646
AusAid	27,334	2,660	2,745	32,739
European Union	7,400	2,000	13,025	22,425
Pacific Is Forum				
<b>TOTAL</b>	<b>1,618,646</b>	<b>971,550</b>	<b>835,243</b>	<b>3,425,439</b>

Indicative allocations show that Renewable Energy and the Tourism sectors will be receiving significant assistance from the New Zealand government.

In the month of October the increase in spending from the NZAID program was mainly due to the Waste and Sanitation project and AusAID towards Climate Change.

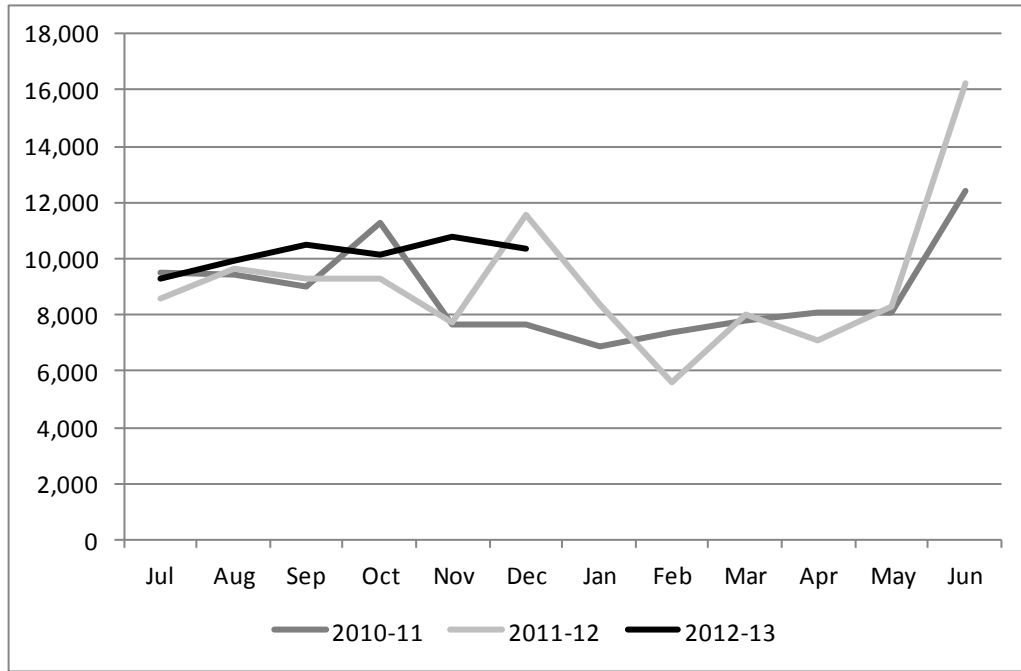
The Sustainable Land Management Project under UNDP was the major spender in the month of November 2012 and a standalone payment by the Cook Islands Red Cross for the Centre to Landholdings.

For the month of December the partner European Union increased its spending through funding for the Project Manager and the Treasurer/Comptroller's trip to South Africa for the Global Forum on Transparency and exchange of Information for Tax.

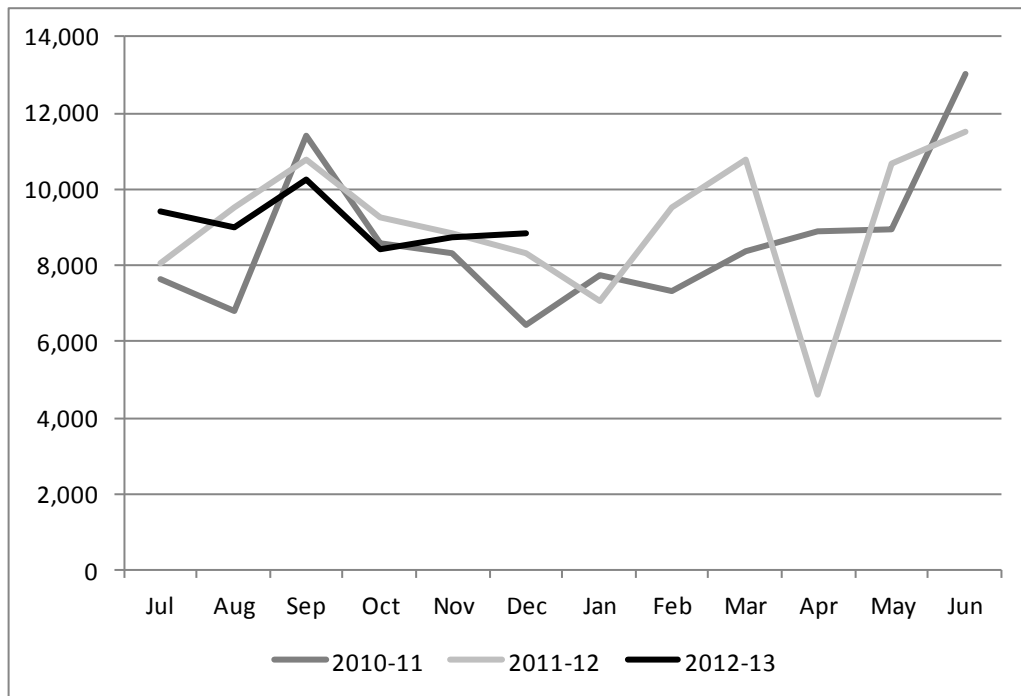
## Appendix – Key Operating Trends

Figures 3 and 4 below demonstrate the trends over the previous two financial years of operating revenue, expenditure.

**Figure 3**  
**Net Operating Revenue Trends**



**Figure 4**  
**Net Operating Expenditure Trends**



## 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 departure tax coupons are purchased.
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*

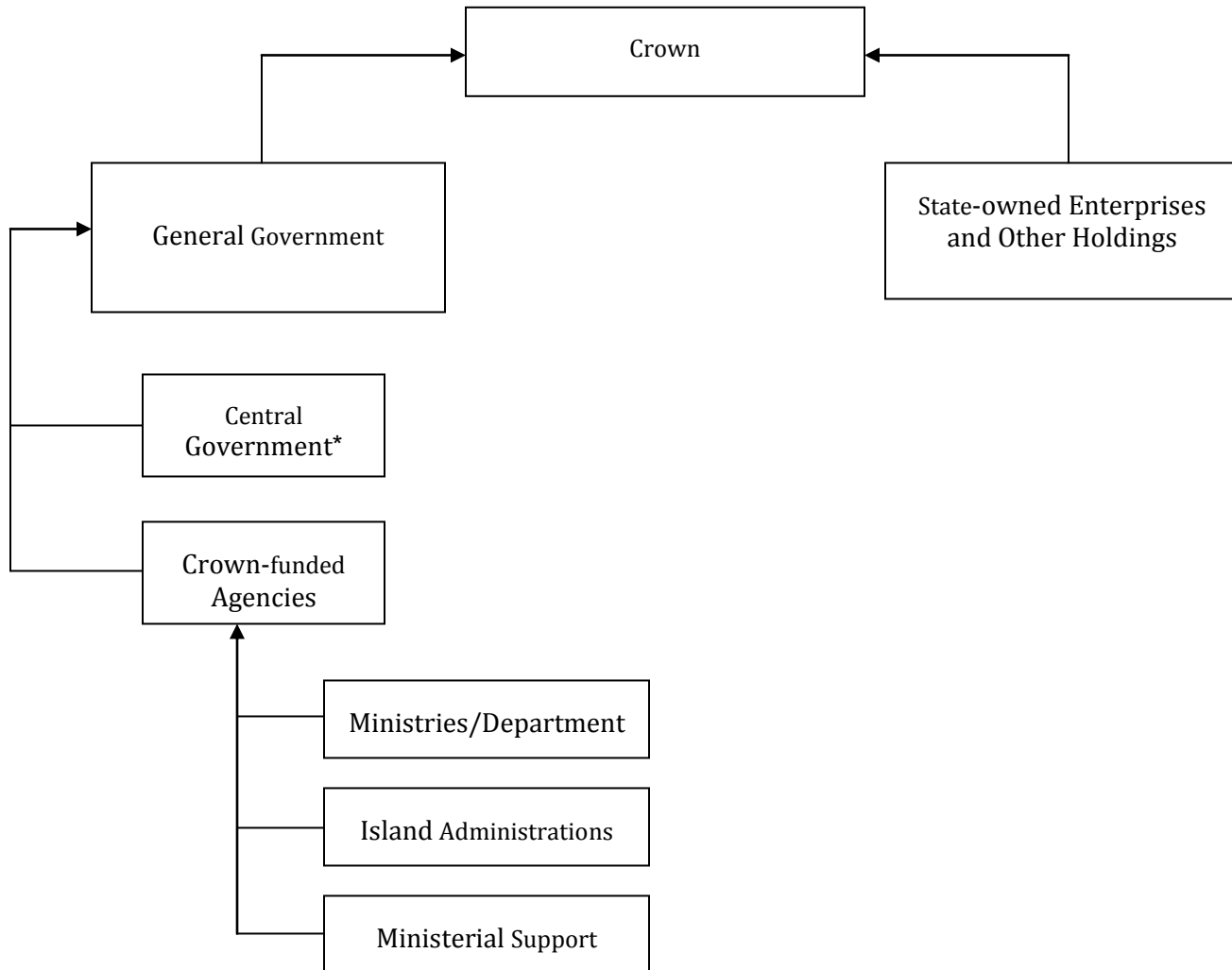
Appropriations are the funding-source provided by the Crown (as a Central Government entity) to allow the recipients (Crown-funded Agencies – see term below) to carry out their purposed operations.

### 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