

The Cook Islands Government (CIG) preliminary financial outcome for the quarter ended 31 December 2021 is now available.

EXECUTIVE SUMMARY

1. Fiscal Balance of General Government

December 2021 Quarter	Budget YTD (\$'000)	Actual YTD (\$'000)	Variance (\$'000)
Operating Revenue	99,676	105,547	5,871
Operating Expenditure	112,007	96,474	15,533
Net Operating Balance	-12,330	9,073	21,404
<i>Add Depreciation</i>	6,906	3,119	3,787
<i>Less Capital Expenditure</i>	15,386	10,716	4,670
Fiscal Balance	-20,810	1,476	22,286

Fiscal Balance

General Government's net fiscal balance for the quarter ended 31 December 2021 improved by \$22.3 million compared to the budget estimate of \$20.8 million shortfall. Higher revenue collections of \$5.9 million, contributed to the improvement in Government's net fiscal balance in addition to savings in Operating Expenses (of \$15.5 million) and Capital Expenditure (of \$4.7 million).

Operating Statement

Total operating revenue collected was \$5.9 million higher than anticipated for the quarter ended 31 December 2021. This was primarily due to Vested Asset funds received from the Financial Supervisory Commission (FSC) of \$5 million which was not included in the original revenue forecasts for the financial year, followed by MMR fisheries revenue, EU Agreement of \$1.5 million and US Treaties of \$0.6 million, and a slight increase in total taxation revenue collected of \$0.02 million above budget estimates. This was offset by Government Agencies & Island Governments Trading Revenue under budget of \$0.3 million.

The slight increase in taxation revenue was mainly due to the reinstated border closures as a result of COVID-19 which had adversely impacted on the quarter's taxation revenue collected.

Taxation estimates for 2021/22 for direct taxes (income tax, company tax, withholding tax) have been revised downwards due to the ongoing impacts of Covid-19 and tax measures implemented through the Economic Response Plan (ERP). Indirect taxes (VAT, departure tax, import levies) were expected to provide a steady increase in revenue collection due to tourism volumes and overall imports.

With the official opening of the borders scheduled in January 2022 and Government's constant practice of social distancing measures in place, this is expected to revive the tourism industry our main revenue generator and bring in steady flows of revenue in the upcoming months.

Total operating expenditure for the quarter ended 31 December 2021 was lower than estimated by \$15.5 million. This was mainly due to underspends in Government Agencies and Island Governments operating budgets by \$4 million; as a result of unfilled vacancies, effective cost management practices and savings from depreciation due to majority of assets in larger Ministries, such as Culture and Health being fully depreciated.

Expenditure through the Administered Payments was \$7.7 million lower than estimated primarily attributed to underspends in the Marketing Resources – Tourism Growth Strategy (of \$1.9 million), Patient Referral (of \$0.9 million), followed by various underspends in all other Administered Payments.

POBOC expenditure was \$0.9 million lower than estimated for the period. This was due to underspends in various POBOC lines such as the International Subscriptions POBOC (of \$0.2 million), followed by various underspends in all other POBOCs.

Spending on ERP and ERR

Support Measure	Full Year Budget 2021/22 \$'000	Actual YTD (31 Dec 2021 YTD) \$'000	Actual Vs Full Year Budget 2021/22 \$'000
For Economic Response Plan (ERP) approved carry forward.			
Approved Carry Forward	369	352	17
	369	352	17
For Economic Recovery Roadmap (ERR) Budget.			
Operating	500	246	254
Fees Free Programme	1000	-	1,000
Air Rarotonga Pa Enuu Subsidy	250	150	100
Wage Subsidy	22000	14,732	7,268
Business Grants	8200	8,370	(170)
Sole Trader Grants	1550	394	1,156
Manual Wage Subsidy & Business Grant Payments & Returns	-	48	(48)
	33,500	23,941	9,559
Total	33,869	24,293	9,576

Total ERP & ERR Fully Year Budget:	\$	33,869
Total ERP & ERR Actual Spend YTD:	\$	24,293
Total Remaining Budget:	\$	9,576

Capital Expenditure

December 2021 Quarter	Budget YTD (\$'000)	Actual YTD (\$'000)	Variance YTD (\$'000)
Total Capital Expenditure	15,386	10,716	4,670
Total Expenditure	15,386	10,716	4,670

Capital expenditure was lower than budgeted by \$4.7 million for the quarter ended 31 December 2021. In terms of the annual budget of \$37.8 million this was a low utilisation (28% usage) due to Government's capacity to implement projects in a timely manner. The ongoing pandemic of COVID-19 has hindered Government's ability to adhere to the scheduled projects on Rarotonga and the Pa Enua with travel restrictions causing challenges in sourcing of resources and logistical constraints.

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

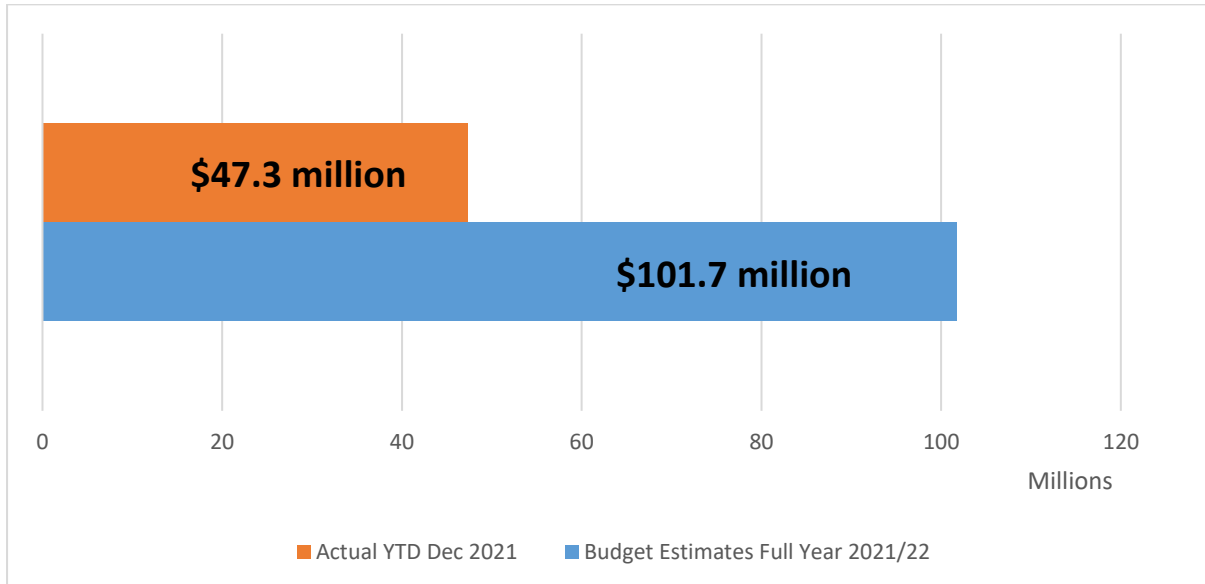
- (ICI) Road Asset Management (\$1.8 million)
- (CIIC) Government Building Projects - CIIC (\$1.1 million)
- all other capital projects (\$1 million and below)

These underspends were offset by overspends from other capital projects which includes:

- (MFEM) Te Mato Vai – Rarotonga Water Upgrade (over by \$0.6 million)
- (ICI) Emergency Management and Support Infrastructure (over by \$0.4 million)
- (CIIC) Pa Enua Govt Building Projects – Southern Group (over by \$0.1 million)

These overspends are expected to come within their own respective budget's before the end of the financial year.

2. Official Development Assistance (ODA)



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

For the quarter ended 31 December 2021 total expenditure through ODA was \$47.3 million, 47% of the total ODA budget. This was primarily due to General Budget Support funds of \$30.0 million received in August 2021 and an additional \$10.0 million in November from the New Zealand Government in support of the COVID-19 Economic Recovery Roadmap (ERR).

3. Financial Position

General Cash Reserves

	Dec 21 YTD ('000)	Sep 21 YTD ('000)	Variance ('000)
Operational Bank Accounts	65,930	33,243	32,687
Term Deposits and Trust Accounts	109,012	102,883	6,129
Total Cash Reserve Balance	174,942	136,126	38,816
<i>Less Total Claims on Cash Reserve</i>	84,662	79,092	5,570
<i>Less Other General Funds</i>	14,267	11,072	3,195
Total Estimated Cash Reserve	76,012	45,962	30,050

The general cash reserves for the quarter ended 31 December 2021 was estimated to be \$76.01 million, an increase of \$30.1 million from September 2021 quarter, which includes:

- New ADB loan of \$55.54 million received towards end of December 2021 for ERP Support.
- \$7.825 million Core Sector Support received towards end of November 2021 from NZ Government.
- \$1.17 million Vested Assets received from FSC in November 2021.

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

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

Crown Debt

	Dec 21 YTD (‘000)	Sept 21 YTD (‘000)
Total Gross Borrowings	227,073	172,463
Less Loan Repayment Fund	-19,758	-22,414
Net Borrowing by the Crown	207,315	150,049
<i>Less Avatiu Port Development & Avaroa Cable Ltd</i>	-35,645	-35,995
Net Borrowing by the General Government	171,670	114,054

The total gross debt by the Crown for December 2021 quarter was \$227.07 million, an increase of \$54.61 million from the September 2021 quarter. The increase in debt level was mainly due to the new Supporting Sustainable Economic Recovery Program Loan 4161 of \$55.54 million which was fully drawn down in December 2021.

Net Debt to GDP

Net Debt to GDP	Dec 21 YTD	Sept 21 YTD
	(‘000)	(‘000)
Net Borrowing by the Crown	207.31	150.05
Total GDP	487.20 (per 2021/22 Half Year Update)	431.30 (per 2021/22 budget)
Net Debt to GDP	42.55%	34.79%

The latest Net Debt as a percentage of GDP was 42.55% for the quarter ended 31 December 2021. This increase of net debt to GDP was anticipated due to the new debt fully drawn down in December 2021 to assist with the economic recovery program of \$55.54 million. Due to the extended economic impact of the pandemic, Government has been required to exercise the ‘Exit Clause’ previously laid out in the *Medium-term Fiscal Strategy 2019/20 – 22/23*, and establish new set of fiscal rules to reflect the changing needs of the economy. Consequently, the net debt rule has been modified from a threshold of net debt to GDP of 35% to 65% in order to allow Government debt headroom to access the funds needed to support and stimulate the economy.

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