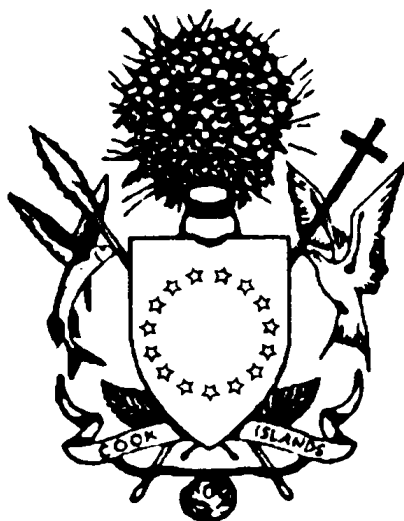

COOK ISLANDS GOVERNMENT
BUDGET ESTIMATES
2014/2015

Book 1
Appropriation Bill
Appropriations and Commentary



Hon. Mark Brown
Minister of Finance
October 2014

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29 October 2014

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the Budget Appropriation 2014/15.

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

I accept the overall responsibility for the integrity of the Budget Appropriation Statements 2014/15 and the compliance with the *Ministry of Finance and Economic Management Act 1995/96*.

A handwritten signature in black ink, appearing to read 'Mark Brown'.

Honourable Mark Brown
Minister of Finance



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

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29 October 2014

STATEMENT OF RESPONSIBILITY

The 2014/15 Budget Appropriation Estimates have been produced in accordance with the Ministry of Finance and Economic Management Act 1995/96 (the Act).

The 2014/15 Budget process involved the annual publication of the Budget Policy Statement on 19 December 2012 which was available on the mfem.gov.ck website and the establishment of the Budget Support Group commissioned to review department budget proposals prior to Cabinet consideration and approval.

In addition, a budget consultation document was produced preceding these documents to encourage community involvement in the preparation of the budget.

In compliance with Section 24 (1) of the Act the Ministry of Finance and Economic Management provided Cabinet with the:

- estimated revenue of the Crown;
- details of each Government Department's bid for funds; and
- Crown's debt management responsibilities.

Cabinet, as required under Section 24 (2) of the Ministry of Finance and Economic Management Act 1995/96, returned to the Ministry a fiscally responsible budget in accordance with the principles outlined in the Act.

The information in the supporting documentation is comprehensive going well beyond the requirements of the Act and includes a Statement of Fiscal Responsibility that clearly sets out the position in terms of fiscal responsibility as required in section 23 (2) (a) of the Act.

It should be noted that financial information relating to national public finances is consistent with the standards outlined in the International Monetary Fund (IMF) 2001 manual on Government Finance Statistics.

As Financial Secretary, I accept full responsibility for the integrity of the information provided.

Kia Manuia,

A handwritten signature in blue ink, appearing to read 'Richard Neves'.

Richard Neves
Financial Secretary



PARLIAMENT OF THE COOK ISLANDS

APPROPRIATION BILL

EXPLANATORY NOTE

This note does not form part of the Bill but is intended to indicate its effect.

The Constitution of the Cook Islands provides in Article 70(1) that "... all expenditure from the Cook Islands Government Account or from any other public fund or account, shall be in accordance with an Appropriation Act..."

Clause 1 provides that, on enactment, the Bill will be called the Appropriation Act 2014.

Clause 2 is the application provision, which specifies the financial year to which the Bill relates. In this case it is the financial year ending 30 June 2015.

Clause 3 authorises expenditure out of the Cook Islands Government Account of the amounts not exceeding those set out in the Schedules to the Bill, for the several votes specified therein.

Subsection 5 limits any expenditure which may be charged to the 2014/15 appropriation to actual expenditure incurred in the period 1 July 2014 to 30 June 2015.

Subsections 6-7 limits any expenditure which may be charged to the 2013/14 appropriation to actual expenditure incurred up to 30 June 2014.

Subsection 8 limits any expenditure which may be charged to appropriations from years prior to 2013/14 to actual expenditure incurred up to 30 June 2015.

Hon. Mark Brown



Appropriation Bill 2014

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Schedule 2 Benefits and Other Unrequited Expenses

Schedule 3 Borrowing Expenses and Debt Repayment

Schedule 4 Other Expenses

Summary

An Act to appropriate certain sums of money out of the Cook Islands Government Account to the services of the year ending on the thirtieth day of June 2015 and to appropriate the supplies granted in this period

MOST GRACIOUS SOVEREIGN: We, Your Majesty's most dutiful and loyal subjects, the Parliament of the Cook Islands, towards making good the supply which we have cheerfully granted to Your Majesty in this year, have resolved to grant Your Majesty the sum specified in this Act and humbly ask Your Majesty to assent to the sum. And the Parliament of the Cook Islands enacts as follows—

- 1 Title**
This Act is the Appropriation Act 2014.
- 2 Application**
This Act applies to the year ending on the thirtieth day of June 2015 ("the year").

Appropriation Bill 2014

3 Grant and appropriation out of the Cook Islands Government Account

- (1) The Minister responsible for Finance may authorise the incurrence of expenses or expenditure and may issue and apply out of the Cook Islands Government Account, towards making good the supplies granted to Her Majesty for the services of the year, any sums which in total do not exceed the sum of **\$224,383,065**.
- (2) Subject to subsection (3) the sums authorised to be supplied are appropriated for the services set out in the votes specified in the Schedules to this Act.
- (3) The votes identified in Schedule 4 to this Act as being funded through loans from financing partners or from grants by development partners are further limited to the lesser of the votes specified in those Schedules and the loan proceeds or grants received for the purpose of financing the expense or expenditure in relation to those votes.
- (4) Notwithstanding section 37 of the Ministry of Finance and Economic Management Act 1995-96, the appropriations made under this Act will lapse on 30 June 2015.
- (5) Payments that may be charged against any appropriation made by this Act after 30 June 2015 are limited to—
 - (a) self balancing journal entries to correct posting errors during the year ended 30 June 2015; or
 - (b) expenses incurred or payments due during the year ended 30 June 2015 for which a valid invoice was submitted before 30 June 2015, but for which a payment or payments to extinguish that liability in relation to that invoice had not been made by 30 June 2015.
- (6) The appropriations made in the Appropriation Act 2013 will lapse on 30 June 2014.
- (7) Payments that may be charged after 30 June 2014 against any appropriation that lapses under the provisions of subsection (6) are limited to—
 - (a) self balancing journal entries to correct posting errors during the year ended 30 June 2014; or
 - (b) expenses incurred or payments due during the year ended 30 June 2014 for which a valid invoice was submitted before 30 June 2014, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2014.
- (8) Where in the period ended 30 June 2014, the Financial Secretary appointed under section 4 of the Ministry of Finance and Economic Management Act 1995-96 had directed that an unexpended appropriation from an Appropriation Act for a previous year be available for expenditure in the year ended 30 June 2014, those appropriations will also lapse on 30 June 2014.
- (9) Payments that may be charged after 30 June 2014 against any appropriation that lapses under the provisions of subsection (8) are limited to—
 - (a) self balancing journal entries to correct posting errors during the year ended 30 June 2014; or

Appropriation Bill 2014

- (b) expenses incurred or payments due during the year ended 30 June 2014 for which a valid invoice was submitted before 30 June 2014, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2015.

Appropriation Bill 2014

Schedule 1 Ministry Appropriations

Ministry	Personnel	Operating	Depreciation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	POBOCS	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
Agriculture	809,653	87,643	5,035	902,330	90,535	811,795	0	0	902,330	811,795
Audit (PERCA)	877,440	104,180	26,678	1,008,298	178,700	829,598	138,100	0	1,146,398	967,698
Crown Law	493,054	146,100	5,983	645,137	0	645,137	0	0	645,137	645,137
Cultural Development	487,095	254,288	96,655	838,038	175,000	663,038	722,500	0	1,560,538	1,385,538
Business Trade and Investment Board	409,486	236,574	9,000	655,060	23,380	631,680	0	0	655,060	631,680
Education	9,617,626	1,114,765	340,864	11,073,255	0	11,073,255	3,307,482	155,000	14,535,737	14,535,737
Environment	787,683	162,724	30,381	980,788	35,000	945,788	0	0	980,788	945,788
Finance and Economic Management	2,615,359	581,939	128,530	3,325,828	503,500	2,822,328	14,665,983	6,294,000	24,285,812	23,782,312
Financial Services Development Authority	231,200	178,906	9,867	419,973	0	419,973	0	0	419,973	419,973
Foreign Affairs	1,151,596	541,151	77,726	1,770,473	20,000	1,750,473	609,166	0	2,379,639	2,359,639
Head Of State	183,168	34,080	15,057	232,305	0	232,305	15,000	0	247,305	247,305
Health	8,207,307	1,756,330	654,788	10,618,425	400,000	10,218,425	1,599,870	810,000	13,028,295	12,628,295
Infrastructure Cook Islands	1,504,670	264,351	233,013	2,002,034	245,626	1,756,408	645,000	8,818,500	11,465,534	11,219,908
Internal Affairs	942,109	118,085	17,264	1,077,457	6,000	1,071,457	17,484,348	50,000	18,611,805	18,605,805
Justice	1,374,361	419,371	120,547	1,914,279	500,000	1,414,279	267,000	0	2,181,279	1,681,279
Marine Resources	1,095,833	303,125	57,318	1,456,276	15,000	1,441,276	200,000	0	1,656,276	1,641,276
Ombudsman	208,382	53,840	5,822	268,044	0	268,044	0	0	268,044	268,044
Parliamentary Services	463,676	83,611	24,579	571,866	8,419	563,447	2,585,446	0	3,157,311	3,148,892
Pearl Authority	205,493	236,688	21,916	464,097	0	464,097	0	0	464,097	464,097
Police	2,876,739	458,663	218,622	3,554,024	69,360	3,484,664	210,000	154,000	3,918,024	3,848,664
Prime Minister's Office	930,638	182,849	36,069	1,149,556	0	1,149,556	625,000	2,203,000	3,977,556	3,977,556
Public Service Commission	1,533,708	55,447	64,747	1,653,902	0	1,653,902	0	0	1,653,902	1,653,902
Tourism Corporation	1,422,893	2,908,553	16,000	4,347,446	200,000	4,147,446	2,250,000	0	6,597,446	6,397,446
Transport	480,465	138,964	39,047	658,476	36,000	622,476	56,000	0	714,476	678,476
Cook Islands Investment Corporation	0	0	0	0	0	0	75,000	2,741,000	2,816,000	2,816,000
Cook Islands Seabed Minerals Authority	211,801	123,139	5,060	340,000	0	340,000	0	0	340,000	340,000
Capital Funds Committee- (MFEM)	0	0	45,000	45,000	0	45,000	0	200,000	245,000	245,000
Total Ministries	39,121,433	10,545,365	2,305,568	51,972,365	2,506,520	49,465,845	45,455,895	21,425,500	118,853,760	116,347,240
Ministerial Support										
Prime Minister	300,509	110,773	11,100	422,382	0	422,382	0	0	422,382	422,382
Deputy Prime Minister	130,000	85,372	5,628	221,000	0	221,000	0	0	221,000	221,000
Minister Mark Brown	186,455	81,613	6,802	274,870	0	274,870	0	0	274,870	274,870
Minister Kiriau Turepu	122,907	56,931	11,162	191,000	0	191,000	0	0	191,000	191,000
Minister Nandi Glassie	101,585	78,415	12,000	192,000	0	192,000	0	0	192,000	192,000
Minister Mona Ioane	68,500	118,000	5,500	192,000	0	192,000	0	0	192,000	192,000

Appropriation Bill 2014

Ministry	Personnel	Operating	Depreciation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	POBOCS	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
Leader Of Opposition	147,000	48,200	6,800	202,000	0	202,000	0	0	202,000	202,000
Total Ministerial Support Offices	1,056,956	579,304	58,992	1,695,252	0	1,695,252	0	0	1,695,252	1,695,252
Outer Islands										
Aitutaki	1,022,283	389,111	143,884	1,555,277	48,250	1,507,027	0	262,000	1,817,277	1,769,027
Aitutaki Power Supply	254,316	1,608,228	348,789	2,211,333	1,900,943	310,390	0	0	2,211,333	310,390
Atiu	668,152	402,588	138,561	1,209,302	224,318	984,984	0	12,000	1,221,302	996,984
Mangaia	789,916	544,197	204,700	1,538,812	301,000	1,237,812	0	12,000	1,550,812	1,249,812
Manihiki	613,450	175,281	92,199	880,930	136,300	744,630	0	10,000	890,930	754,630
Mauke	628,957	208,270	80,877	918,104	113,853	804,251	0	10,000	928,104	814,251
Mitiaro	472,400	66,199	55,200	593,798	58,899	534,899	0	8,000	601,798	542,899
Palmerston	248,604	65,214	44,812	358,630	20,599	338,031	0	10,000	368,630	348,031
Penrhyn	349,768	203,887	52,407	606,062	83,904	522,158	0	12,000	618,062	534,158
Pukapuka-Nassau	697,808	145,580	140,552	983,939	73,695	910,244	0	12,000	995,939	922,244
Rakahanga	362,148	50,732	37,829	450,709	49,336	401,373	0	8,000	458,709	409,373
Outer Islands Capital Fund-Administered by MFEM	-	-	27,500	27,500	0	27,500	0	0	27,500	27,500
Total Outer Islands	6,107,802	3,859,286	1,367,309	11,334,397	3,011,097	8,323,300	0	356,000	11,690,397	8,679,300
Gross Total	46,286,191	14,983,955	3,731,869	65,002,014	5,517,617	59,484,397	45,455,895	21,781,500	132,239,409	126,721,792

Appropriation Bill 2014

Schedule 2 Benefits and Other Unrequited Expenses

Category of Benefit	Budget Estimate	Budget Estimate	Variance	Per cent
	2013/14	2014/15		
Welfare Payments	13,583,800	16,541,348	2,957,548	22%
Parliamentary Superannuation	180,000	180,000	0	0%
Total Benefits and Other Unrequited Expenses	13,763,800	16,721,348	2,957,548	21%

Schedule 3 Borrowing Expenses and Debt Repayment

	Budget Estimate	Budget Estimate	Variance	Per cent
	2013/14	2014/15		
Gross Debt Servicing (see Schedule 10)	5,710,000	5,424,736	-285,264	-5%
Total Borrowing Expenses and Debt Repayment	5,710,000	5,424,736	-285,264	-5%

Schedule 4 Other Expenses

Category of Expense	Budget Estimates	Budget Estimate	Variance	Per cent
	2013/14	2014/15		
Airport Authority	2,047,997	2,047,997	0	0%
Bank of the Cook Islands	181,000	181,000	0	0%
Te Aponga Uira	350,000	350,000	0	0%
Asset Management	1,800,000	1,800,000	0	0%
Contingency Funds - Capital Expenditure	50,000	50,000	0	0%
Contingency Funds - Operating	100,000	100,000	0	0%
Crown Infrastructure Depreciation	5,069,598	2,920,397	-2,149,201	-42%
Expenditure of ADB Loan	0	3,245,000	3,245,000	-
Expenditure of Chinese Loan (TMV)	6,946,000	6,452,000	-494,000	-7%
Official Development Assistance	59,363,162	63,693,150	4,329,988	7%
ADB Share Capital	26,600	26,600	0	0%
Transfer to Emergency Response Trust Fund	0	100,000	100,000	-
Transfer to Reserve Trust Fund	498,263	515,476	17,213	3%
Depreciation Contingency Reserve	0	3,100,000	3,100,000	-
Debt Servicing Interest	1,429,000	2,137,300	708,300	50%
Total Other Expenses	77,861,620	86,718,920	8,857,300	11%

Summary

Category of Payment	Budget Estimates	Budget Estimate	Variance	Per cent
	2013/14	2014/15		
Schedule 1 Ministry Outputs (Gross), POBOCs and Capital Expenditure	101,894,147	115,518,061	13,623,914	13%
Schedule 2 Benefits and Other Unrequited Expenses	13,763,800	16,721,348	2,957,548	21%
Schedule 3 Borrowing Expenses and Debt repayment	5,710,000	5,424,736	(285,264)	-5%
Schedule 4 Other Expenses	77,861,620	86,718,920	8,857,300	11%
TOTAL APPROPRIATION	199,229,567	224,383,065	25,153,499	13%

*Note schedule 1 Ministry Appropriations includes all POBOCs which is then replicated in schedule 2 Benefits and Other Required Expenses.

3 GOVERNMENT FINANCIAL STATISTICS OPERATING STATEMENT

The Operating Statement reflects the financial performance of Government and discusses general trends and revisions of forecasts for operating revenues, operating expenditures and the resultant operating balance.

Table 3.1 GFS Operating Statement of the Crown 2014/15 to 2017/18 (\$000)

	2014/15	2015/16	2016/17	2017/18
Statement of Government Operations	Budget	Estimate	Projected	Projected
TRANSACTIONS AFFECTING NET WORTH				
REVENUE	186,966	158,299	146,471	148,324
Taxes	108,695	110,415	108,825	110,704
Social contributions	20	20	20	20
Grants	63,762	34,749	24,484	24,484
<i>Current</i>	17,597	12,629	9,549	9,549
<i>Capital</i>	46,166	22,120	14,935	14,935
Other revenue	14,488	13,114	13,142	13,115
EXPENSE	140,792	136,268	134,609	133,724
Compensation of employees	48,704	48,692	48,689	48,685
Use of goods and services	42,312	37,668	34,078	33,319
Depreciation	9,785	9,758	11,755	11,771
Interest	2,137	2,285	2,223	2,085
Subsidies	15,026	15,026	15,026	15,026
Grants	0	0	0	0
Social benefits	17,501	17,570	17,570	17,570
Other expense	5,323	5,267	5,267	5,267
NET OPERATING BALANCE	46,174	22,030	11,862	14,600

3.1 GFS Net Operating Balance

The Government Finance Statistics (GFS) operating balance is the balance of operating revenues minus operating expenditure as prescribed by the MFEM Act. Given the analysis provided in sections 3.2.1 and 3.2.2, the GFS net operating balance in 2014/15 at the time of the Pre-Election Fiscal Update (PEFU) published in April 2014 was estimated at \$44.1 million. After the inclusion of adjustments to operating revenue and operating expenditure, this has now been revised upwards by \$2.1 million due in large part to the improvement of overall revenue estimates as well as the reduction in several expenditure items.

Going forward, changes in expenditure and revenue estimates are predicted to result in a \$46.1 million operating balance in 2014/15, \$22.1 million in 2015/16, \$11.8 million in 2016/17 and \$14.6 million in 2017/18.

3.2 GFS Operating Revenue

Operating revenues are made up of taxation receipts (59 per cent), Grants/Official Development Assistance (ODA) (34 per cent) and other revenues, which include agency trading revenues, interest and dividend receipts (7 per cent). These revenue streams are used to finance the on-going operational expenditure of government, with surpluses used for investing activities such as infrastructure development projects (where apparent).

At the time of the PEFU published in April 2014, GFS Operating revenues were estimated to tally to \$180.1 million, of which \$110.4 million was expected to be collected in taxes for 2014/15.

Since April 2014, total movements in operating revenue have resulted in a downward revision of operating revenues by \$6.7 million to \$186.9 million, due to both parameter and Policy decisions.

For 2014/15, tax revenue is anticipated to be \$1.8 million lower than previously forecast, due almost exclusively to the impact of wholesalers avoiding the final 33 per cent increase in the tobacco levies by bringing forward tobacco purchases into the 2014/15 tax year.

Adjustments to indirect taxation include an increase of \$1.2 million to fisheries revenue from fisheries activities in which the Cook Islands Government has recently settled on agreed amounts with two fishing vessels which have infringed in Cook Islands waters. The actual for 2013/14 and estimates for 2014/15 reflect actual monies received that were not reported at the previous update. Total fines received by MFEM in 2014/15 amounted to \$1.225 million.

3.3 GFS Operating Expenditure

Operating expenditure is made up of Compensation of Employees (35 per cent), Use of Goods and services (33 per cent), Social Benefits (12 per cent), Subsidies (13 per cent), Depreciation (7 per cent), and other expenses including interest expenses (4 per cent).

At the time of the PEFU published in April 2014, total movements in operating expenditure have resulted in an upward revision of operating expenditure by \$4.4 million to \$140.4 million, due to both parameter and Policy decisions.

Since April 2014, Operating expenditures at the time of the PEFU were estimated at \$136.1 million. These have been revised upwards to reflect an increase of \$4.6 million, predominantly in goods and services which is mainly driven by an increase to recurrent official development assistance (ODA) directed to funding capital projects in 2014/15. After the exclusion of ODA, operating expenditure is declining to take into account Crown depreciation, to reflect actual capital projects completed to date and timing issues. A depreciation contingency reserve has been formed to accommodate the capital projects appropriated for the next two to three years as detailed in the capital plan book. The Budget also includes several technical adjustments to the budget baselines to reflect an update to the funding formula for the pa enua, reclassification and more up to date data being available which updates forecast estimates done at the time of the budget last year.

Further budget adjustments in operating expenditure are discussed at length in the expenditure chapter (Chapter 8).

4 FISCAL UPDATE

4.1 Overview

The 2014/15 Budget was developed in a conservative context, acknowledging that the Cook Islands has a limited economic base which relies to a large extent on tourism as its main revenue generator.

Government continues to appropriate funding towards underwriting two long haul service routes between Rarotonga and Sydney, and Rarotonga and Los Angeles.

Due to the recent general elections held on 9 July 2014 and the length of time it has taken to confirm the Executive, the normal development process of the budget has been interrupted and changes in expenditure for 2014/15 are minimal and result from either:

- policy decisions leading to new initiatives undertaken by Government; or
- movements that occur outside of a decision referred to as Parameter adjustments through no short term action by the government. For example, these would include depreciation or movements in welfare beneficiary numbers.

Prior to this publication, according to the PEFU published in April 2014, it was projected that the starting position for Budget 2014/15 anticipated an underlying operating deficit of \$0.739 million for 2014/15. After updating the forecast following the analysis of actual revenue collected and expenditures spent as of 30 June 2014 the underlying budget balance has improved significantly as result of various factors discussed below.

The Government has produced an underlying budget surplus of \$0.009 million in 2014/15, worsening budget deficits of \$0.090 in 2015/16, \$3.1 million in 2016/17, and \$0.335 million in 2017/18.

Table 4.1 Underlying Budget Balance 2013/14 to 2017/18 (\$000)

	2013/14 (Actual)	2014/15 Budget	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast
Final Underlying Revenue	119,141	123,203	123,549	121,987	123,840
Final Underlying Expenditure	115,568	123,195	123,639	125,060	124,175
Final Underlying Operating Balance	3,573	9	-90	-3,072	-335

The key factors in reducing the operating deficit for 2014/15 were technical adjustments to the budget baselines to reflect an update to the agencies and the pa enua, reclassification and more up to date data being available which in turn adjusted the forecast estimates. This included a significant reduction to the Crown depreciation and the reclassification of Cook Islands Investment Corporation (CIIC) appropriation which was factored into the forward estimates but has now been removed. The budget also includes adjustments for the outer years as result of contracts and projects coming to an end.

In addition, savings were identified within year personnel savings as result of vacant positions from all government ministries, line agencies, and ministerial support offices and excluding the critical service delivery functions such as Health, Education and the Pa Enea.

Table 4.2 Reporting of budget balance 2013/14 to 2017/18 (\$000)

Statement of Government Operations	2014/15 Budget \$'000	2015/16 Estimate \$'000	2016/17 Projected \$'000	2017/18 Projected \$'000
NET GFS Operating Balance	46,475	22,640	14,122	16,860
GFS Revenue	186,966	158,299	146,471	148,324
Remove ODA Revenue	63,763	34,749	24,484	24,484
Underlying Revenue	123,203	123,549	121,987	123,840
GFS Expenditure	140,792	136,268	134,609	133,724
Remove ODA Revenue	17,597	12,629	9,549	9,549
Underlying Expenditure	123,195	123,639	125,059	124,175
Underlying Budget Balance	9	-90	-3,073	-335
FINAL UNDERLYING NET OPERATING BUDGET BALANCE	9	-90	-3,073	-335

To control the impacts of fiscal policy and macroeconomic stability, the Budget 2014/15 reflects the fiscal responsibility principals as outlined in the MFEM Act:

- ensuring that unless Crown debt is at prudent levels, operating expenses will be less than operating revenues (i.e. Government will run an operating surplus);
- achieving and maintaining levels of Crown net worth that provide a buffer against factors which may impact adversely on net worth in the future;
- managing prudently the fiscal risks facing the Crown; and
- pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

4.1.1 Changes to Revenue

Total operating revenue in 2014/15 is estimated to reach \$123.2 million, this is made up of \$103.10 million in tax revenue and \$20.2 million in non-tax revenue. These estimates include the impact of the following Policy decisions or initiatives previously committed to Government:

- exempting New Zealand Superannuation for income tax purposes to 31 December 2012;
- reducing the dividend payout from Te Aponga Uira, to assist the utility with on-going capital investments;
- amending the Transport Act allowing overseas full driver's licenses to be used here in the Cook Islands;
- implementing the excise-equivalent duties on local alcohol and soft-drink from 1 July 2014; and
- settling with a number of fishing vessel operators who have infringed in Cook Islands waters.

Table 4.3 Recommended Underlying Revenue Changes 2013/14 to 2017/18 (\$000)

	2013/14	2014/15	2015/16	2016/17	2017/18
Revenue Underlying Balance PEFU 2014	118,447	124,518	123,820	128,794	128,795
Changes in Tax Parameters	0	-1,383	638	-5,956	-4,077
Other Changes to Non Tax Revenue	0	397	391	419	392
Changes to Trading Revenue	0	-708	-745	-745	-745
Impact on Revenue of Parameter adjustments	0	-1,694	284	-6,282	-4,429
Changes in Tax Decisions	0	-325	95	125	125
Other Decision Changes to Non Tax Revenue	0	705	-650	-650	-650
Impact on Revenue of Decisions Changes	0	380	-555	-525	-525
Final Underlying Revenue Balance	118,447	123,203	123,549	121,987	123,840

The Government has also received payments resulting from settlements on illegal fishing activities. This is a one off adjustment for 2014/15 and has not been factored into the outer year estimates.

Table 4.4 Parameter adjustments to Tax Revenue 2014/15 to 017/18 (\$000)

	2013/14	2014/15	2015/16	2016/17	2017/18
VAT Adjustments	0	1,023	1,209	-888	-137
Income Tax Adjustments	0	-402	-1,116	-2,549	-2,151
Company Tax Adjustments	0	153	94	-570	-362
Import Levies Adjustments	0	-1,889	810	-1,489	-1,189
Withholding Tax	0	0	0	0	0
Departure Tax	0	-267	-359	-459	-238
Total Changes in Revenue Taxation	0	-1,383	638	-5,956	-4,077

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

As illustrated above in table 4.4, VAT is performing better than previously expected – even when accounting for the full-year impact of the VAT increase to 15 per cent (which was already accounted for at the time of the PEFU). The reduction in taxation estimates is driven by import levies which are decreasing by \$1.9 million in 2014/15 due to suppliers shifting tobacco purchases forward to 2013/14 to avoid increased tax rates.

Other tax changes relate to 2013/14 actual and changes in economic forecasts, although the latter affects all tax types.

Total operating revenue collected in 2013/14 was lower by \$1.3 million representing a variance of 1 per cent in comparison to the original Budget estimates and was mainly attributed to lower than estimated tax revenue collected.

Previously the Government committed to the following Policy decisions or initiatives:

- to refund of tax paid and/or elimination of tax debts on New Zealand Superannuation prior to 31 December 2012;
- to reduce the dividend payout from Te Aponga Uira, in order to assist the utility with on-going capital investments;
- amendments to the Transport Act allowing overseas full driver's licenses to be used here in the Cook Islands;

- implementation of the excise-equivalent duties on local alcohol and soft-drink from 1 July 2014; and
- one-off illegal fishing penalties.

In addition to these are further revenue adjustments to recognise interest on loans to subsidiaries from the Ports Authority on the subsidiary loan taken with the Crown for the construction of the Avatiu Harbour.

Motor Vehicle Registrations have been conservatively increased by \$0.1 million in the 2014/15 estimates due to the increased number of vehicles imported, namely motorbikes with engine capacity over 100cc.

Minor adjustments to other revenue include changes to trading revenues collected by various agencies and island administrations based on efficiencies in service delivery to the community and increased fees charged.

4.1.2 Changes to Expenditures

At the time of the 2014 PEFU, MFEM estimated underlying expenditure for 2014/15 to be \$125.2 million declining to \$123.8 million for expenditure from the time of the budget 2013/14 to the 2014/15 budget, excluding ODA.

Adjustments in expenditure are made up of two types: Parameter adjustments and Policy decisions. Parameter adjustments are the result of factors outside of the immediate control of the Government, whereas Policy decisions reflect the impact of the Government's decisions.

Due to the general elections held on 9 July 2014, and taken to confirm the Executive, the normal development process for the Budget has been interrupted, and changes in expenditure for 2014/15 are very minimal and result from:

- policy decisions leading to new initiatives undertaken by Government; or
- movements that occur outside of a decision, referred to as Parameter adjustments through no short term action by the government. For example, these would include depreciation or movements in welfare beneficiary numbers.

Total operating expenditure spent in 2013/14 was lower by \$2.1 million representing a variance of 2 per cent in comparison to the original Budget estimates and were mainly attributed to lower expenditure on the Air New Zealand Underwrite, Toa profit guarantee and lower levels of spending in ministries.

New Expenditure Initiatives

Increased spending amounts to \$1.2 million in 2014/15 reducing slightly to \$1.1 million in 2015/16. The increases in spending are offset by reductions to expenditure Parameter adjustments by \$2.5 million in 2014/15. In addition, MFEM has identified a total of \$0.414 million in savings mainly resulting from the long haul underwrite and delays in recruitment for vacant positions in the past three months. Further details on each of the initiatives can be found in the expenditure chapter (Chapter 8).

The Budget also includes several technical adjustments to the budget baselines to reflect an update to the funding formula for the Pa Enea, reclassification and more up to date data being available which updates forecast estimates done at the time of the budget last year. The budget also includes adjustments for the outer years as result of contracts and projects coming to an end.

Total capital expenditure funded by the Cook Islands Government and various other sources such as lending, State Owned Enterprises (SOEs), ODA and Crown reserves are budgeted at a sum of

\$21.8 million as published in detail in the Capital Plan (Book 3). This represents a significant increase of \$12.4 million from the original budget of \$9.4 million to be funded by Government in 2013/14.

- \$4.5 million towards the Te Mato Vai to the water upgrade project which is being undertaken by the Cook Islands, People's Republic of China and New Zealand.
- \$4.7 million has been allocated towards the third phase of project city which upgrade the roads from the international airport to tupapa area.
- \$10.2 million towards the Renewable Energy Programme Support funded by New Zealand which includes the construction of renewable energy infrastructure on Rarotonga and islands of the Northern Group.
- Concepts notes for the Chinese building repairs, Apii Nikao school rebuild are in the process of being finalised to be submitted for consideration to be funded using the balance of China grant funds. A request for contributions towards the 50th Anniversary celebrations next year is also being processed. The balance of funds will be allocated using the new process which includes recommendations for capital projects approved by the Infrastructure Committee.
- Improving sanitation is a priority of the Cook Islands Government as set out in the National Sustainable Development Plan (2011–2015), Sustainable sanitation solutions are essential to ensuring adequate protection for public health, the environment and the tourism sector. Following the completion of the Muri pilot upgrade, the Sanitation Upgrade Programme aims to scale up improved sanitation to all of Rarotonga and Aitutaki from 2014-2018 with a total budget of \$10 million.

4.1.3 Budget Policy Statement

The Budget Policy Statement (BPS) 2014/15 was published in December 2013 and standard practise includes this key document forming the basis for decisions which are incorporated into the Budget Estimates. As mentioned above, due to recent general elections held on 9 July 2014 and the length of time it has taken to confirm the Executive, the normal development process of the budget has been interrupted and changes in expenditure for 2014/15 was minimal. Therefore Budget 2014/15 includes minimal adjustments and it is anticipated that the normal budget process will take place possibly next year during the development of a Supplementary Budget to accommodate any further necessary budget adjustments required.

It is important to note that the key intentions of the BPS 2014/15 continue to be supported and implemented through existing budgetary baselines of ministries and crown agencies.

The broad strategic priorities for Budget 2014/15 build on the achievements of the Government to date by directing public spending to encourage growth and complement private sector investment. Taking the National Sustainable Development Plan (NSDP) as a point of departure, the Government is certain that the broad strategic priorities for 2014/15 will provide a framework which protects our fiscal position and supports inclusive sustainable growth. Our broad strategic priorities are to:

1. improve the wellbeing of our people;
2. revitalise growth in the Pa Enua;
3. maximise the social and economic benefits of infrastructure investment to our communities;
4. facilitate greater income generation opportunities and economic growth in the Cook Islands;
5. take the precautionary approach to economic development ;
6. promote safety and justice; and
7. improve public service productivity.

4.2 Fiscal Responsibility Ratios

The original Fiscal Responsibility Ratio (FFR) benchmarks were established under the Manila Agreement, prior to the move to GFS reporting.

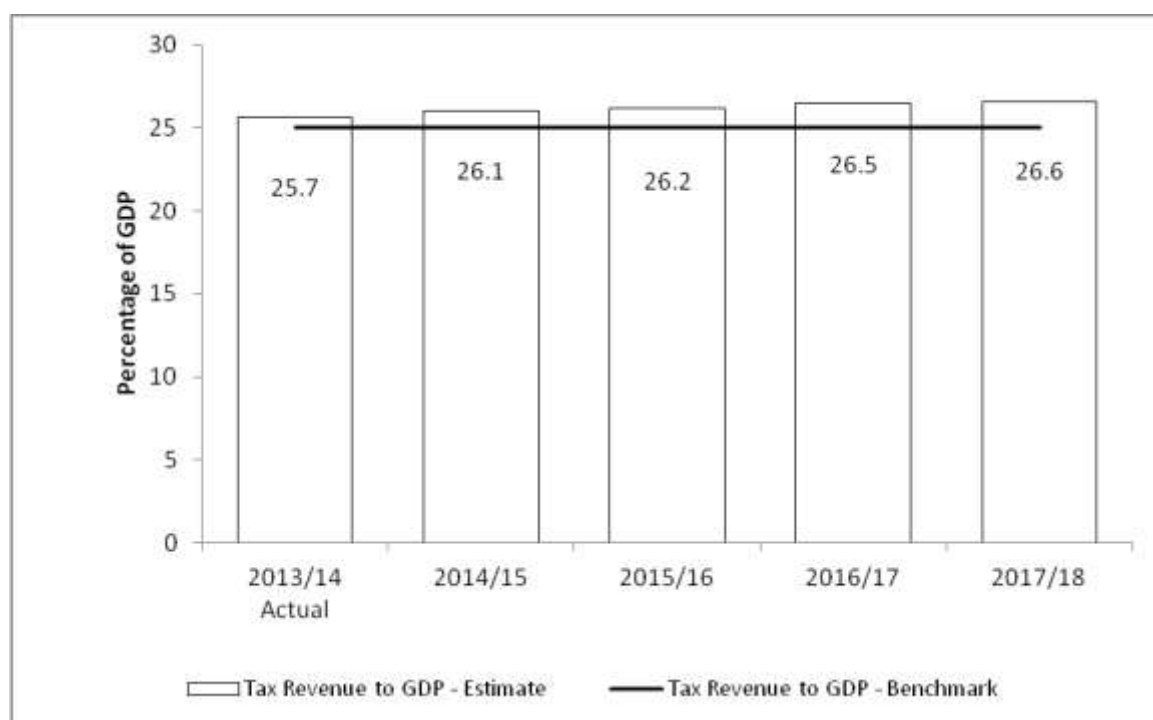
Some of the ratios have now changed in their nature – for the 2014/15 Budget reporting will be against the previous measures, but the Government will review a new set of fiscal benchmarks which will maintain similar fiscal control to incorporate the new GFS reporting framework during 2014/15 and introduce these in the 2015/16 budget.

4.2.1 Tax Revenue to GDP

This ratio establishes boundaries on the collection of revenue and ensures government limits the diversion of resources away from the private sector and households. The benchmark that current and previous governments have agreed to work within is to maintain collections to within 25 per cent of GDP. The expected performance against this benchmark is illustrated in Chart 4.1 below.

Current forecasts estimate that the Government will exceed the benchmark by a small margin to 26.1 percent in 2014/15 and remains around the approximately the same in the forward estimates. The reason for this is the tax reform that the Government endorsed in Late 2013, which included the tax rate of VAT being increased to 15 per cent and the rate of PAYE being reduced.

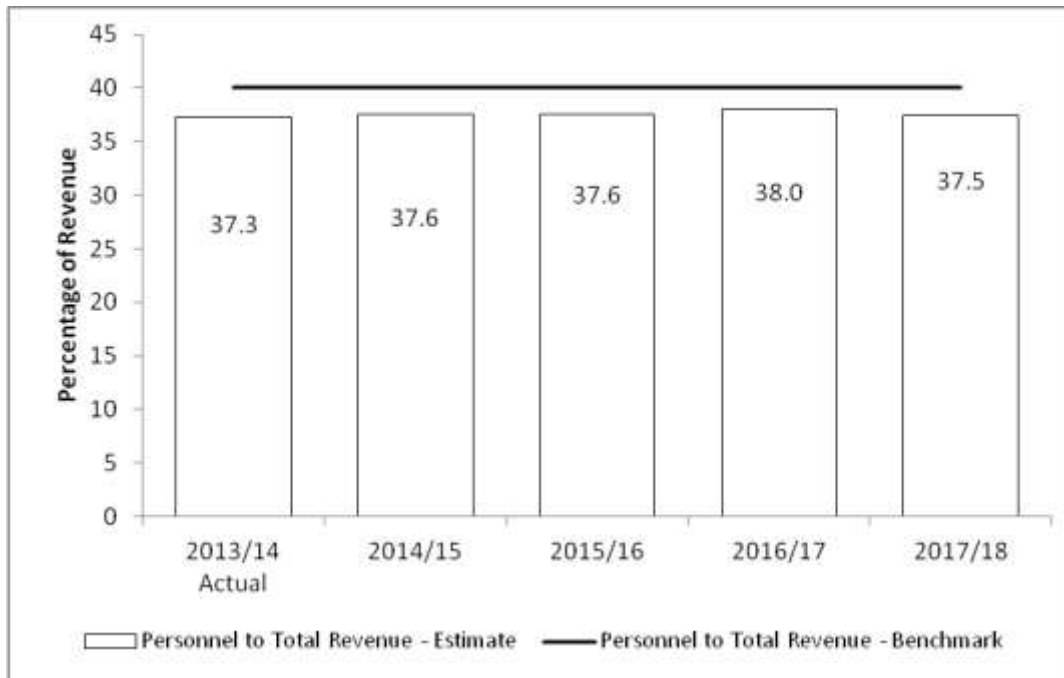
Chart 4.1 Tax Revenue to GDP, 2013/14 to 2017/18



4.2.2 Personnel Expenditure to Revenue

This ratio is aimed at controlling the expansion in the size of the public service. Current and previous Governments have agreed to work within a benchmark to maintain the expenditure on personnel within 40 per cent of total revenue. As illustrated in Chart 4.2, the Government is expecting to remain within the overall ratio 40 per cent for 2014/15 and outer years. It is also important to note that the actual personnel expenditure spent in 2013/14 was relatively lower by 8.5 per cent compared to the original budget estimates.

Chart 4.2 Personnel Expenditure to Revenue 2013/14 to 2017/18

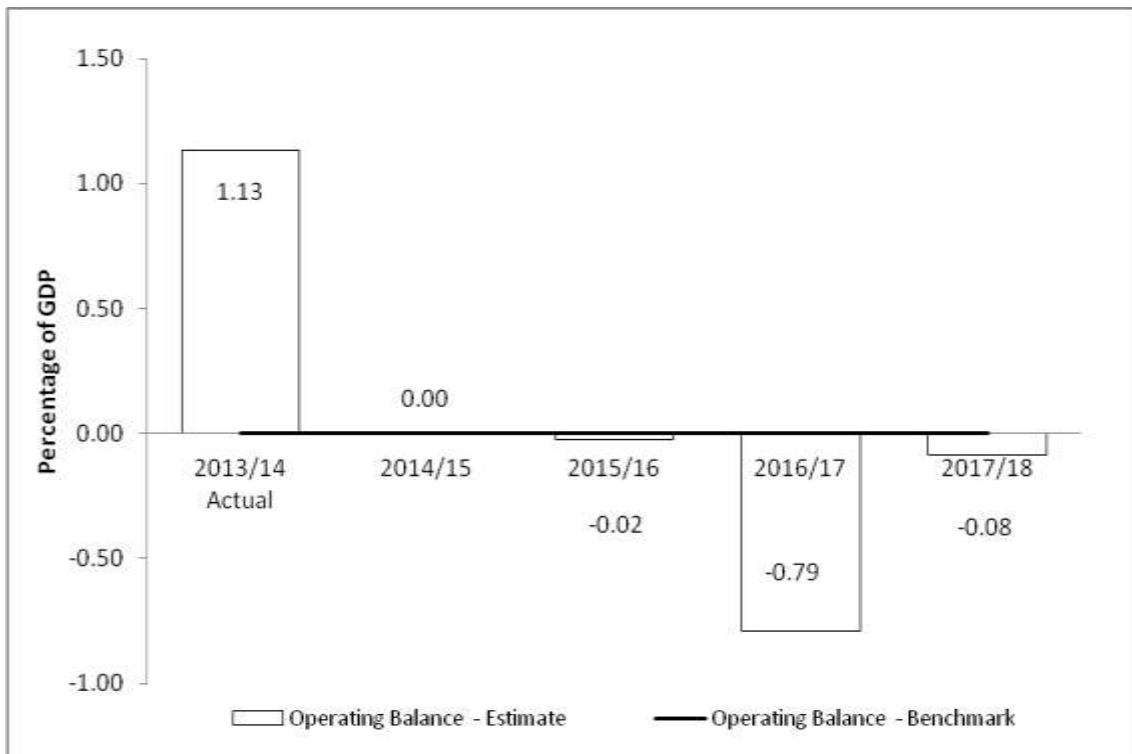


4.2.3 Underlying Net Operating Balance

This ratio indicates that Government is able to afford the operational costs of performing the functions of government from its own revenue streams. Government has set a benchmark of running an operating surplus in each Budget. As illustrated below, it is anticipated that Government has an underlying operating surplus of \$0.009 million per the provisional actual due to the phasing of the Tax Review.

Going forward, changes in expenditure and revenue estimates are predicted to result in a \$0.009 million operating surplus in 2014/15 and worsening to \$0.1 million deficit in 2015/16, a -\$3.1 million deficit in 2016/17 and -\$0.34 million in 2017/18, this is mainly due to the profile shifts in revenue mainly caused by large investments in infrastructure projects and a reduction in the Apex Profit Guarantee as the contract comes to an end.

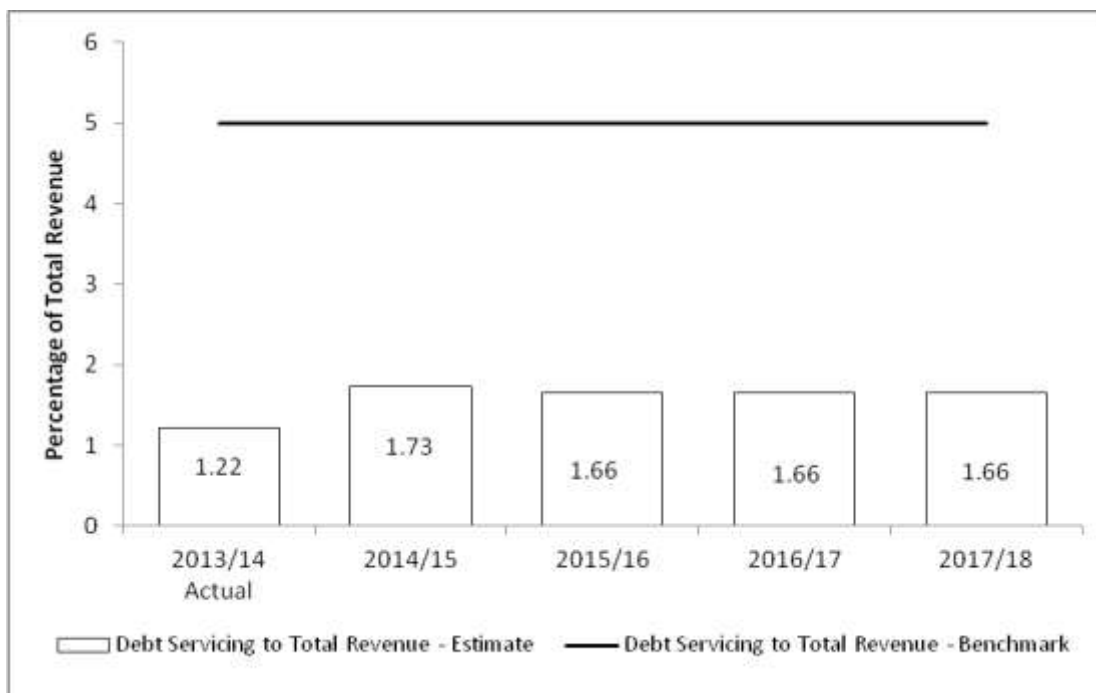
Chart 4.3 Underlying Operating Balance 2013/14 to 2017/18



4.2.4 Net Debt Servicing to Revenue

This ratio measures the ability of Government to service its debt obligations from revenue collected. Debt servicing includes both interest and principle, and is now net of draw-downs in earmarked loan reserves to more accurately reflect the ability of Government to service its debt obligations. As shown in chart below, the ratio of debt servicing over the short to medium term is maintained within the benchmark of five per cent of total revenue.

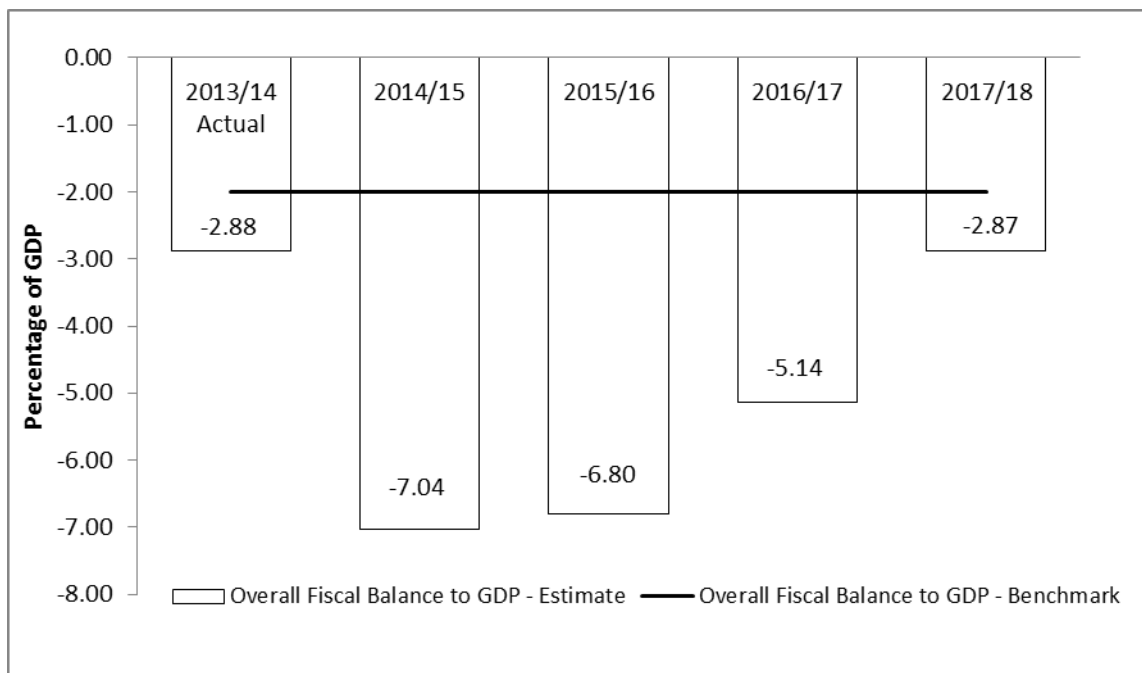
Chart 4.4 Debt Servicing to Revenue 2013/14 to 2017/18



4.2.5 Budget Overall Balance to GDP

This ratio is the operating balance less non-operating expenditure (purchase of assets and repayment of liabilities). Where the overall budget balance is in deficit, it must be serviced through lending or a drawdown of reserve funds. The benchmark is set to be maintained within +/-2 per cent of GDP to ensure that Government does not rapidly accumulate debt, and taken together with the debt servicing to total revenue and net debt to GDP ratios, ensures that debt is managed and taken on within sustainable levels. Chart 4.5 illustrates that Government breach is expected to the overall Budget balance due to large scale infrastructure projects, which are financed by concessional lending. This is predominantly driven by large projects funded through loans ie: Te Mato Vai and Renewable Energy projects which are highlighted in Capital Book 3. The negative balances for 2016/17 and 2017/18 are also driven by the deficit in the underlying operating balance.

Chart 4.5 Budget Overall Fiscal Balance to GDP 2013/14 to 2017/18



4.2.6 Net Debt to GDP

This ratio measures the level of debt relative to national income and is intended to control the overall level of debt taken on by Government including SOE's. The benchmark agreed to by Government is to maintain net debt within 35 per cent of GDP. This would represent total borrowings of \$93.7 million estimated in 2014/15. Chart 4.6 illustrates that Government is well within the benchmark over the short and medium term.

Chart 4.6 Net Debt to GDP Ratio 2014/15 to 2017/18

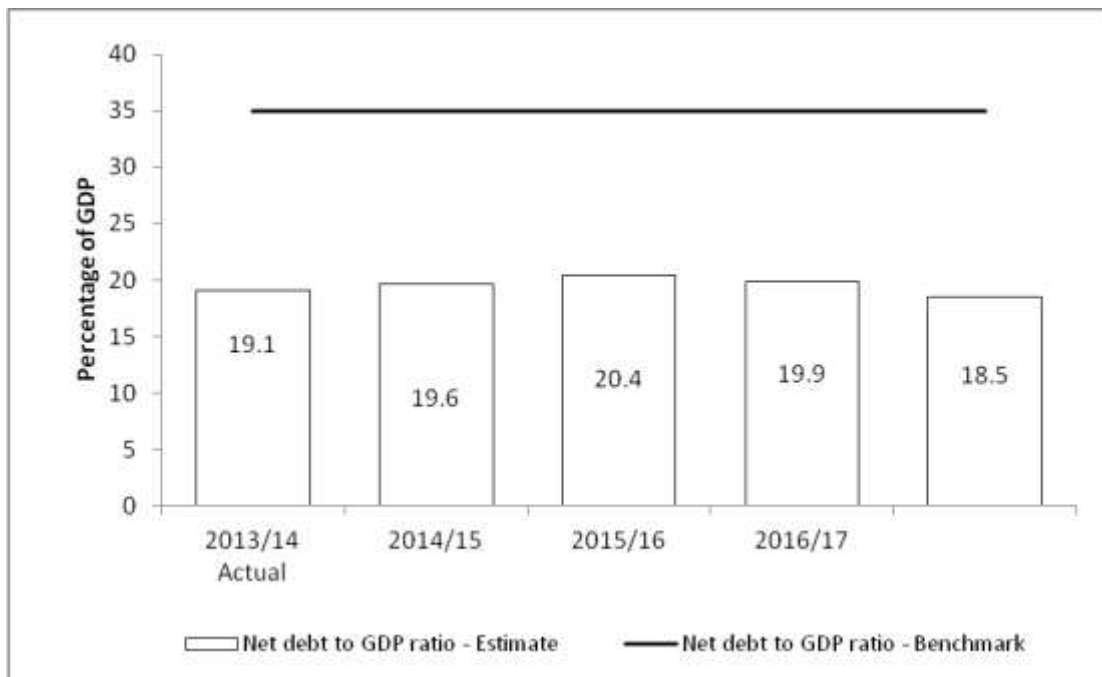


Table 4.5 Fiscal Indicators Summary

	FY13/14 Actual	FY14/15 Budget	FY15/16 Estimates	FY16/17 Projected	FY17/18 Projected
Statement of Financial Performance					
Taxation Underlying Revenue (\$m)	97.2	103.1	104.8	103.2	105.1
Social Contributions (\$m)	0.0	0.0	0.0	0.0	0.0
Other Underlying Revenue (\$m)	20.8	20.1	18.7	18.7	18.7
Total Operating Underlying Revenue (\$m)	118.0	123.2	123.5	122.0	123.8
Total Underlying Revenue Percentage of GDP (\$m)	31.2	31.1	30.9	31.4	31.3
Tax Underlying Revenue Percentage of GDP (\$m)	25.7	26.1	26.2	26.5	26.6
Personnel (\$m)	44.0	46.3	46.4	46.4	46.4
Percentage of Total Underlying Revenue	37.3	37.6	37.6	38.0	37.5
Total Operating Underlying Expenditure (\$m)	113.7	123.2	123.6	125.1	124.2
Percentage of GDP	30.0	31.1	30.9	32.1	31.4
Percentage of Operating Underlying Revenue	96.4	100.0	100.1	102.5	100.3
Re-appropriation of Previous Years Funds for Capital (\$m)	0.0	0.0	0.0	0.0	0.0
Underlying Operating Balance (\$m)	4.28	0.01	-0.09	-3.07	-0.34
Percentage of GDP	1.1	0.0	0.0	-0.8	-0.1
Total Non Operating Balance (\$m)	15.2	27.9	27.1	16.9	11.0
Fiscal Balance Surplus/(Deficit) (\$m)*	-10.9	-27.9	-27.2	-20.0	-11.4
Percentage of GDP	2.9	7.0	6.8	5.1	2.9
Statement of Financial Position (\$m)					
Assets (\$m)	530.5	600.1	642.9	660.9	681.1
Liabilities (\$m)	119.0	116.0	120.4	117.0	113.1
Crown Balance (\$m)	411.5	484.1	522.5	543.9	567.9
Percentage of GDP	-108.6	-122.3	-130.6	-139.8	-143.5
Statement of Borrowings (\$m)					
Gross Debt end of FY (\$m)	89.3	93.7	97.5	92.6	85.9
Percentage of GDP	23.6	23.7	24.4	23.8	21.7
Net Crown Debt, end of FY (\$m)	72.4	77.7	81.6	77.4	73.1
Percentage of GDP	19.1	19.6	20.4	19.9	18.5
Loan Repayment Reserves Held (\$m)	16.2	16.1	15.9	15.1	12.7
Development Partner Support (\$m)					
Grants (\$m)	33.2	63.7	34.7	24.4	24.4
Percentage of GDP	8.8	16.1	8.7	6.3	6.2
Net Debt Servicing ¹ (\$m)	1.4	4.2	4.2	4.4	5.9
Percentage of Total Underlying Revenue	1.2	3.4	3.4	3.4	3.4
Memo item: Nominal GDP (\$m)	378.8	395.7	400.1	389.0	395.7

*The Fiscal Balance is the sum total of the Net operating balance and the Non-operating balance. The shortfall/deficit is then funded through cash reserves, depreciation and loans which can be found in the Statement of Fiscal Responsibility (Financing and Applications Statement) on pages 178-179

5 ECONOMIC UPDATE

5.1 Introduction

The Cook Islands is a small open economy largely dependent on tourism where its natural comparative advantage lies. Consumer preferences and economic growth in the major tourist source market of New Zealand (and to a lesser extent, Australia) has a major impact on domestic economic performance. Any international developments affecting New Zealand will eventually impact on the Cook Islands. Not only is New Zealand the Cook Islands largest trading partner and source of tourism, but changes in the New Zealand dollar will also impact on domestic markets and inflation. Increasingly, large capital works have also become a driver for economic growth. The completion of these projects will present challenges for maintaining the economic stimulus of construction activity in future years.

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

The reliance on imports to support local consumption makes the Cook Islands extremely vulnerable to external price shocks – particularly in regards to fuel, as transport and energy costs affect the price of almost all goods. Despite the large imbalance in goods trade, the Cook Islands enjoys a current account surplus, owing to the significant contribution of estimated tourism revenue (which is counted as a service export).

Global recovery from the 2008 economic crisis continues. The Euro area (as a whole) is out of recession but remains sluggish, while the US recovery seems likely to continue in the near term. Growth in China and East Asia has slowed, but China's growth is expected to stay above seven per cent on the back of continued government stimulus. Initial tensions in Ukraine and the middle-east have had impacts on their respective regions, but are yet to have significantly wider implications on commodity prices (such as oil and gas).

In October 2014, the International Monetary Fund (IMF) revised its forecast for global economic growth in 2014 to 3.3 per cent, a slight downward revision, with the World Bank forecasting 2.8 per cent (a downward revision from the 3.7 per cent growth estimated earlier this year). For 2015, the IMF is forecasting that global growth will improve to 3.8 per cent, and the World Bank estimates 3.4 per cent. The ten-year average for world economic growth is 3.4 per cent growth per annum.

Official growth forecasts for New Zealand and Australia were not updated in time for this publication. The most recent forecasts from their respective Budget documents suggest that for 2014/15 they will grow at 3.5 per cent and 2.5 per cent respectively. Continued economic growth in these markets should have positive flow on effects for tourism arrivals, although recent arrival figures (particularly out of New Zealand) have been weaker than anticipated. This may be due to international competition coming mainly from discounted fares previously and additional capacity being offered into other Pacific destinations such as Fiji, Hawaii, and Bali.

Since the 2014 PEFU, tourism arrivals for July and August came in around 1,500 less than expected – for context, this shortfall is around 1.3 per cent of total annual arrivals. This has led to a revision of the 2014/15 arrivals forecasts.

While tourism forecasts for 2014/15 have been revised downwards, there has been an upward revision to GDP estimates due to a large increase in public sector capital investment. The potential 'slippage' of capital spending and the implementation of development partner projects are the main risks to the economy outside of declining tourism arrivals. The economic gains from the Cook Islands Government 2013 Tax Review also contribute to estimated GDP growth in 2014/15.

Nominal GDP (which includes inflation) is estimated to have grown by 2.6 per cent in 2013/14, a downward revision from the forecast of 4.8 per cent growth forecast at the time of the PEFU, due to a combination of slower tourist arrivals and a shift of capital projects into 2014/15. Nominal growth is expected to be an estimated 4.5 per cent in 2014/15, due largely to increased public sector capital investment. Estimated growth falls to 1.1 per cent growth in 2015/16 due to completion of some capital projects, before declining 2.8 per cent in 2016/17 due to a large reduction in the capital profile (a combination of completed capital projects and no new projects being scheduled).

Tourist growth has been revised down from the forecasts at the 2014 PEFU. This takes some pressure off the capacity constraints that were expected to significantly reduce growth from 2017 onwards. Growth in visitor arrivals is expected to slow from 1.6 per cent in 2013/14 to a 0.5 per cent reduction in arrivals in 2014/15 due mainly to a slower growth out of New Zealand and fewer arrivals than expected in July and August 2014. The forecast for 2015/16 has been similarly revised down from 1.7 per cent growth to 0.9 per cent growth.

Inflation as measured by the Cook Islands Consumer Price Index (CPI) was 1.6 per cent in 2013/14, however, year average inflation from September 2013 to September 2014 was higher, at 1.9 per cent. Through the year inflation to September was higher still, at 2.7 per cent, due the full inflationary impacts of the VAT increase on 1 April 2014. Through the year inflation in the June quarter of 2014 (the quarter where the VAT was increased) was expected to be around 3.5 per cent, but the result was 2.2 per cent. This is only a 1.3 percentage point increase on the March 2014 inflation result, suggesting that reported price gouging by some retailers was not widespread.

With the exception of the one-off increase in the VAT, inflation is expected to adjust towards its long-term trend. The year average CPI is forecast to increase to 3.8 per cent in 2014/15 due to the change in VAT, before increasing to 2.6 per cent in 2015/16.

Table 5.1 Summary of Economic Indicators

Economic Indicators	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
	<i>Actual</i>	<i>Est</i>	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>
Economic Activity (\$000)						
Nominal GDP	369,131	378,788	395,745	400,085	389,015	395,732
Percentage change (YOY)	-1.0	2.6	4.5	1.1	-2.8	1.7
Real GDP (2006 Prices)	278,953	284,652	292,778	291,925	278,536	276,956
Percentage change	-1.7	2.0	2.9	-0.3	-4.6	-0.6
Inflation (\$000)						
Consumer Price Index (base Dec. 2006 = 100)	124.9	126.8	131.6	135.0	139.2	143.6
Percentage change (YOY)	2.6	1.6	3.8	2.6	3.1	3.1
Construction/Capital Investment (\$000)						
Commercial Building Approvals	2,975	1,859	1,859	1,859	1,859	1,859
Residential Building Approvals	5,887	6,161	5,732	5,611	5,494	5,378
Public Works (includes Dev Partners)	31,295	49,455	65,311	58,365	25,185	21,002
Productive Sector Indicators (\$000)						
Visitor Arrivals	120,909	122,900	122,200	123,200	124,100	125,000
Percentage change (YOY)	3.5	1.6	-0.6	0.8	0.7	0.7
Estimated Visitor Expenditures (\$'000)	222,127	229,100	235,200	243,400	252,800	262,500
Pearl Exports	291	252	150	150	150	150
Fish Exports	8,059	20,816	20,820	20,820	20,820	20,820
External Sector (\$000)						
Merchandise Trade Balance (\$'000)	-126,170	-132,411	-130,200	-131,000	-132,000	-132,800
Services Trade Balance	222,127	229,100	235,200	243,400	252,800	262,500
Exchange Rate (USD/NZD Average, April 2014)	0.822	0.830	0.863	0.847	0.847	0.847
Financial Sector (at end of financial year) (\$000)						
Government Net Debt Position (\$'000)	16,178	58,244	71,703	75,444	60,833	41,241
Private and Public Enterprise Deposits)*	228,949	170,273	-	-	-	-
Private and Public Enterprise Loans	286,213	280,364	-	-	-	-

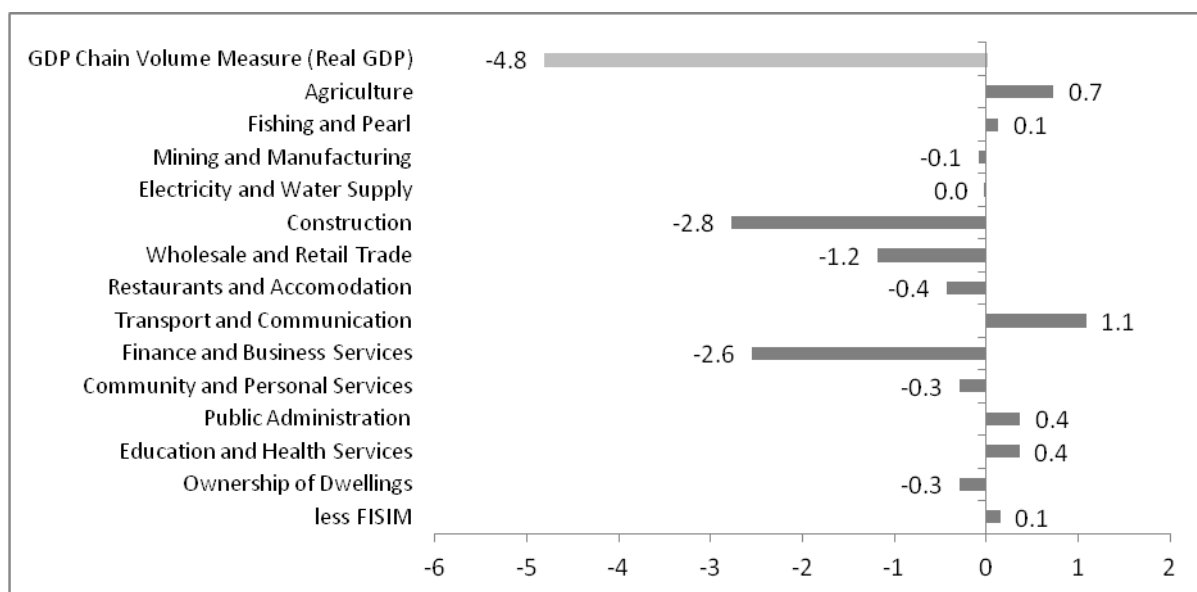
* No attempt is made to estimate public or private deposits or loans due to breaks in the data series, although both series show downward trends

5.2 Gross Domestic Product (GDP)

Real GDP (removing the impact of inflation) for the Cook Islands declined 4.8 per cent in 2013, reversing gains achieved in 2012. Contributing to this decline were construction (2.8 percentage points) and finance and business services (2.6 percentage points). Partially offsetting the declines were contributions from transport and communication (1.1 percentage point) and agriculture (0.7 percentage points).

The 2013 GDP estimates highlight the sensitivity of national GDP to construction projects, and their associated implementation schedules. This is particularly important in the coming years, where the level of public capital investment will be at record levels.

Chart 5.1 Contribution to 2013 real GDP growth (percentage point contribution)



Including price changes, nominal GDP fell 5.1 per cent in the 2013 calendar year, due to both quantity effects mentioned above, but also to falls in price.

With the arrival of new and quarterly GDP data for the 2013 year, baseline estimates of economic activity were able to be updated to as recently as the December quarter 2013. The 2013/14 year is now expected to have grown 2.6 per cent in nominal terms, as compared to an estimate of 4.7 per cent at the time of the PEFU, due largely to a shifting of capital projects to 2014/15 and slower tourism growth.

Nominal GDP growth is then estimated to increase to 4.5 per cent in 2014/15 due to large increases in public capital investment by the Cook Islands Government and development partners. Slippage of some capital investment activity from 2013/14 into 2014/15, and the bringing forward of some activity into 2014/15 (notably, renewable energy for the Southern Group) will benefit the economic outcome for 2014/15. By 2015/16, slow growth in tourism and the completion of some capital projects are expected to lead to a slowing of nominal GDP growth to an estimated 1.1 per cent.

Table 5.2 GDP growth revisions (percent)

	2013/14		2014/15		2015/16	
	2014 PEFU	2014-15 Budget	2014 PEFU	2014-15 Budget	2014 PEFU	2014-15 Budget
Nominal GDP growth	4.8	2.6	3.9	4.5	1.9	1.1
Real GDP growth	2.2	2.0	-0.7	2.9	-1.1	-0.3
Implicit GDP deflator	2.3	0.6	4.6	1.6	3.1	1.4

Real GDP is forecast to follow a similar pattern to nominal growth but is lower as it excludes the impact of inflation. The 2014/15 Budget is the first time where attempts have been made to forecast a GDP deflator (previously this was assumed to equal inflation). Despite a large reduction in nominal GDP growth from the forecasts at the PEFU, real GDP growth for 2013/14 was revised to 2.0 per cent, due to lower than expected inflation over 2013/14.

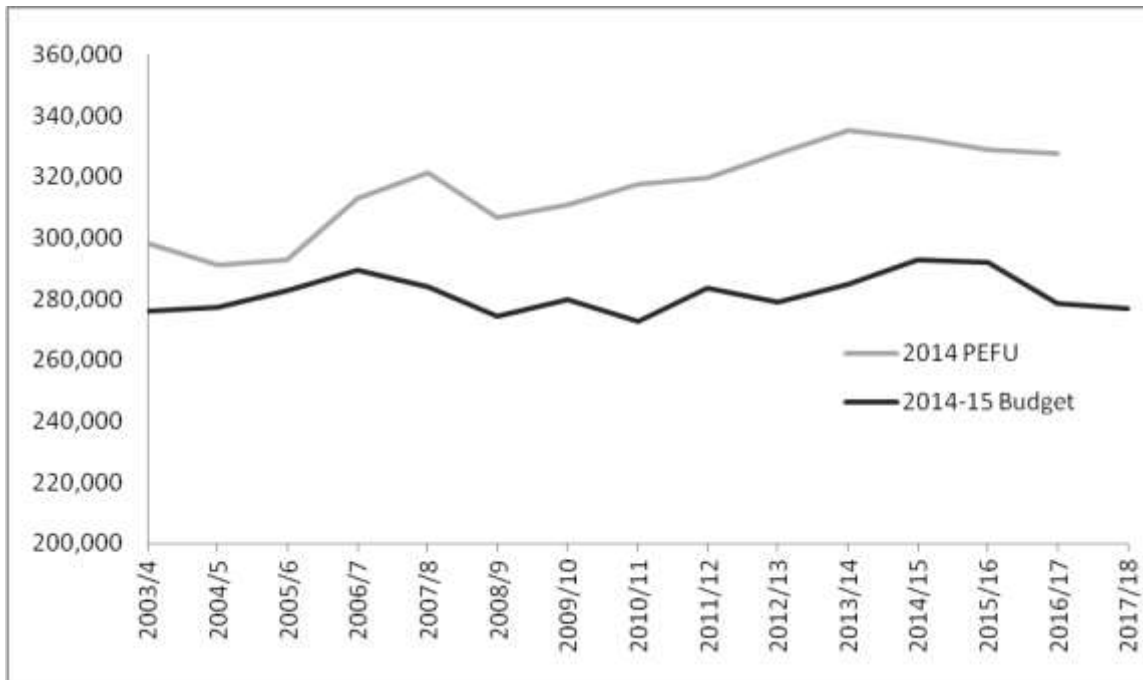
The changes in the GDP deflator flow on to 2014/15, with a significant improvement in the real GDP forecast. Real activity in 2014/15 is also anticipated to be much higher due to the level of public sector capital investment in that year. The completion of some projects in 2015/16 offsets subdued tourism growth to reduce real GDP by 0.3 per cent.

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

- poor budget execution of the public sector capital investment planned across the Cook Islands – in particular, any delays in the implementation of the renewable energy or water projects;
- the preferences of New Zealand and Australian tourists moving towards other competing tourism markets in the Pacific or Asia (for example recent openings for direct flights to Bali, Honolulu, and Manila from Auckland);
- an economic slowdown in New Zealand and/or Australia;
- domestic labour market failing to increase through a decline in migrant labour entering the Cook Islands to fill job vacancies, or Cook Islanders continuing to leave the local market;
- external price shocks to our major import categories (fuel or food supplied by New Zealand);
- dramatic changes in consumption patterns due to VAT or import levy changes (above and beyond those already forecast); and
- any reductions in projected ODA.

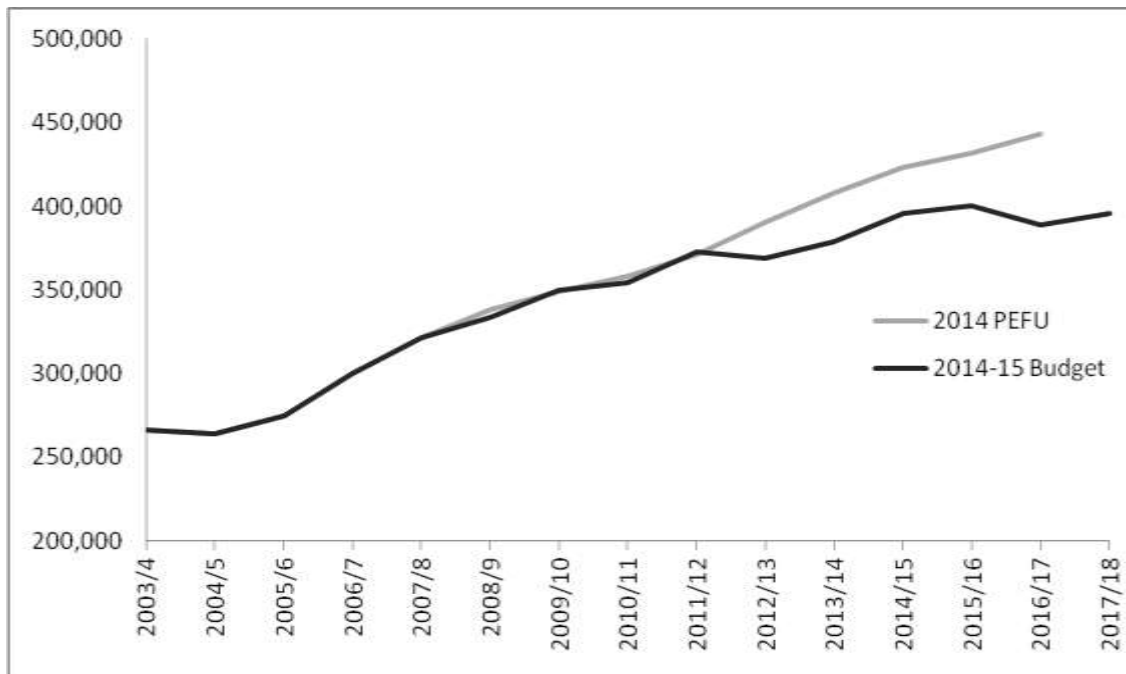
On the upside, a return to trend levels of inflation may not occur, as current inflation levels appear to be below what was expected in previous forecasts, suggesting that the GDP deflator (the difference between nominal and real GDP) may be lower than expected.

Chart 5.2 Real GDP at 2006/07 prices, 2003/04 to 2017/18 (\$000)



Note: the shift in the Real GDP graph is due to a revision in the GDP deflator between the two forecast periods (2014 PEFU uses CPI inflation). The availability of quarterly GDP estimates is another difference between the two series.

Chart 5.3 Nominal GDP at current prices, 2003/04 to 2017/18 (\$000)



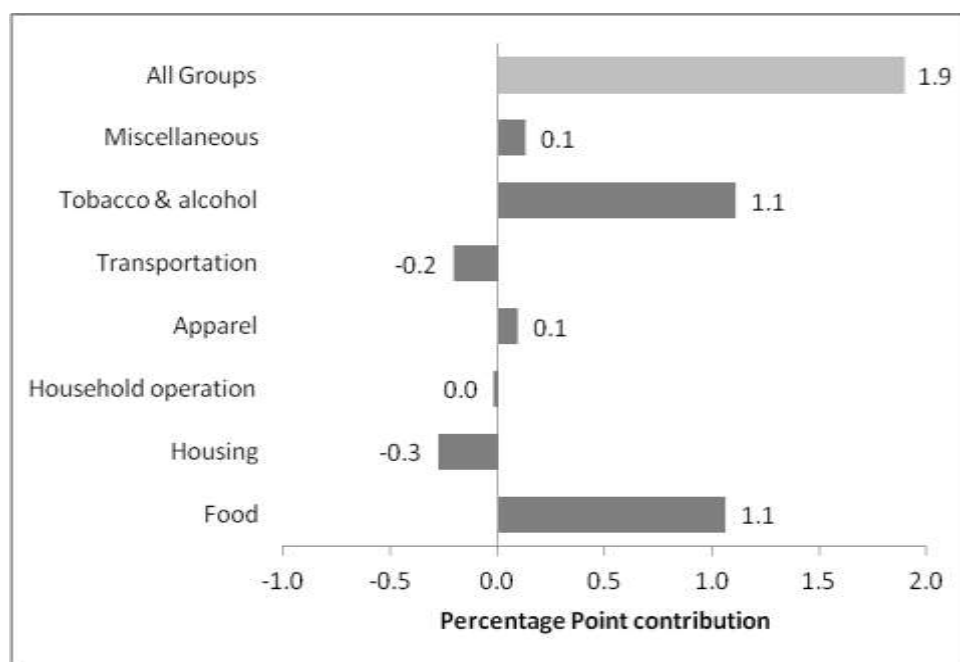
5.3 Consumer Price Index (CPI)

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

At the time of publication, the most recent CPI data available was for the September quarter 2014, which showed inflation of 2.7 per cent compared to the September quarter 2013, and average annual inflation of 1.9 per cent for the 12 months to September.

Average annual inflation up to the September quarter 2014 was driven by a 28.4 per cent increase in tobacco prices (contributing 1.0 percentage points to overall inflation, see Chart 5.4) and a 3.5 per cent increase in Food prices (contributing 1.1 percentage points) being partially offset by 2.1 per cent decrease in the cost of housing (subtracting 0.3 percentage points).

Chart 5.4 Contribution to September quarter 2014 year average inflation



The year average inflation is estimated to increase from an average annual rate of 1.6 per cent in 2013/14 to the historical average of 3.1 per cent in the outer years as shown in Chart 5.5. This is slightly higher than the New Zealand target rate.

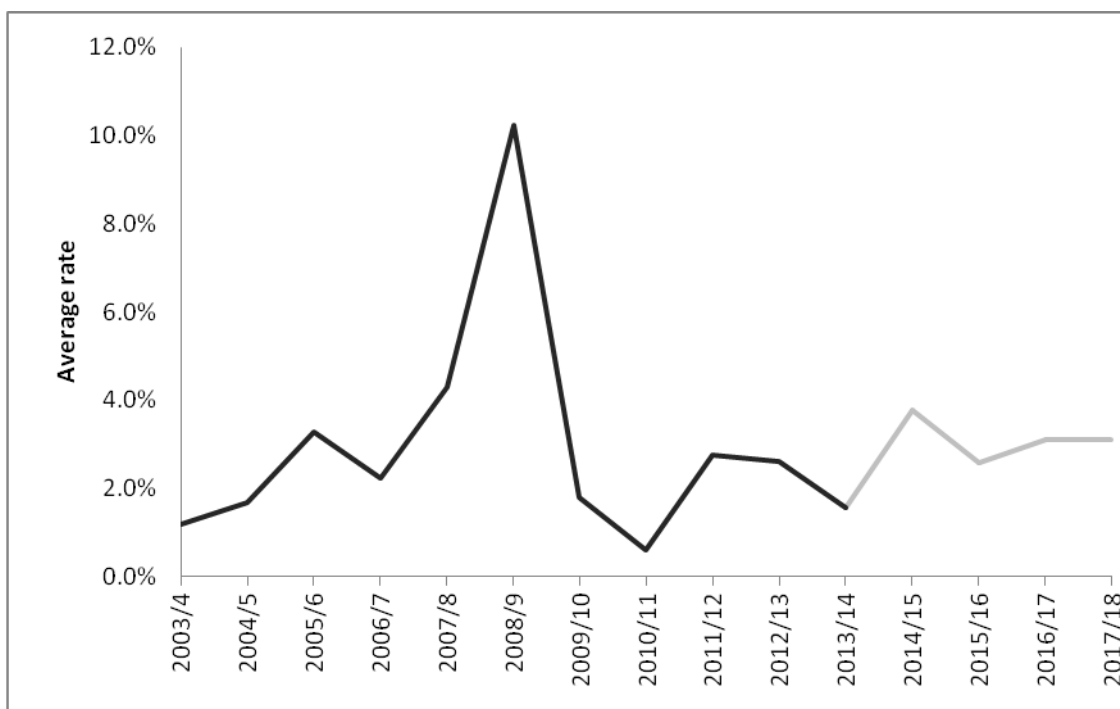
The exception to this is 2014/15, which will bear the full inflationary effect of the VAT from 1 April 2014, with an estimated average annual inflation of 3.8 per cent. This is a significant downward revision from previous estimates of 4.6 per cent. While food, tobacco and alcohol appear to be following the expected price changes stemming from the VAT increase on 1 April, price changes in other areas have been relatively flat. Notably, the prices in key areas such as household operations, housing and transportation have fallen, providing relief to household budgets. Indeed, the price increases in tobacco have been the major driver behind CPI increases since 2013, when the duty on wholesale tobacco was increased by 33 per cent.

There are substantial risks surrounding these forecasts. A decline in the New Zealand dollar from its historic highs would be expected to have an inflationary impact on the Cook Island economy through higher import prices. Similarly, fuel prices have remained relatively stable in recent times, and any increase from current prices could have a dramatic effect on the prices of all imported goods, which

make up the bulk of consumer items (as occurred in 2007/08 and 2008/09).¹ Issues surrounding retailers using the increase of the VAT to price gauge also presents a risk, although this has been partially factored into the forecasts for 2014/15.

Recent quarterly inflation figures have been less than expected both in the Cook Islands and New Zealand. If this were to continue, inflationary pressure on the economy may be much less than anticipated over 2014/15.

Chart 5.5 Consumer Price Index (CPI), year average, 2003/04 – 2017/18



5.4 Tourism

Tourism remains the largest industry in the Cook Islands, accounting for around 60 per cent of the economy. The Cook Islands has experienced record tourism arrival numbers almost every year since 2001 and 2013/14 was no exception, with another record year.

However, as predicted at the time of the 2014 PEFU, growth in tourism arrivals continued to slow from 3.2 per cent growth in 2012/13 to 1.6 per cent growth in 2013/14 (2013/14 was forecast to grow at 1.7 per cent). The strong growth experienced from New Zealand and Australian markets likely to have peaked over 2010 to 2012 and a return to double digit growth in the near term is unlikely. Subsequently, tourist arrival forecasts have been further revised downwards.

Reflecting ongoing softness in key markets, tourist arrivals are forecast to contract 0.5 per cent in 2014/15, the first fall in arrivals since 2007/08. Subdued growth of 0.9 per cent is predicted for

¹ As part of assembling forecasts for this publication, a more thorough analysis of New Zealand’s domestic inflation and its impacts on the Cook Islands was undertaken. A regression analysis suggests that around 10 per cent of the variation in current Cook Islands inflation can be related to either the 3-month lag or the current-period New Zealand goods inflation, with up to 80 per cent of the variation being unrelated to New Zealand goods inflation (even when both time periods are used). While this is not a complete analysis, it suggests that price shocks in New Zealand goods may not *always* translate to price shocks in the Cook Islands. Using New Zealand export price indices may provide further guidance in this area and may assist in assembling future forecasts.

2015/16. This is a downward revision from the PEFU estimates of 1.7 per cent for 2014/15 and 1.9 per cent for 2015/16 due to lower than expected arrivals so far this financial year.

Current year-to-date arrivals (January-August) are 0.9 per cent higher than the similar period in 2013, but the last three months (June-August) are 2.6 per cent lower than the same period last year.

New Zealand remains by far the largest market at 65 per cent of total arrivals in 2013/14, a slight fall in the share of total arrivals from 2012/13.

Australia has a smaller, but increasing share (18 per cent, up 2.9 percentage points in the last four years) which is offsetting the declines experienced in European markets.

The average stay is estimated at around 8.0 days, with this average heavily influenced by the level of New Zealand and Australian arrivals. The average daily spend (including accommodation) is estimated to be around \$200-230 per visitor (including children), but varies by time of year and by tourist source market.

Chart 5.6 Total monthly visitor arrivals (12 month moving average) 2005-2017

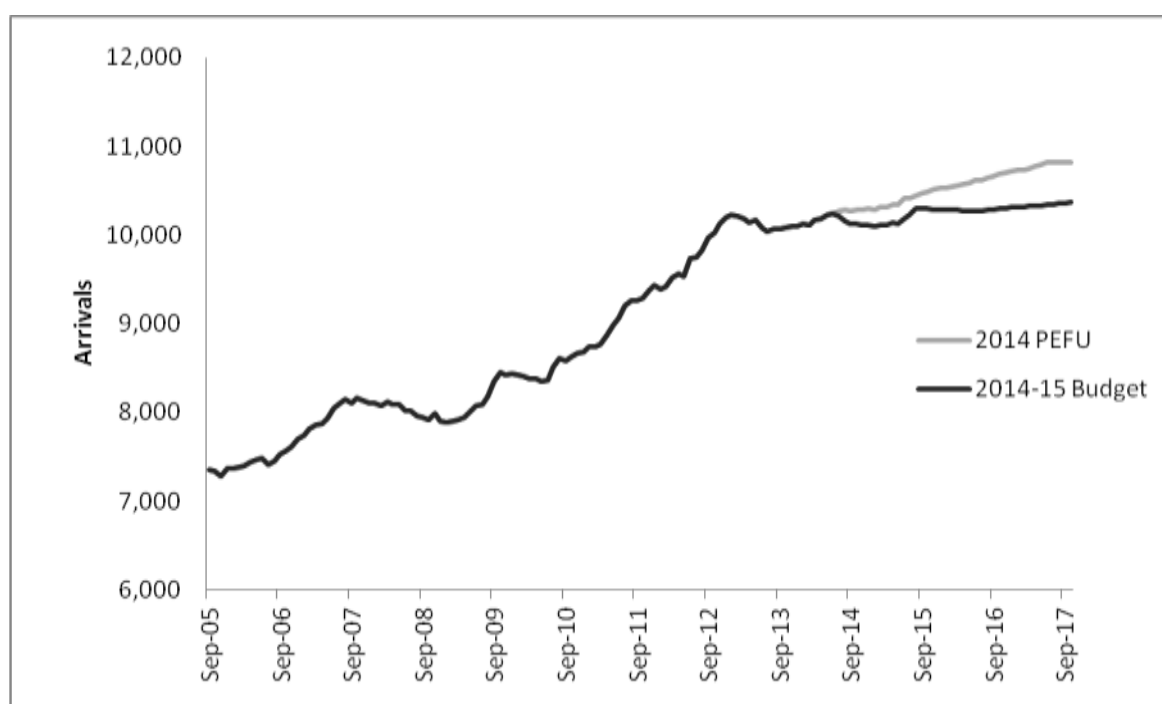


Table 5.3 Actual and forecast total tourism numbers by quarter 2012/13 to 2017/18

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2012/13	39,113	31,571	20,493	29,732	120,909
2013/14	39,031	31,902	21,294	30,627	122,854
2014/15	37,722	31,724	21,300	31,400	122,200
2015/16	39,100	31,600	21,200	31,300	123,200
2016/17	39,300	31,900	21,300	31,600	124,100
2017/18	39,500	32,200	21,500	31,900	125,000

In the lead up to the Pacific Island Leaders Forum in July/August 2012, which led to a record number of arrivals, it was evident that capacity constraints are an issue in Rarotonga. July 2012 continues to be the benchmark for the maximum number of arrivals that Rarotonga can be expected to reasonably handle until new capacity comes online (which may be as soon as late 2014). Continued

private investment will be required to sustain industry growth during the peak months, although the downward revision in tourism forecasts for 2014/15 has relieved this pressure in the medium term.

Table 5.4 Rising capacity utilisation of Cook Islands tourism sector, 2011/12 – 2016/17

Year	Average capacity	Months with arrivals of between...				Estimated lost arrivals
		80-90 per cent	90-94 per cent	95-98 per cent	99-100 per cent	
2012/13	73.0 per cent	2	2	0	1	
2013/14	74.1 per cent	2	2	1	0	
2014/15	73.7 per cent	4	0	1	0	
2015/16	74.4 per cent	3	1	1	0	0
2016/17	74.9 per cent	3	0	1	1	107
2017/18	75.4 per cent	1	2	1	1	217

Due to the downward revision in the arrival forecasts, and an increase in some types of accommodation, capacity constraints are not as dramatic as they once were over the forecast period. Slower growth in arrivals will provide more time for new investments to come online in a timely manner. However, after a short reprieve in 2014/15 and 2015/16, it is expected that July is back at full capacity from 2016/17, with significant strain in August (95-99 per cent capacity utilisation). Increasingly, arrivals are being loaded onto the latter half of the calendar year.

While growth has been relatively muted in 2013/14, and has been revised downwards overall, the capacity of the tourism sector (be it management capacity or additional capital investment) needs to expand if arrivals are expected to continue. The overall Tourism Corporation strategy of increasing arrivals in non-peak times may be able to increase the capital returns of the industry in the short term, thereby encouraging more investment, but increases in value offerings or capacity will be needed so long as Australia and New Zealand remain the major tourist markets.

5.4.1 New Zealand

New Zealand continues to be the Cook Islands' leading market for visitors, accounting for an estimated 65 per cent of the total market (or 80,251) in 2013/14.

Over the past ten years, New Zealand arrivals have grown an average of 9.5 per cent a year – a phenomenal level of growth with New Zealand arrivals more than doubling over that period (increasing by 140 per cent). Outbound tourism from New Zealand only grew 37.3 in total per cent over the same period, an average of 4.6 per cent a year. This represents a large shift in New Zealand tourist preferences towards the Cook Islands over other destinations. This is supported by the results of the recent visitor survey which estimates that 47 per cent of visitors from New Zealand are return visitors – an impressive achievement for the tourism industry.

However, in 2012/13 outbound tourist growth from New Zealand fell to 1.4 per cent, the lowest growth since 2000 (the earliest data publically available). New Zealand arrivals into the Cook Islands followed a similar trend, with growth in New Zealand arrivals falling to 2.9 per cent for 2012/13, the third lowest growth outcome in 12 years, and well below the 8.1 per cent growth experienced in 2011/12.

Similarly, growth in arrivals slowed further in 2013/14, with arrivals from New Zealand only increasing 0.5 per cent, the slowest growth in New Zealand arrivals since 1997/98.

Going forward, New Zealand arrivals are expected to decline by 0.5 per cent in 2014/15, due largely to poor performance in July and August (when compared to the stellar performance in previous years). With the recent performance of New Zealand arrivals, as well as the slowdown in outbound New Zealand tourists, New Zealand arrivals are expected to grow by 0.5 per cent in 2015/16 and 0.4

per cent in 2016/17 – a significant revision. The long term trend is also projected to be much lower than historical performance would suggest, at around 0.4 per cent. These forecasts are based on recent performance, greater anticipated competition for New Zealand tourists from other Pacific destinations, and a strong New Zealand dollar reducing relative price competitiveness.

Chart 5.7 New Zealand monthly visitor arrivals (12 month moving average) 2005-2017

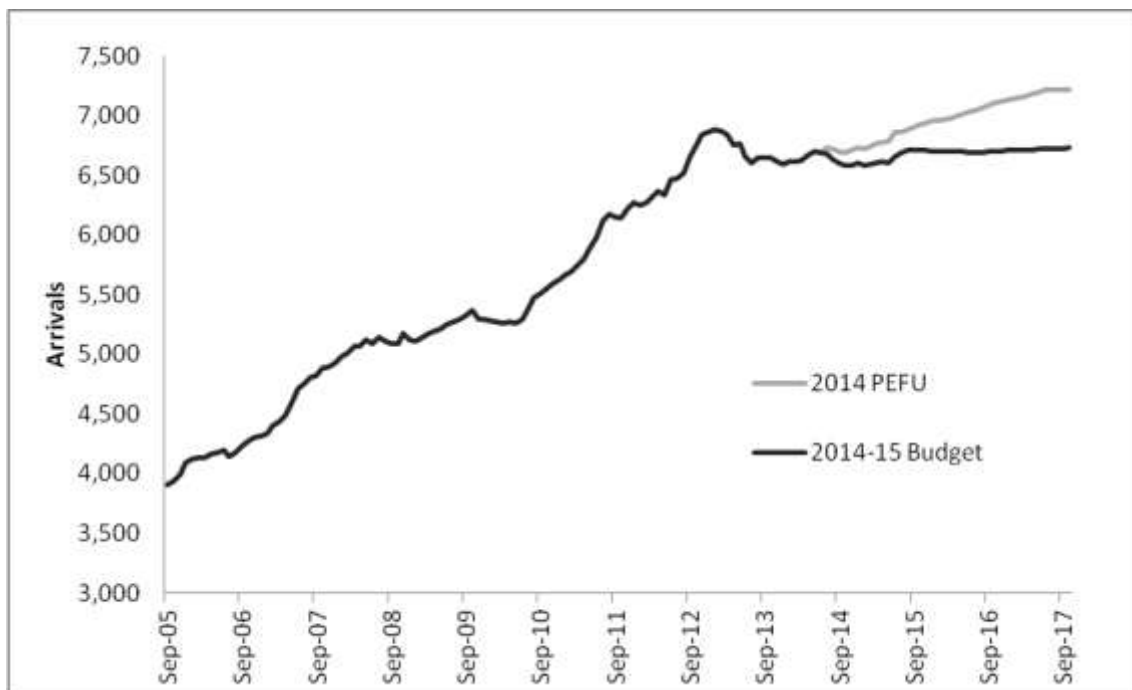


Table 5.5 Actual and forecast New Zealand tourism numbers by quarter 2012/13 to 2017/18

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2012/13	28,482	19,933	11,272	20,148	79,835
2013/14	28,382	19,323	11,666	20,880	80,251
2014/15	27,388	19,262	11,700	21,500	79,900
2015/16	28,000	19,200	11,700	21,400	80,300
2016/17	28,100	19,300	11,700	21,500	80,600
2017/18	28,200	19,400	11,800	21,700	81,000

5.4.2 Australia

The Australian market is the second largest tourism market to the Cook Islands, accounting for approximately 18 per cent of the total market share.

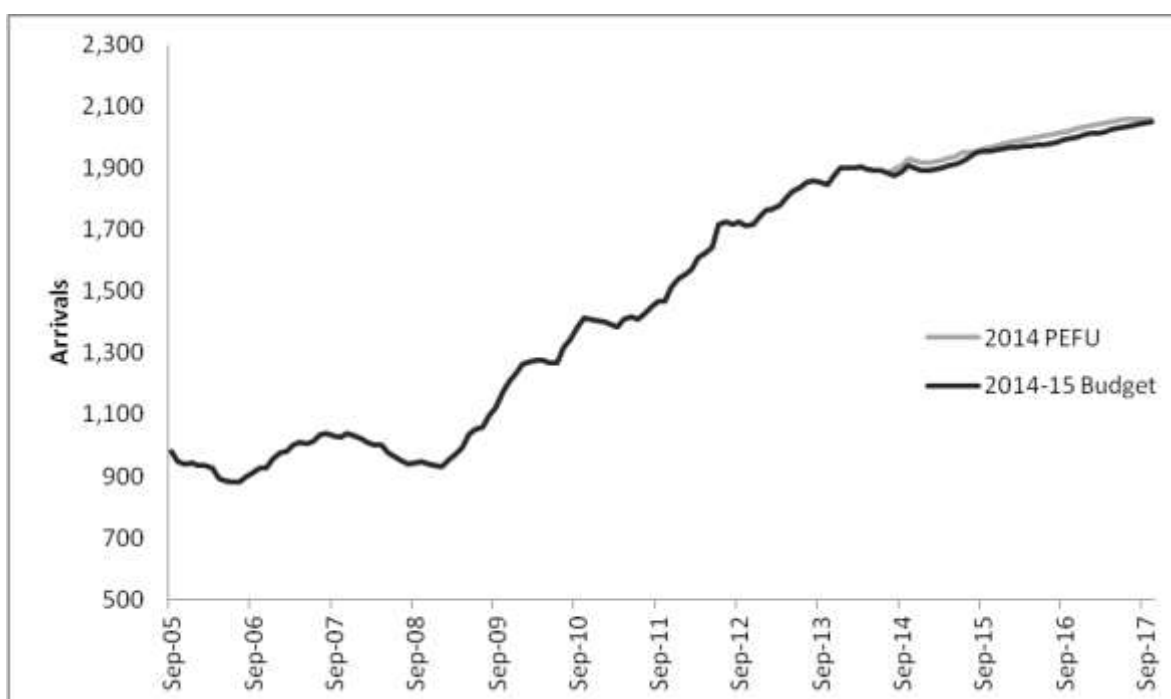
Australia has been experiencing a boom in outbound tourism growth. In the last ten years Australian outbound tourism has grown by 112 per cent, an average of 9.3 per cent a year. To compare, Australian arrivals to the Cook Islands have increased 97 per cent, or an annual average of 7.5 per cent. While the growth in tourist arrivals from Australia has been impressive, the main driver of this appears to be the overall growth in Australian tourists, rather than the Cook Islands increasing its market share. Indeed, with the exception of the last two years, the Cook Islands' share of Australian outbound tourism fell across the period.

After growing an impressive 7.0 per cent in 2012/13, Australian arrivals slowed significantly in the last half of 2013, a trend that was expected to continue into 2014. Estimates from the PEFU are been largely unchanged, with Australian arrivals meeting expectations.

Due to fewer arrivals than expected in July and August, the growth in arrivals for 2014/15 is expected to be around 1.6 per cent. Growth is then assumed to follow the outbound tourist numbers coming from Australia. Using Australian-based industry forecasts as a proxy for Australian arrivals into the Cook Islands, it is estimated that Australian arrivals will grow by 2.9 per cent in 2015/16, before slowing to 2.8 per cent growth in 2016/17 and 2017/18.²

The expected change in fleet from a Boeing 767 to a Boeing 777 on the underwritten Sydney route presents an opportunity to improve fare competitiveness with other destinations in the region (notably Fiji), but also presents the financial sustainability risks of the current strategy if arrival numbers are unable to meet expected targets.

Chart 5.8 Australia monthly visitor arrivals (12 month moving average) 2005-2017



² These are conservative forecasts that assume that the Cook Islands' market share of Australian tourists does not change dramatically over the forecast period. Historically, evidence has been mixed, with 2013/14 showing a falling share of the outbound market, but 2011/12 and 2012/13 showing an increasing share.

Table 5.6 Actual and forecast Australian tourism numbers by quarter 2012/13 to 2017/18

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2012/13	5,854	6,528	4,157	5,513	22,052
2013/14	6,064	7,068	4,196	5,362	22,690
2014/15	6,043	7,111	4,300	5,600	23,100
2015/16	6,400	7,200	4,400	5,700	23,700
2016/17	6,600	7,400	4,500	5,900	24,400
2017/18	6,800	7,700	4,600	6,000	25,100

5.4.3 Other major markets

Outside of the two major markets, growth in tourist arrivals continues to remain relatively weak. The European and Canadian markets have continued to decline from the historic highs experienced in 2000/01. While North American and Canadian markets have shown some recent resilience, growth moving forward is expected to be relatively flat. Asia and other markets continue to remain relatively minor contributors.

Arrivals from other major markets grew 4.7 per cent in 2013/14, due to increases from Asian and US market and relatively stable numbers from Canada and Europe. Continued economic issues for most of the EU countries are likely to contain any future growth from this market. Improved economic recoveries in North America and Asia hold some promise for potential growth from these markets. European arrivals are expected to fall 4.3 per cent in 2014/15 on the back of relatively weak growth in the European area, before falling a further 3.6 per cent in 2015/16. US arrivals are expected to hold at around 4,900 for 2014/15 before growing 4.5 per cent in 2015/16. A chartered flight from China in early 2015 will add significantly to Asian arrivals in 2014-15, but this is assumed to be a one-off improvement.

Key risks and opportunities in the non-Asian markets relate to the future of the underwritten route to Los Angeles. The significant increase in capacity and associated reduction in per-seat costs present an opportunity to keep fares low and encourage greater arrivals from those markets, but if growth does not improve, the additional expense of the larger aircraft could risk the financial sustainability of the current strategy.

Chart 5.9 Other major markets monthly arrivals (12 month moving average) 2005-2017

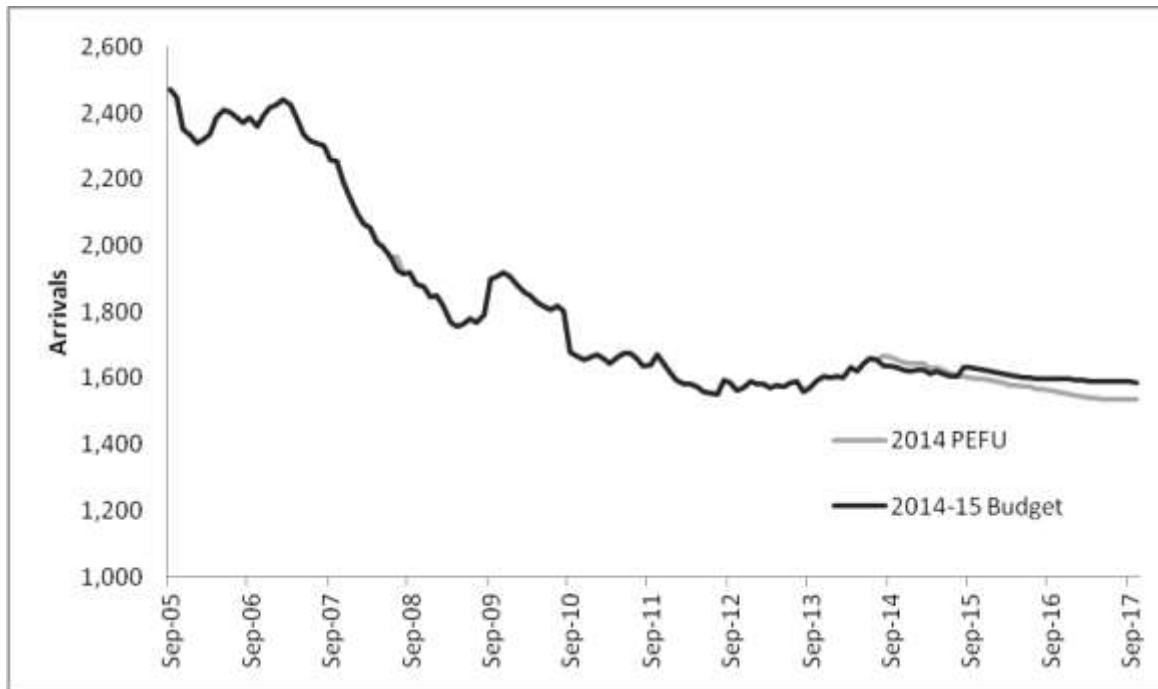


Table 5.7 Actual and forecast tourism numbers by quarter 2012/13 to 2017/18

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2012/13	4,777	5,110	5,064	4,071	19,022
2013/14	4,585	5,511	5,432	4,385	19,913
2014/15	4,292	5,350	5,300	4,300	19,200
2015/16	4,600	5,200	5,200	4,200	19,200
2016/17	4,600	5,200	5,100	4,200	19,100
2017/18	4,600	5,100	5,100	4,200	18,900

5.5 Marine Resources

The Cook Islands' marine sector is predominantly made up of tuna fisheries and to a smaller degree black pearls. Recently, exports have been dominated by fresh fish (mainly tuna). In 2013/14, fresh fish exports were \$12.1m, an almost 2.5 per cent increase from 2012 exports.³

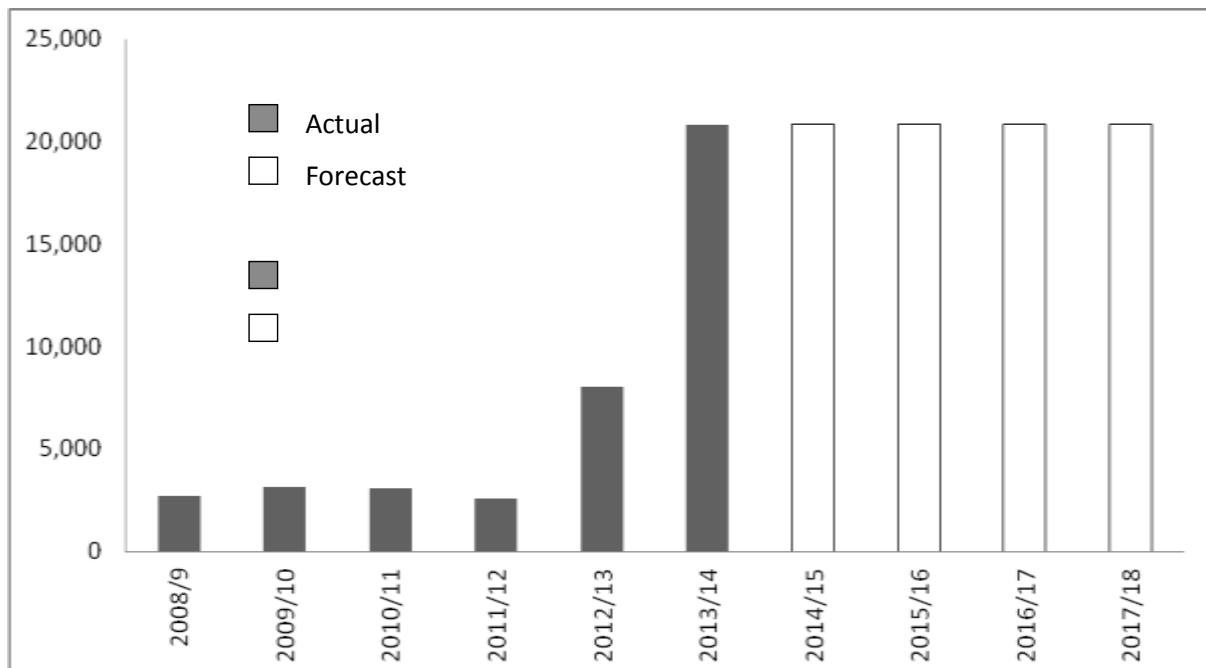
Other marine exports include live fish for aquarium trade and black pearls. Although in 2012/13 the exports of these products were at a historical low of \$57,000 for live fish and \$241,000 for black pearls.

The recent increases in fresh fish exports are significantly greater than the previous annual average from 2006-2011 of around \$2.5 million dollars per year. The recent increase in exports are attributed to efforts to encourage the foreign fishing fleets to offload more of their catches into Rarotonga.

Since 2012, a Taiwanese fishing company has operated two fish carrier vessels to offload its fresh catches into Rarotonga. This offloading is done in partnership with a domestic Cook Islands fishing company. The tuna are exported by airfreight to markets in Japan, U.S and New Zealand.

The main direct revenue derived from fishing activities for government continues to be the licensing revenue received by the Ministry of Marine Resources from treaties and fishing licenses – estimated at \$5.5 million in 2013/14 comprising of \$2.1 million from foreign purse seiners, \$3.0 million from foreign longliners and \$0.4 million from Cook Islands flagged longliners.

Chart 5.10 Domestically Processed Fish Exports 2008/09 to 2017/18, (\$000)



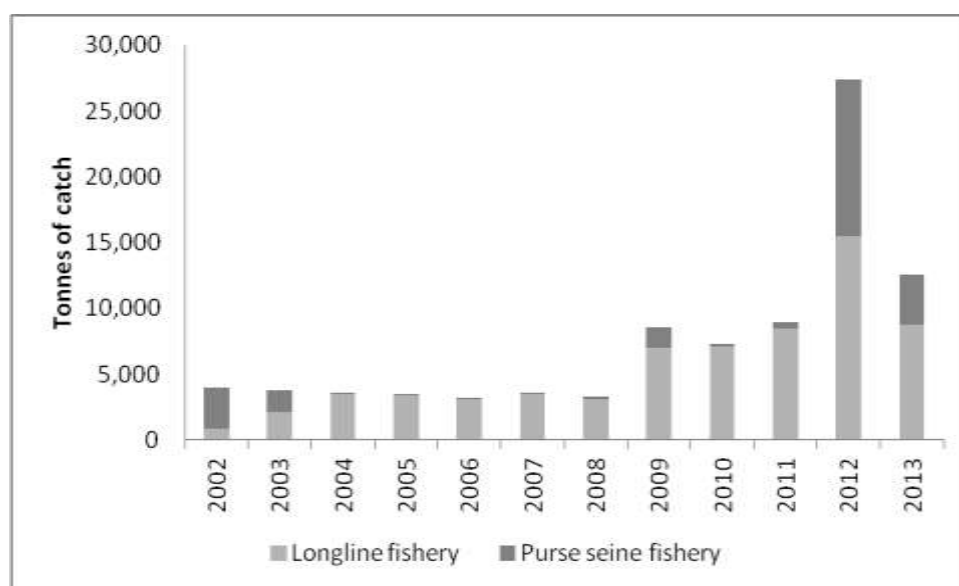
³ Fish exports (as counted by the Cook Islands Statistics Office) includes any catch landed at Avatiu harbour and excludes fish caught in Cook Islands waters that are offloaded in Pago Pago. The catch landed in Avatiu does not necessarily need to be processed onshore, and includes catch that is simply trans-shipped from one vessel to another. As such, the value of fish exports to the Cook Islands economy is likely to be less than what exports suggest as the value of the catch is not captured by local production.

5.5.1 Fishing

The Cook Islands Exclusive Economic Zone is divided into a Northern and Southern fishery. The majority of fishing takes place in the Northern fishery where the waters are more stable and productive. The main fishing grounds are from Penrhyn in the east to Pukapuka in the west, and south of Suvarrow.

Since 2002 the main fishery in the Cook Islands EEZ has been long lining for albacore tuna which is offloaded frozen to the cannery in Pago Pago. Many of the fishing vessels are based in Pago Pago or Fiji. From 2009 onwards, the Cook Islands fishery has diversified and expanded from three thousand tonnes of mainly longline catches in 2008 to 27 thousand tonnes of longline and purse seine catches in 2012.

Chart 5.11 Fishery Catch in the Cook Islands Exclusive Economic Zone



In 2013 there were a total of 17 Cook Island flagged longliners, 26 foreign flagged longliners and 17 foreign purse seiners that fished within the Cook Islands waters (Table 5.8). In addition two foreign flagged carrier vessels and four Cook Island flagged vessels operated exclusively on the high seas. This brings the total number of licensed offshore fishing vessels managed by the Ministry of Marine Resources (MMR) to 66 fishing vessels.

Table 5.8 Number of licensed and active fishing vessels

Licensed and active vessels	2012	2013
<i>Offshore fishery</i>		
Long liner	60	45
Purse seiner	16	17
Other commercial	4	4
Total	80	66
<i>Local artisanal and game fishery</i>		223

The total catch for the longline fishery in 2013 was 8,500 tonnes with an estimated landed value of \$28 million dollars (Table 5.10), a reduction from the 15,500 tonnes caught in 2012 due to a fall in the number of vessels.

Table 5.9 Fishery Catches in the Cook Islands EEZ by Species

	2012		2013		
	<i>Longline</i>	<i>Purse Seine</i>	<i>Longline</i>	<i>Purse Seine</i>	<i>Local</i>
Albacore	8,800	-	6,500	-	1
Bigeye	2,800	100	500	60	<1
Yellowfin	1,800	800	900	300	180
Skipjack	-	11,000	900	3,400	10
Other	2,100	-	-	-	80
Total	15,500	11,900	8,800	3,760	270

Table 5.10 Landed value of fishery catches (\$m)

Landed value	2012	2013
Longline fishery	40	32
Purse seine fishery	25	9
Local artisanal and game fishery		2
Total	65	43

The total catch for the purse seine fishery in 2013 (from June 2012 to June 2013) were 3,800 tonnes, with a landed value of \$9 million dollars, down from the 11,900 tonnes in 2012 when there was a spike in interest by US purse seiners in the Cook Islands waters.

The recorded catches in artisanal and game charter fishery was 212 tonnes from 9 out of the 12 inhabited islands. The total estimated catch in 2013 was 270 tonnes. The landed value assuming an average price of \$8 per kilogram of round weight is \$2.2 million dollars.

In 2013, there were 240 tonnes of fresh offshore fishery catches offloaded into Rarotonga for fresh airfreight export and local consumption. Most of the exported tuna are the high value bigeye tuna and the export grade yellowfin tuna.

Additional to fresh catch, in 2013, 340 tonnes of frozen offshore catch were offloaded by the foreign owned Cook Islands registered company Huanan Fishery Ltd into Rarotonga. These catches were mainly trans-shipped from the fishing vessels into container ships for overseas markets. Approximately 40 tonnes of by-catch was sold locally. It was estimated that over \$0.4 million of direct expenditure was incurred during the offloading process into the local economy, mainly through fuel purchases, employment, food provisions and port charges.

In 2014 the Huanan Fishery Ltd intends to expand the offload of catches into the port of Rarotonga to 2,500 tonnes. As of August 2014 the company has offloaded 900 tonnes of frozen catch for 2014.

The 2014 purse seine catches are already registering peak catches under the US Fishery Treaty. As of April 2014, nine months into the annual reporting cycle, there have been approximately 16,000 tonnes of catch recorded. The Cook Islands has also begun a dual payment system of receiving catch revenues, whereby a regional portion of the catch is paid on a catch tonnage basis and additional catch revenues acquired by selling fishing days in advance on a bilateral basis. So far 400 additional fishing days have been sold to the US treaty under the bilateral arrangement at a rate of USD5,000 a day.

In 2014 it is anticipated that a purse seine fishing day rate will increase to USD 8,000 per day.

The spike in purse seine fishing activity by the US treaty fleet in the Cook Islands water is attributed to newly established regional quotas set out by the Western Central Pacific Fisheries Commission

(WCPFC) which has assigned a national annual allocation of 30,000 tonnes and 1,250 fishing days to the Cook Islands.

In 2014, MMR is proposing to introduce a quota system to limit the longline catches caught in its EEZ for albacore and bigeye tuna. This will ensure catches are restricted to sustainable levels. MMR will continue its efforts to seek compatible catch limits on the high seas to ensure overfishing does not occur at the regional level. There continue to be significant potential growth prospects for the Cook Islands fishery:

- The local fishery is an important economic activity supporting the game-charter operators, semi-commercial sales and subsistence fishing. The local fishery has recorded good catch rates in 2013 with significantly increased catches around Rarotonga in 2013 attributed to the deployment of fish aggregate devices (FADs). Sustained catches can be expected provided these FADs are properly resourced and maintained.
- There is potential for high valued airfreighted export for fresh high quality fish. The medium term targets of 1,000 tonnes per annum are feasible provided the market demand, particularly in the US and Japan, is sustained and there are regular airfreight links.
- The offloading of frozen longline catches into Rarotonga is expected to continue to expand. A medium term target of 6,000 tonnes offloaded into Rarotonga per annum is feasible. The logistical constraints and costs for offloading into Rarotonga will determine whether there are further prospects for value added processing activities. Onshore processing is encouraged as this would lead to wider economic benefits.
- The purse seine fishery is likely to become the most significant source of licensing revenue for the offshore fishery. The Cook Island total allowable catches of 1,250 days or 30,000 tonnes equates to a conservative licensing value of around \$11 million dollars per annum. Combined with current licensing revenue from the longline fishery of around \$3 million, the total licensing revenues are expected to be in the order of \$14 million per annum.

5.5.2 Pearls

Cook Islands pearls are sold on both domestic and international markets. The performance of the Cook Islands pearl industry is mainly assessed on the export trends over time because it is difficult to quantify the size of the domestic market.

The value of exports has continued to decline from \$1.6 million in 2009/10 to \$0.142 million for the year ending December 2013. However, the production base in terms of seeded oysters during this period has remained relatively stable at around 290,000 – 300,000 shells. In the December 2012 survey, seeded oysters were estimated at 279,000. The saleable pearl crop for 2013/14 is estimated to be 106,000 pearls – a significant increase on the 70,000 estimated for the 2013 calendar year.

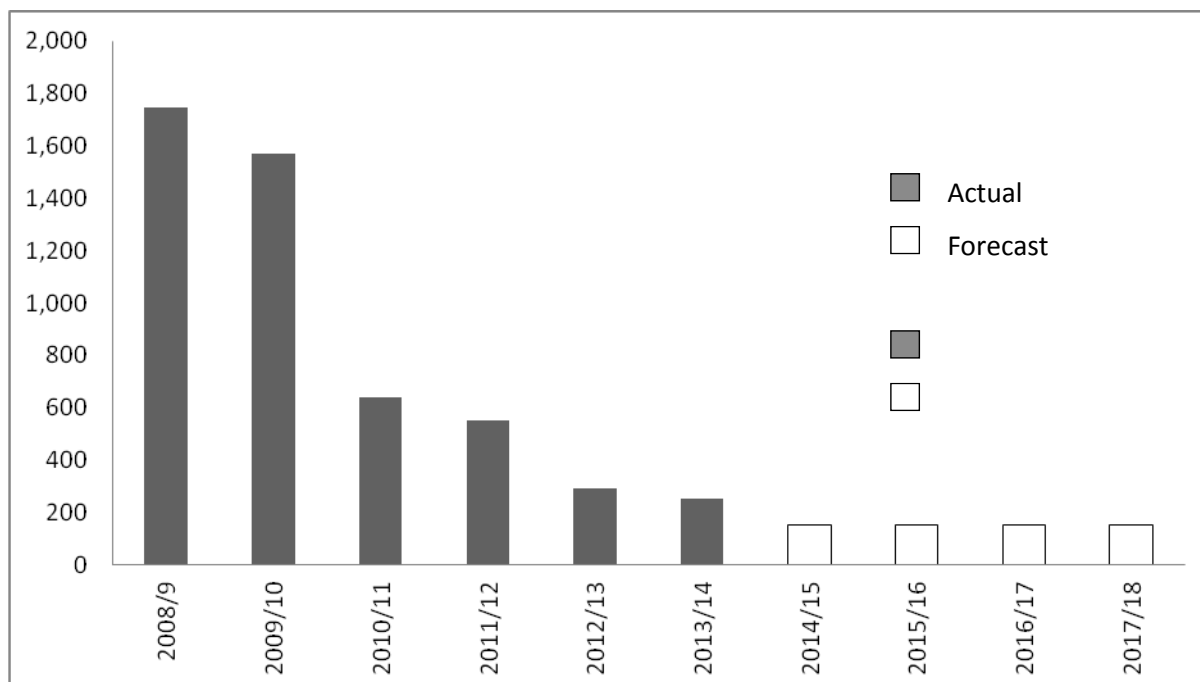
Previously, the bulk of pearls were exported with the domestic market only absorbing around 20 per cent of the annual crop. Since 2009, the declining export figures suggest that an increasing proportion of pearls are being sold on the domestic market where prices are better, or being stockpiled at the Pearl Exchange.

The current plan is to increase the production of Cook Islands pearls with the assistance of a revised pearl production revitalisation programme funded by the New Zealand Aid Programme which was approved in July 2013. Until such time that production increases are evidenced under this programme, the pearl production capacity over the next two to three years will continue to be stable and modest at around 270,000-300,000 seeded oysters, estimated to yield 106,000-115,000 saleable pearls.

The decline in international market prices for black pearls since 2009 (current prices are the lowest on record) has had a major impact on the Cook Islands pearl industry. Demand for high quality pearls from the Chinese jewellery market was beginning to be reflected in improved pearl prices by

mid-2014. It is expected that export levels in 2014/15 will continue to decline in comparison to domestic sales.

Chart 5.12 Pearl Exports (including pearl shell) 2008/09 to 2017/18, (\$000)



5.6 Agriculture

The Agriculture sector accounted for 3.2 per cent of GDP in 2013, an increase of 0.9 per cent or approximately \$8.9 million (as compared to \$6.8 million in 2012). Agriculture production and export trends appear to show some improvement for 2014, with this trend expected to continue to improve.

Agricultural food production is an important part of Cook Island cultural tradition, while also forming an important element of food security and overall nutrition. The 2011 Agricultural Census showed that 72 per cent of households in the Cook Islands are engaged in some form of agricultural, horticultural, aboricultural, or livestock activities. In Rarotonga, 67 per cent of households are engaged in agriculture food production (Agriculture Census 2011). These households vary from subsistence agriculture or backyard gardens that supplement purchased produce, to semi- and fully-commercial farming.

The 2011 Agricultural Census recorded 240 commercial or semi-commercial farmers on Rarotonga, compared to 238 farmers at the time of the 1988 Census of Agriculture.

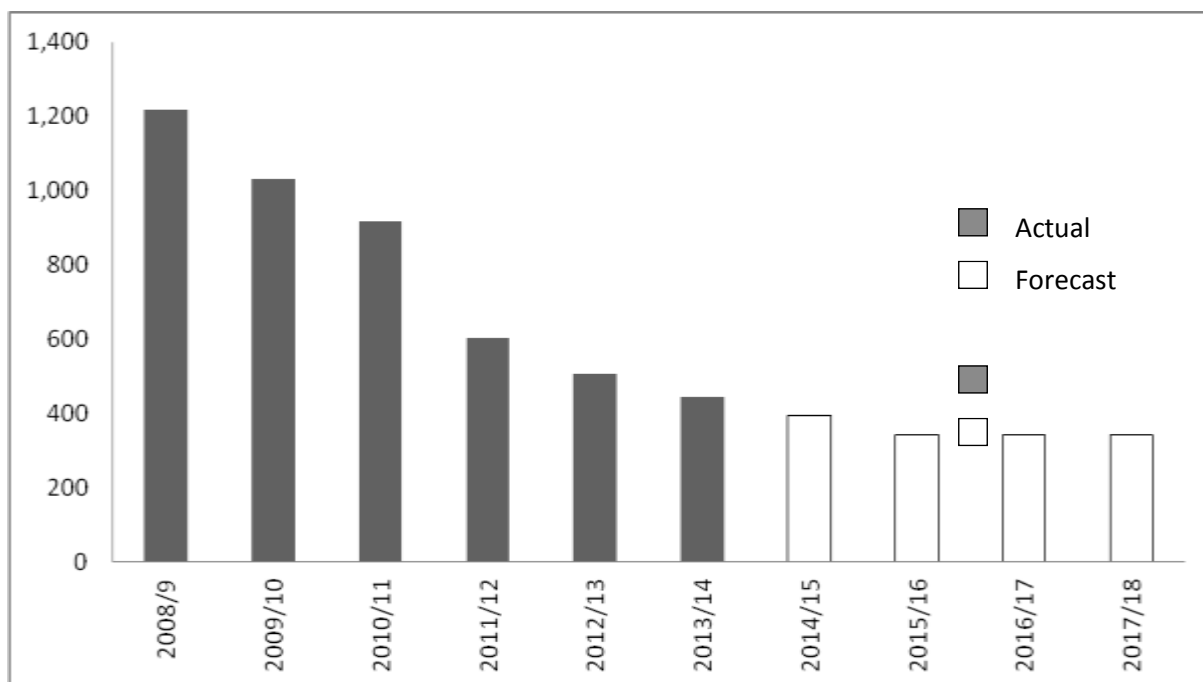
The Cook Islands has considerable potential for increased local agricultural production (drinking coconuts, root crops, ornamentals, fruits, vegetables, hydroponics vegetables, and processing and value adding products including handicraft products). However, there are numerous constraints that limit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

The Ministry of Agriculture realise the need to collaborate with other government agencies (such as Health and Education), growers associations, and other non-government stakeholders in an attempt

to address the issue of non-communicable diseases (NCDs), especially in relation to the nutritional benefits that could be derived from greater consumption of local food crops.

Current initiatives that the Ministry of Agriculture has underway include the establishment of select high valued crops such as vanilla and maire (under shade cloth) for export. In addition, the use of coconut product for high grade virgin oil and body shop cosmetics, the launching of the Cook Islands Delicious Cactai (dragon fruit), and the newly introduced Cook Islands Golden Pineapple is expected to increase availability on the domestic market from 2013/14 onwards. The forecast of agricultural products has been kept conservative until some of these initiatives show some success.

Chart 5.13 Agriculture Exports 2008/09 to 2017/18, (\$000)



Export forecasts continue to decline due to lower maire exports and no growth in the export of noni.

With regards to domestic production, there has been a marked increase in the number of hydroponic and semi hydroponic, biological/organic, and aquaponic systems in Rarotonga, Atiu, Mauke, Manihiki and Aitutaki for the supply of salad products. These products include lettuce, herbs, spring onions, bok choy and some other summer vegetables that cater for the high demands from the local restaurants, super markets and hotels. Together with household consumption, the size and growth in the tourism market suggests that there are still numerous opportunities to fill domestic demand requirements.

5.7 Goods Exports and Imports

5.7.1 Goods Imports

In 2012/13, the total value of imports to the Cook Islands was \$135.2 million, a decrease of 4.8 per cent from 2011/12. Imports for 2012/13 were predominantly made up of food and live animals (22.6 per cent); machines, transport and equipment (20.0 per cent); minerals and fuel (19.6 per cent); and miscellaneous manufactured goods (which includes finished or consumer goods) (9.9 per cent).

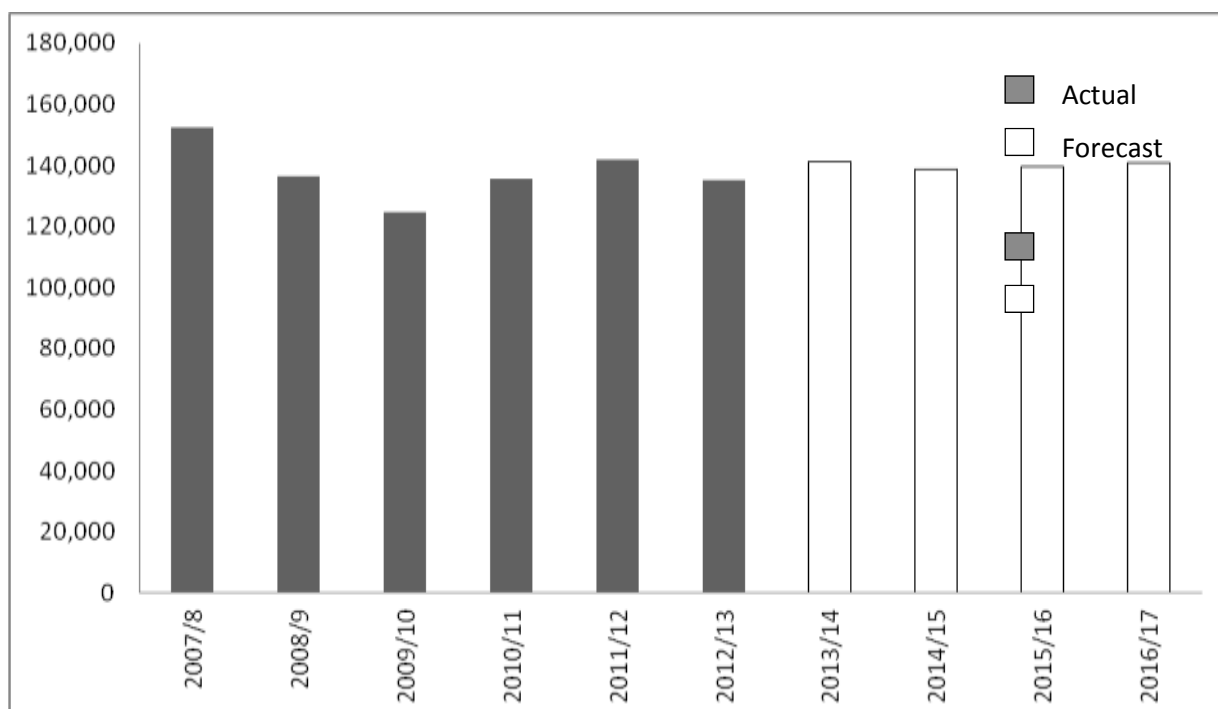
Data for the 12 months to September 2013 shows that imports decreased by 0.3 per cent from the year to September 2012. The September quarter 2013 showed 13.9 per cent higher imports as compared to September 2012, due almost entirely to a 70.7 per cent increase in machinery and equipment. In fact, without the significant contribution from machinery imports (assumedly for

construction projects) imports grew just 0.7 per cent from the previous September, and fell 6.7 per cent for the 12 months to September. This is assumed to be a one off importation of equipment for a construction project and is expected to contribute only to the 2013/14 year, before returning to trend levels in 2014/15.

Imports are expected to grow by 4.5 per cent in 2013/14, and then fall by 1.7 per cent in 2015/16 (due to the purchase of machinery in 2013/14 only affecting that one year).

New Zealand continues to be the leading exporter to the Cook Islands, accounting for approximately 68 per cent of total imports in 2013.

Chart 5.14 Value of total imports 2007/08 to 2016/17, (\$'000)



For 2012/13, it is estimated that import leakage from the Cook Islands was approximately 35 per cent – or more simply, that for every dollar spent in the Cook Islands economy, 35 cents went to foreign production. This is because of the Cook Islands heavy reliance on imported products to meet local demand (including that derived from the tourism industry).

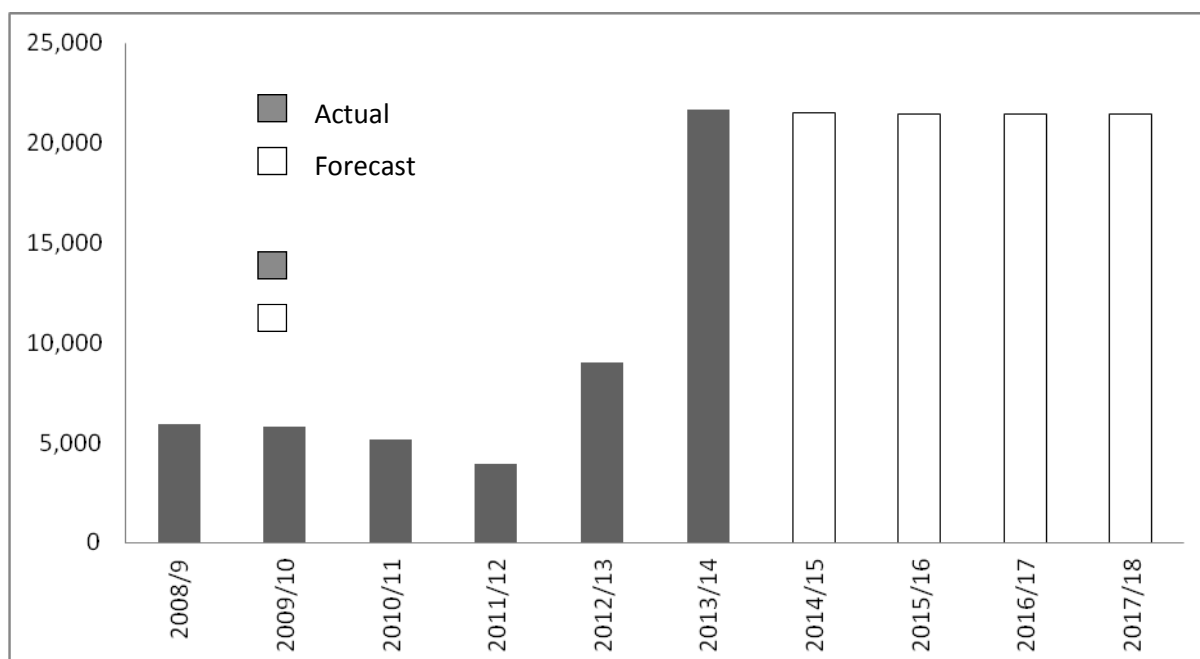
5.7.2 Goods Exports

Total goods exports in 2013/14 grew to \$21.6 million, a \$12.6 million (40.1 per cent) increase on 2012/13, driven by a \$12.8 million increase in the export of fish. The growth in fish exports is due to the arrangement with Chinese fishing vessels (Huanan) being able to offload catch at Avatiu harbour. It is notable that the all the other categories (noni, pearls, maire and other) experienced declines.

For 2012/13, it is estimated that for every dollar earned in the economy, approximately 63 cents is derived from foreign sources (although this is almost exclusively driven by tourism, with a small contribution from goods exports).

It is expected that total goods exports will decline 0.4 per cent in 2014/15, due largely to declines in non-fish exports. If the arrangement with Huanan is expanded, these forecasts will need to be revised to accommodate the additional fish exports.

Chart 5.15 Total exports 2007/08 to 2016/17, (\$'000)



5.7.3 Balance of Trade

A negative merchandise balance of \$119.8 million is estimated for 2013/14, improving to a deficit of \$117.4 million in 2014/15. The improvement is largely driven by a reduction in the import of capital machinery versus a stable forecast for exports.

Tourism dominates the services trade, with estimates for tourism spend reaching \$229.1 million for 2013/14, and \$235.2 million in 2014/15.

When estimated services trade is included, the forecast balance of trade is a surplus of \$109.5 million for 2013/14, and \$117.9 million in 2014/15.⁴ This trade surplus is expected to grow in line with increases in tourism spending rising faster than the associated increases in imports (as most tourism spending is paid to the provision of services that are produced locally).

⁴ While there are no official capital account figures, estimates of a trade surplus (when including tourism arrivals) are supported by cash holdings at Banks in Rarotonga having to be transferred to New Zealand for prudential reasons – this prevents the build-up of cash reserves normally associated with trade surpluses.

Chart 5.16 Balance of Merchandise (goods) Trade 2008/09 to 2017/18, (\$'000)

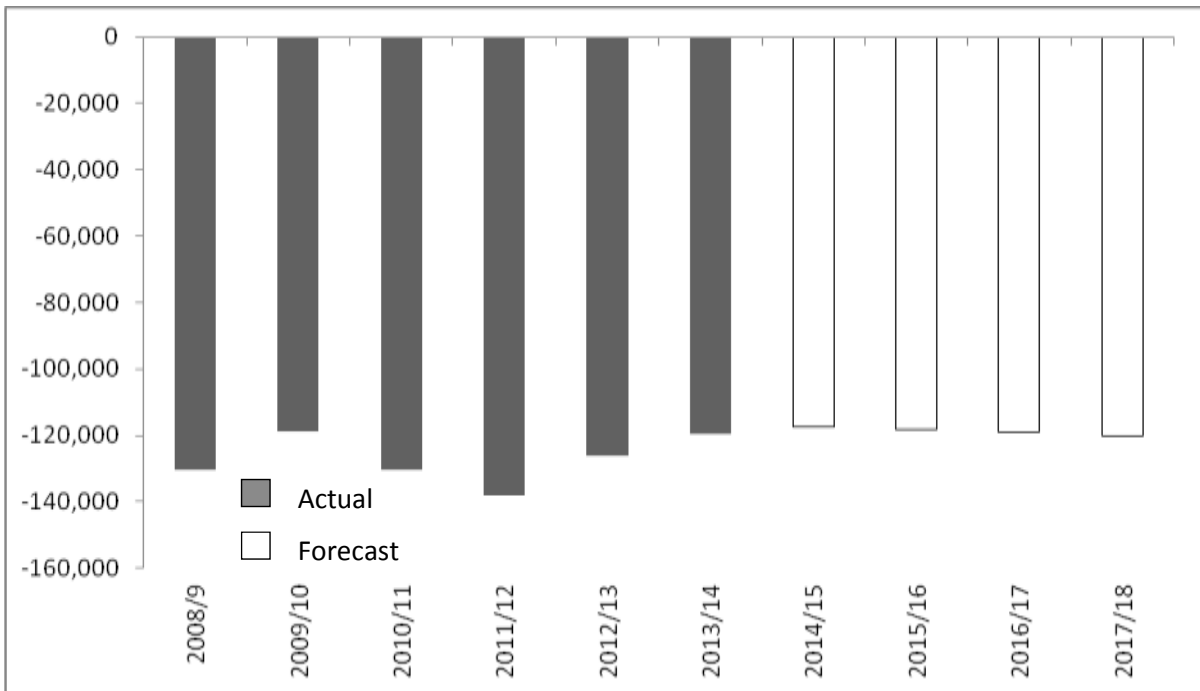


Chart 5.17 Balance of Services Trade 2008/09 to 2017/18, (\$'000)

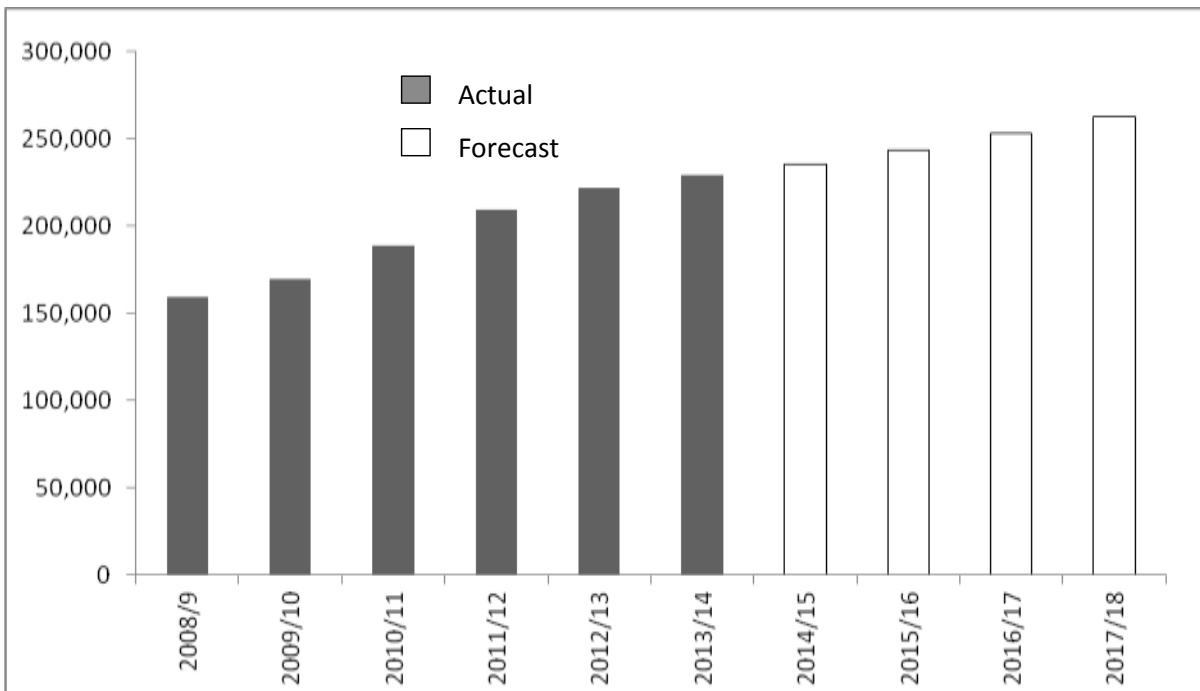
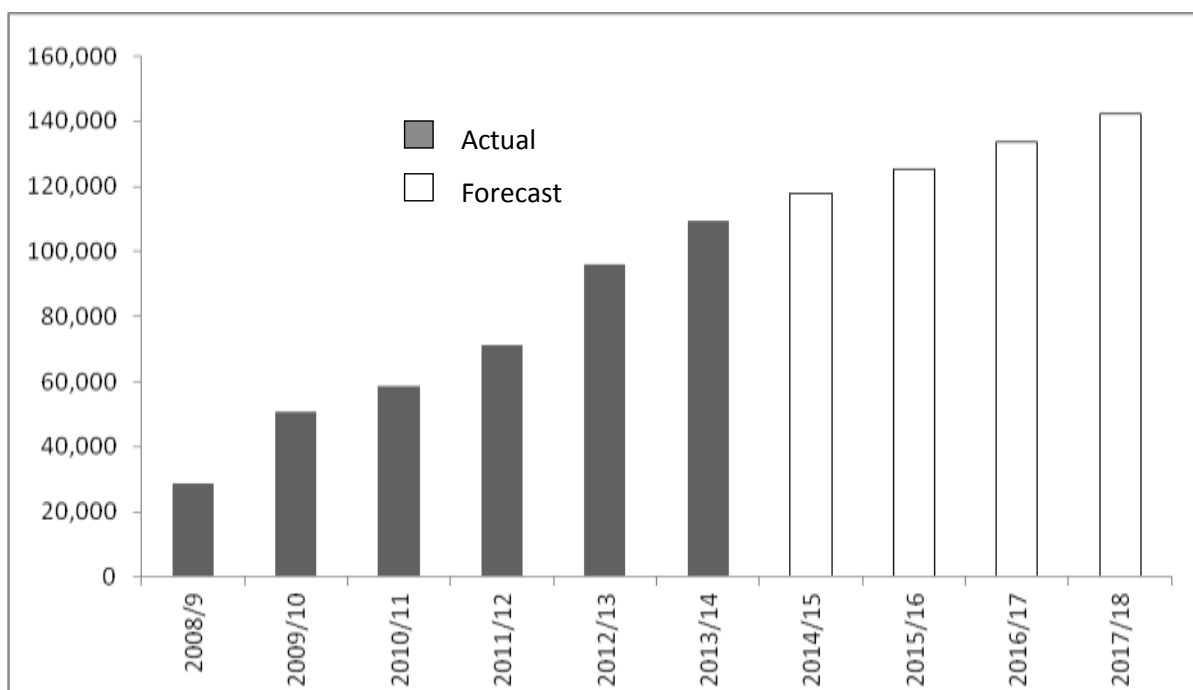


Chart 5.18 Overall Balance of Trade 2008/09 to 2017/18, (\$'000)



5.8 Banking and Finance

The Reserve Bank of Australia reports that there has been a continued improvement in financial stability with international financial markets being 'remarkably stable' for the past six months. The US Federal Reserve has committed to the final tapering off of its monetary stimulus and international markets have broadly been unaffected from the difficulties in the Ukraine and the Middle East.

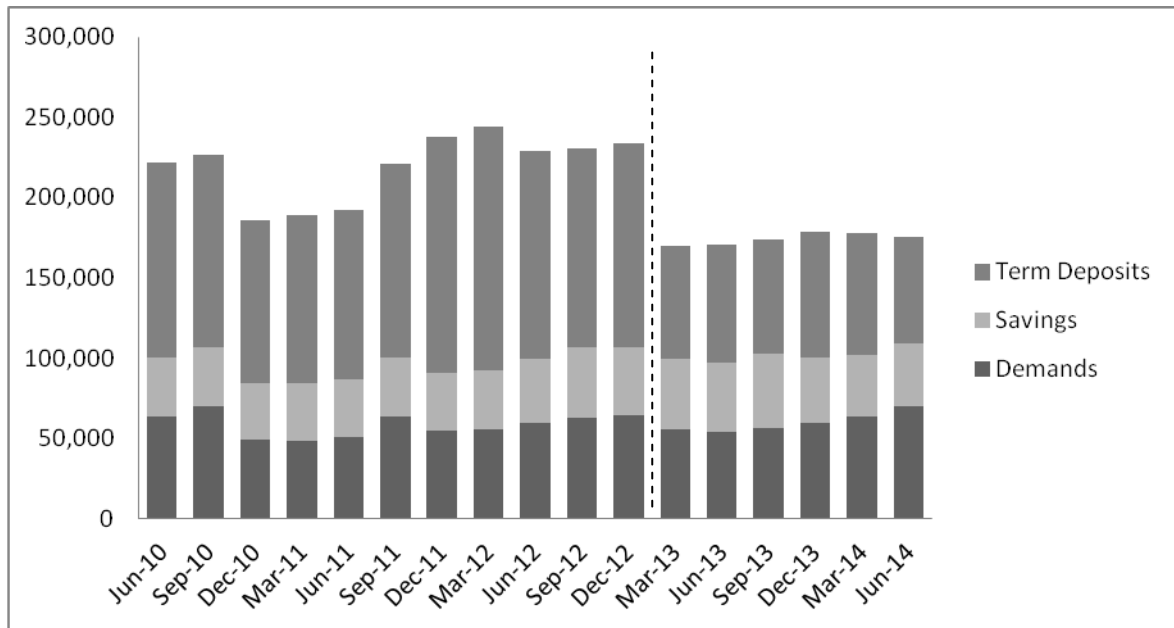
Domestically, non-performing loans and credit rationing remain an issue. The implementation of the Banking Review has been delayed, with future progress likely to be slow. According to the Financial Supervisory Commission, non-performing loans appear to have worsened slightly in 2014, to 11.1 per cent of the total loan pool.

5.8.1 Deposits

Due to a revision in the historical series from the 2013 calendar year, it is difficult to make meaningful comparisons prior to 2013. This revision includes the re-classification of codes where balances owed to other banks have now been removed from term deposits and hence the dramatic decrease in reported deposits from December 2012 to March 2013.

Total deposits increased by \$16.4 million between June 2013 and June 2014, to a total of \$175.3m. At \$109.5m, non-term deposits are the second highest on record.

Chart 5.19 Total Value of Deposits, June 2010 to June 2014, (\$000)

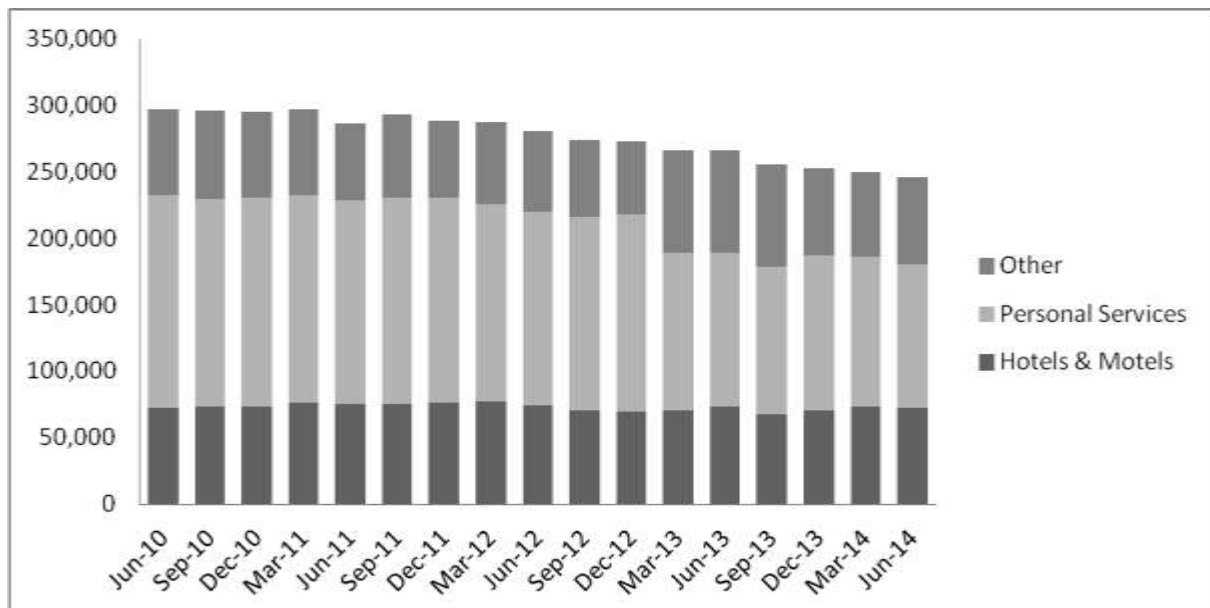


5.8.2 Loans

The overall total value of loans has been in a slow but steady decline since 2008, due largely to declines in personal credit. Total loans fell from \$266.3 million in June 2013 to \$246.1 million in June 2014 due largely to an \$8.1 million decline in personal loans.

The on-going portfolio of non-performing loans, together with lenders engaging in credit rationing, is expected to weigh on loan growth going forward. Demand for credit is also assumed to remain weak, with most industries showing little change (or small declines) in overall levels of credit in the past five years.

Chart 5.20 The Total Value of Loans, June 2010 to June 2014, (\$000)



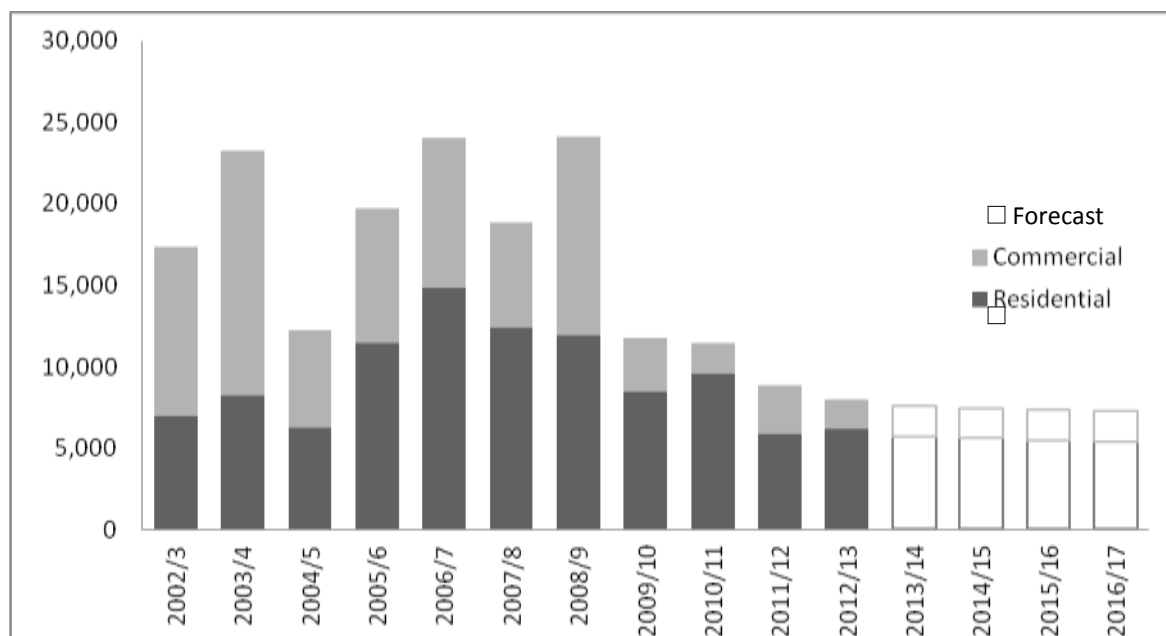
5.8.3 Housing and Construction

The value of building approvals has been in a steady decline since 2008/09 driven by both commercial and residential construction.

The value of approvals for residential construction fell 5.7 per cent between the March quarter 2013 and the March quarter 2014, to a total value of \$5.8 million. Residential activity is currently estimated to fall by an annual average of 2.1 per cent for each of the forecast years.

Commercial building approvals were not forecast due to their volatility and sometimes long lead time before construction begins. However, there are significant upside risks to the current level of commercial construction, with the Nautilus Resort likely to add significantly to activity in 2014.

Chart 5.21 Value of building approvals 2002/03 to 2016/17 (\$000)



5.9 Financial Services Industry

The financial services industry is estimated to collect fees of a net value of \$1.43 million for services undertaken in 2013/14. In 2014/15, net value of services is expected to be slightly lower at \$1.40 million due to changes USD exchange rates, as registration fees are generally denominated in USD.

There has been slight decline in trust and limited liability company (LLC) registrations and an increase in company registrations for 2013/14. The Financial Supervisory Commission estimates no annual growth in the number of new international companies, LLCs, trusts and foundations registrations in 2014/15. Foundations are being registered at a slow rate. Captive Insurance is the newest service, with legislation passed in June 2013. It is expected the first captive registration may occur during the 2014/15 Budget year.

New products and services as well as amended legislation for existing services are part of the effort to grow and diversify client markets. The International Companies Act is in the process of being overhauled and is expected to be passed in 2015. Focus continues on promotion of the Cook Islands in Asia, particularly for trusts, foundations, and companies. Promotion of captive insurance in the next year will be targeted to the Australia and New Zealand corporate markets, as well as to existing clients.

The industry continues to comply with international regulatory standards. At the end of 2013, numerous amendments to existing industry legislation were enacted to address areas of improvement highlighted in the country's 2012 OECD Global Forum Phase One Peer Review. The Phase Two Peer Review took place in May 2014 and a positive report is expected at the Global Forum's session in early 2015. New legislation has also been passed to allow banks and trustee companies to comply with international tax information exchange agreements (namely FATCA out of the United States) and each financial institution has registered under FATCA. 2014/15 will see a follow up report to the Asia Pacific Group Mutual Evaluation Report on Anti-Money Laundering and Know Your Customer laws and practices.

5.10 Sensitivity Analysis

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

- Scenario 1: Capital projects experience slippage similar to that experienced in the last two years** – Capital projects contribute a substantial amount to the local economy and missed deadlines delay the economic benefit from wages, contractor fees, and the benefit of the completed infrastructure.
- Scenario 2: Local capacity to carry out capital projects is approaching its limits** – There are concerns that there is not the local capacity to deliver the volume of capital projects scheduled for 2014/15. The capital plans for both 2014/15 and 2015/16 are significantly higher than previous years and may present issues for local contractors to absorb or tender for the new projects.
- Scenario 3: Weaker than expected tourism arrivals** – if the weaker than anticipated tourism arrivals experienced in the three months to August 2014 continue for the remainder for the 2013-14 year, the tourism arrivals will need to be revised downwards.
- Scenario 4: Suppliers of tobacco products stretch out inventories till the end 2015/16** – it has become clear that tobacco suppliers invested significant funds in 2012 to stockpile tobacco products prior to the 33 per cent increase in the tobacco import duties in 2012, 2013 and 2014. Within nine months, importers had stockpiled approximately 3 years worth of supply. Current estimates predict that imports in 2014/15 will be much lower than would have been the case without the bringing forward of stock purchases, with stock running out sometime in 2015. If lower consumption means that importers can stretch inventories further into 2015/16, then there will be less need for importing replacement stock in 2014/15.

Table 5.11 Sensitivity Analysis

Scenario	Impact on nominal GDP 2014/15 (percentage contribution)	Real GDP in 2014/15 (percentage contribution)	Impact on total revenue in...	
			2014/15 (\$000)	2015/16 (\$000)
Scenario 1: Slippage in capital projects	-2.6	-2.6	-2,084	-1,957
Scenario 2: Lack of capacity to deliver capital projects	-3.0	-3.0	-2,426	-1,870
Scenario 3: Weak tourist arrivals	-1.4	-1.2	-1,336	-1,491
Scenario 4: Extended tobacco inventories	0.1	0.4	-780	-790

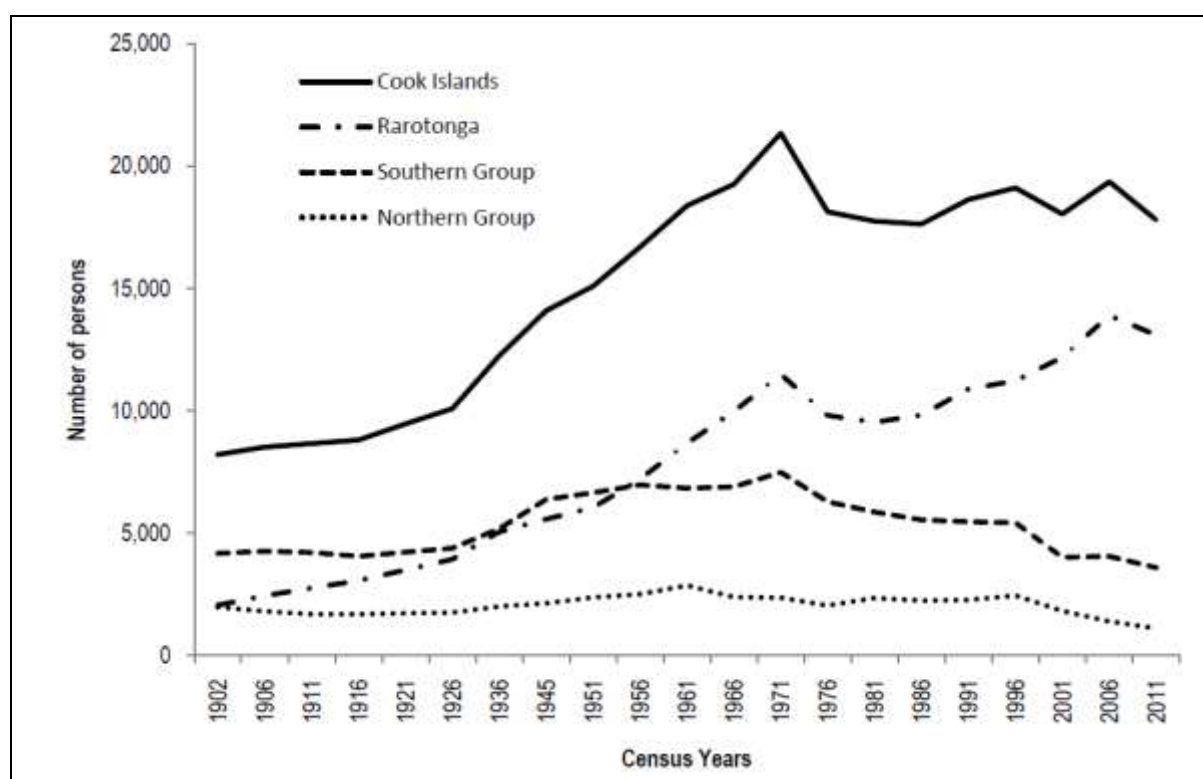
5.11 Special report: Depopulation – Income and cost of living

5.11.1 Background

Depopulation has been an ever-present feature of the Cook Islands social and economic landscape since the opening of Rarotonga International Airport in 1974. Depopulation has numerous cultural, social, and economic implications, although formal studies of the overall impacts on Cook Islands society are not widespread.

Geographically, depopulation is focused in the Pa Enua, with Pa Enua Tonga (the Southern Group) particularly affected. Depopulation in Pa Enua Tokerau (the Northern Group) has been a more recent phenomenon, with depopulation being a major feature from 1996 onwards. In terms of individual islands, Atiu and Mangaia have been the most affected, with their populations declining from peaks of 1,455 and 2,081 (in 1971) to just 480 and 572, respectively. Most other islands experienced declines in population, but to nowhere near the same extent (usually between 100 to 300 people per island) despite being significant proportions of the individual island populations. Rarotonga is the only island to experience population growth.

Chart 5.22 Cook Islands population trends 1902-2011



Source: 2011 Cook Islands Census

Of those who identify themselves as ethnic Cook Islanders living overseas, 60,255 are in New Zealand and 15,726 are in Australia.⁵ When combined with those residing in the Cook Islands, there are almost 91,000 individuals identifying as ethnic Cook Islanders across the three countries.

Table 5.12 Where Cook Islanders are born and where they live

		Born in...			Total Cook Islanders living in each country
		The Cook Islands	New Zealand	Australia	
Residing in...	The Cook Islands	11,095	2,357	340	14,974
	New Zealand	12,804	46,551	702	60,255
	Australia	4,108	6,300	5,318	15,726
Total Cook Islanders born in each country		28,007	55,208	6,360	90,955

Source: 2011 Australian Census tables; 2013 New Zealand Census tables; 2011 Cook Islands Census

Across the three countries, of the 28,007 individuals born in the Cook Islands, 12,804 are in New Zealand (46 per cent of all Cook Islanders who were born in the Cook Islands) and 4,108 in Australia (15 per cent). This suggests that if you are born in the Cook Islands you are much more likely to be in New Zealand or the Cook Islands than you are to be in Australia (migration to Australia being a much more recent phenomenon, as cited by the relatively low level of second generation Cook Islanders in Australia).

⁵ 2011 Australian Census and the 2013 New Zealand Census

In terms of 'reverse-migration', 2,679 (4.4 per cent) of the 61,568 Cook Islanders born in these two countries had returned to the Cook Islands by the time of the 2011 Census. The high number of Cook Islanders born in New Zealand and Australia suggest that most of the Cook Islanders living in Australasia are second or third generation, and are unlikely to 're-migrate' back to the Cook Islands.

5.11.2 An aside on economic development

Economic development is a difficult concept to measure. No single measure can capture the wide definition of 'progress', although numerous attempts have been made. While income per capita is often cited as being the best single measure, it is well known that this excludes several important indicators of social development. The United Nations Human Development Index (HDI) attempts to correct for this by including such things as life expectancy and education. As the Cook Islands is not part of the UN exercise it is difficult to make comparisons without first calculating an index for the Cook Islands.

Using census information, calculations done by MFEM and the Ministry of Education suggest that the Cook Islands would have an HDI of around 0.780. In terms of a ranking, this would place the Cook Islands slightly higher than the nearest sovereign Pacific Island Country of Palau (HDI: 0.775, ranked 60). While this rank should be commended as showing significant progress in overcoming the challenges of Pacific islands, Cook Islanders more often compare themselves to Australia and New Zealand than to their island peers. Australia (0.933) and New Zealand (0.910) are ranked second and seventh in the world, making the direct comparison a little unfair, but it is important to know the differences between the three economies to better understand the reasons that Cook Islanders choose to migrate, and hence, which policies could be adopted to attract returning Cook Islanders. Even when adjusting for overall inequality, the relative positions of the three countries would be relatively unchanged.⁶

This special report examines two of the most commonly cited concerns relating to depopulation: the ability to earn an income and the local cost of living.

5.11.3 Income and employment factors

A key area of economic development is the ability to generate an income, usually through employment. It is commonly understood that the more disposable income that is available for individuals and families, the more likely they are to have a higher standard of living. Indeed, as far as single indicators are concerned, income is often used as the best single measure for economic development as it often correlates with other development outcomes (such as education and health).

Using census data, it is not surprising that Cook Islanders living in New Zealand and Australia have higher nominal incomes compared to the Cook Islands average. A Cook Islander living in New Zealand can expect an average income of around \$22,549.30, and \$41,677.62 if they live in Australia.⁷ This compares to an average income of \$17,038.75 if they lived in the Cook Islands.

⁶ The Gini coefficient (an indicator, where 0 = perfect equality and 1 = perfect inequality) for the three countries is around similar levels. The range of the coefficient for Australia is between 0.309 and 0.468, and 0.330 and 0.455 for New Zealand, depending on the sample used in estimation. Using tax data, the Gini coefficient for the Cook Islands is around 0.417, so somewhere in the middle of the Australasian ranges.

⁷ For Australia: AUD\$37,972.48 at an exchange rate of \$0.9111 NZD/AUD.

However, looking at income alone masks significant differences in employment outcomes, or more simply, the probability that someone will be employed. Cook Islanders living in New Zealand face an unemployment rate of 19.0 per cent, almost three times higher than the 8.3 per cent they face if they lived in the Cook Islands. The unemployment rate for Cook Islanders in Australia is significantly lower than that in New Zealand, but still quite high, at 10.2 per cent.

If the unemployment rate is used as a proxy for ‘difficulty in finding employment’, the relative positions between Cook Islanders in the three countries remains the same (Australia being the highest income, then New Zealand, then the Cook Islands), but the income gap between New Zealand and the Cook Islands is significantly reduced. This strongly suggests that income motivations for migration to New Zealand are (on average) out of step with the actual experience of Cook Islanders who have migrated or were born in New Zealand. There are likely other reasons for migration (like education, future career opportunities, specialist opportunities, healthcare or welfare benefits), but on income measures alone, Cook Islanders in New Zealand are not as significantly better off than those living in the Cook Islands than direct comparisons would suggest. This is particularly true for those who migrate without first securing employment before they arrive.

However, Australia remains the clear frontrunner in terms of total income, even after accounting for the slightly higher unemployment rate. Along with the presence of other significant ‘pull’ factors, on pure income comparisons alone, Australia is likely to continue to attract further migration for those seeking higher incomes. This confirms a well-known issue for both the Cook Islands and New Zealand.

In conclusion, while income-only comparisons to Cook Islanders in New Zealand and Australia are generally favourable to those countries, once unemployment is taken into account the Cook Islands performs much better. Cook Islanders living in New Zealand gain only a marginally higher level of income but suffer an unemployment rate almost three times that of the Cook Islands. Australia remains the best performer overall, with the much higher income more than enough to offset the marginally higher unemployment rate.

5.11.4 Cost of living factors

A World Bank study in 2011 aimed to provide a universal comparison of prices across the world, including a special chapter on the Pacific. The study formed an average basket of consumer goods, and then priced this basket in separate countries. Below is the table for the three countries of interest, where 100 represents the average world price.

Table 5.13 Price comparisons with Australia and New Zealand

	Price level index (world = 100.0)	Percentage higher than the world average	Percentage higher than the Cook Islands
Cook Islands	148.4	48.4	-
New Zealand	149.8	49.8	1.0
Australia	187.8	87.8	26.5

Source: 2011 International Comparison Program, The World Bank

Perhaps surprisingly, New Zealand and the Cook Islands have index numbers which are extremely close (only 1 per cent difference in cost of living). While consumers in New Zealand spent smaller portions of their income on things like food and utilities, other items including housing, healthcare and restaurants drew significantly larger parts of their income. This is a similar pattern to Australia, although housing and healthcare are more expensive again (particularly housing).

It is important to note that these price indices are averages, and there is likely to be substantial variations within all three countries in regards to urban/rural, high income/low income, household size and between ethnic groups.

In regards to overall price differences in housing, cheaper access to land in the Cook Islands for indigenous Cook Islanders likely plays a significant part to keep the cost of living low (despite creating issues for investment). Indeed, the issue around housing affordability in Australia and New Zealand are ongoing political issues.

5.11.5 Summary

The much higher average income for Cook Islanders in Australia is enough to compensate individuals for the higher likelihood of being unemployed and the much higher cost of living, but once these factors are included, the difference between the Cook Islands and Australia on income measures is much reduced. The difference in average income with Australian-based Cook Islanders is \$24,638.87, but taking higher cost of living and higher unemployment into consideration, this difference reduces to around \$11,889.33 (52 per cent less than what nominal numbers would suggest).

Similarly, the income gap with Cook Islanders in New Zealand falls from \$5,555.55 to \$2,485.98 (a 55 per cent reduction), due mainly to the much higher level of unemployment among New Zealand-based Cook Islanders.

For those choosing to migrate to either New Zealand or Australia without jobs already secured, the potential income gap between the Cook Islands and the two countries is much lower than average figures would suggest. While Australia still has a clear advantage in income potential, other factors, such as future earning potential, access to education and health services, or access to retail markets may play a larger role, particularly in relation to Cook Islands-New Zealand migration.

6 CLASSIFICATION OF FUNCTIONS OF GOVERNMENT (COFOG)

As part of the Public Expenditure and Financial Accountability (PEFA) criteria's for the classification of the budget, performance indicator 5 requires the Government budget to be classified in two international standards:

- Government Financial Statistics (GFS) format which can be found in Chapter 3 of this book; and
- UN Supported Classification of Functions of Government (COFOG).

The COFOG has ten main functions at the highest level and a further 69 functions at the second (sub-functional) level.

Table 6.1 and chart 6.1 demonstrate the budget 2014/15 at the main functional level.

Table 6.1 Classification of Functions of Cook Island Government Budget 2014/15

COFOG Codes	Sector	Government		ODA	
		Spending 2014/15 (\$ million)	Percentage %	Spending 2014/15 (\$ million)	Percentage %
701	General Public Services	38.4	17.1%	20.6	32%
	MFEM	11.7	5.2%	19.3	30%
	Parliament	3.3	1.5%	0.0	0%
	Outer Islands	11.7	5.2%	0.0	0%
	Ministerial	1.7	0.8%	0.0	0%
	Other	9.9	4.4%	1.3	2%
704	Economic Affairs	26.7	11.9%	18.1	28%
	Tourism	18.9	8.5%	2.2	3%
	Marine Resources	1.7	0.8%	1.0	2%
	Agriculture	0.9	0.4%	0.2	0%
	Other	5.2	2.3%	14.7	23%
708	Recreation, Culture, Religion	1.8	0.8%	0.2	0%
	Sport	0.2	0.1%	0.0	0%
	Culture	1.6	0.7%	0.2	0%
710	Social Protection	18.4	8.2%	1.4	2%
	Internal Affairs	18.4	8.2%	1.4	2%
703	Public Order and Safety	6.7	3.0%	6.8	11%
	Policing	3.9	1.7%	6.8	11%
	Justice	2.2	1.0%	0.0	0%
	Crown Law	0.6	0.3%	0.0	0%
705	Environmental Protection	1.0	0.4%	4.8	7%
707	Health	13.0	5.8%	1.2	2%
709	Education	14.5	6.5%	3.5	6%
706	Housing and Community Amenities	16.1	7.2%	7.1	11%
	ICI	11.5	5.1%	6.9	11%
	CIIC	4.6	2.1%	0.2	0%

COFOG Codes	Sector	Government		ODA	
		Spending 2014/15 (\$ million)	Percentage %	Spending 2014/15 (\$ million)	Percentage %
	Other	24.1	10.7%	0.0	0%
	Gross Debt servicing	5.4	2.4%	0.0	0%
	Contingency	0.2	0.1%	0.0	0%
	Depreciation	6.0	2.7%	0.0	0%
	Expenditure Loans	9.7	4.3%	0.0	0%
	Debt Servicing	2.1	1.0%	0.0	0%
	Other	0.6	0.3%	0.0	0%
	Total Government Spending	160.69	72%	0.00	0%
	ODA Contribution	63.69	28%	63.69	100%
	Total Appropriation Amount	224.38	100%	63.69	100%

Chart 6.1 Classification of Functions of Cook Island Government Budget 2014/15

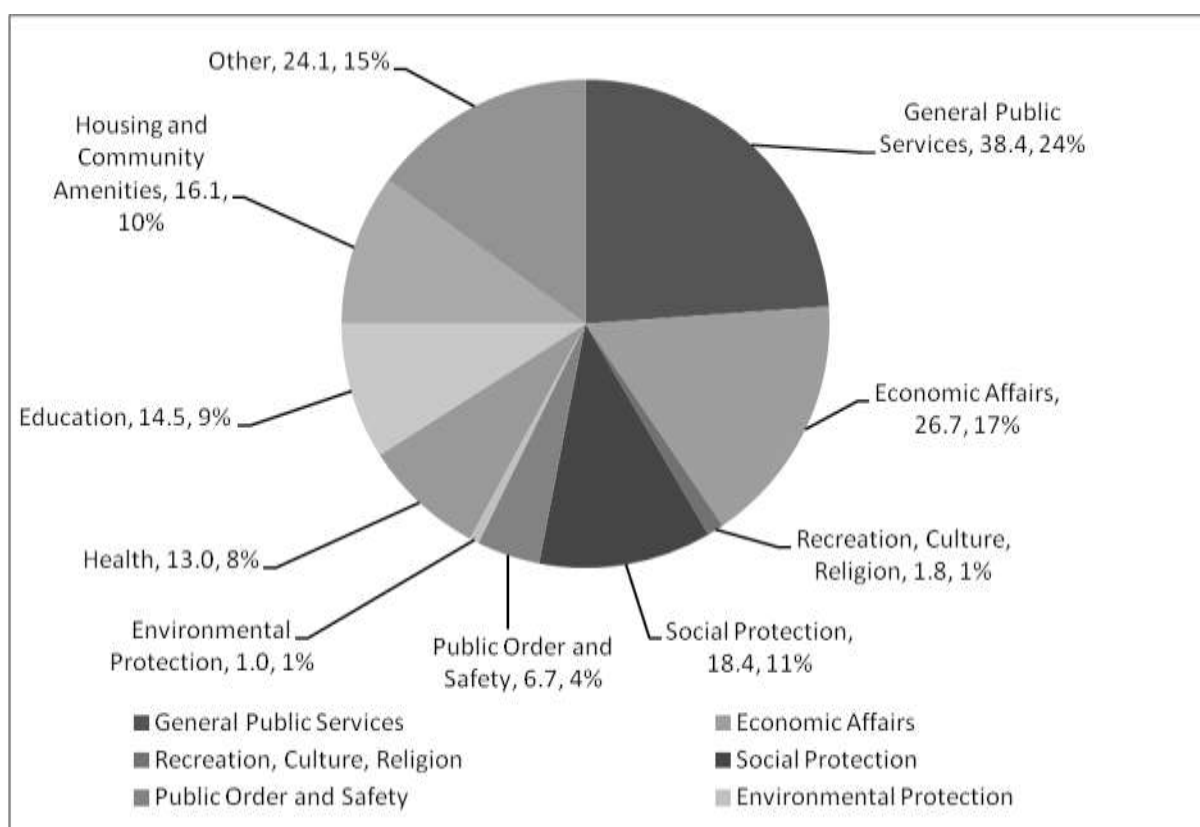
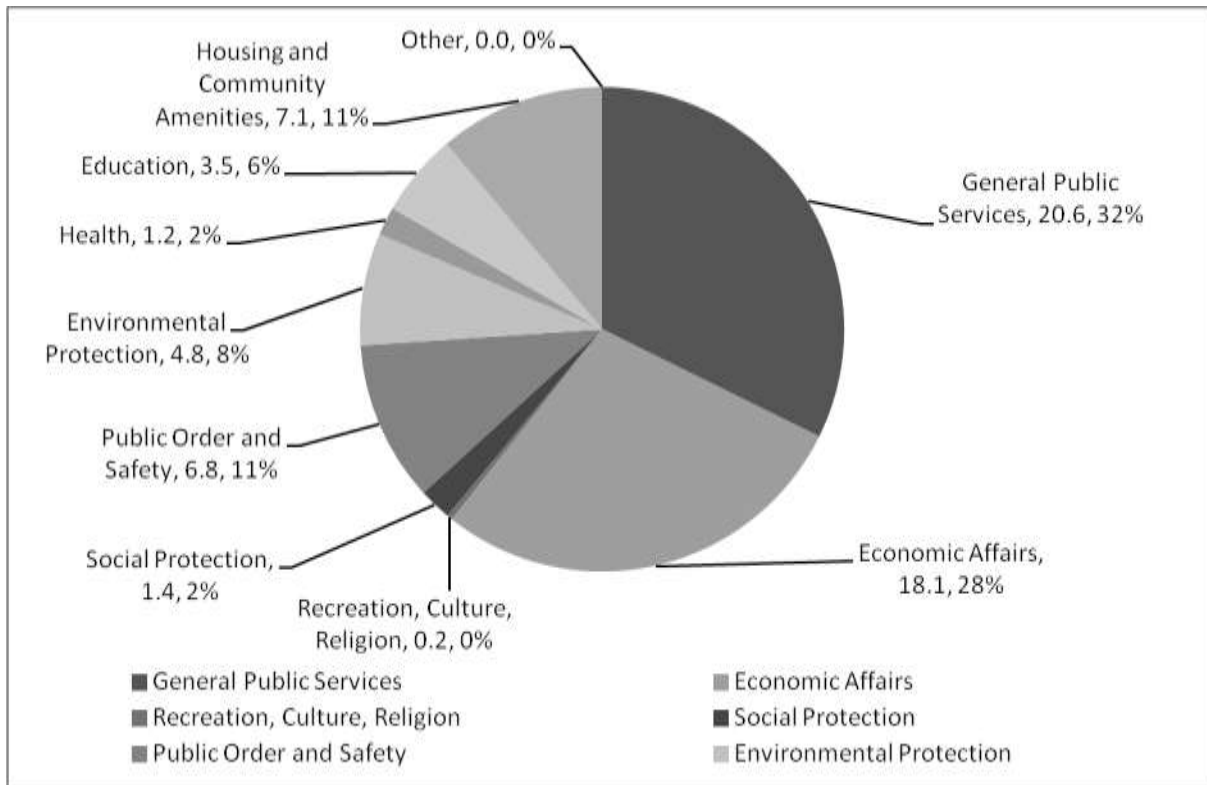


Chart 6.2 Classification of Functions of Cook Island Government Official Development Assistance (ODA) 2014/15



7 REVENUE

7.1 Total Revenue

It is expected that total Crown revenue (including ODA) will reach \$187.0 million in 2014/15, representing an increase of \$36.4 million on the estimated \$150.6 million received in 2013/14.

As illustrated in Chart 7.1, total revenue mostly consists of general taxation (62 per cent), with a significant contribution from grants from other governments (31 per cent). The remaining revenue is from sources such as sales of goods and services, dividends, fines and interest.

Table 7.1 provides total revenue amounts (including ODA) as classified by the IMF Government Financial Statistics Manual 2001. Table 7.2 provides revenue amount excluding ODA to determine total underlying revenue.

Table 7.1 Total GFS Revenue 2013/14 to 2017/18 (Transactions affecting Net worth) (\$'000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Taxes	103,510	110,020	110,515	108,925	110,804
Social Contribution	14	20	20	20	20
Grants	33,208	63,693	34,679	24,414	24,414
Other Revenue	14,559	13,233	13,084	13,112	13,086
Total Operating Revenue	151,290	186,966	158,298	146,472	148,324
Growth on Previous Year		23.6%	-15.3%	-7.5%	1.3%

Chart 7.1 Total GFS Revenue 2014/15 (Transactions affecting Net worth)

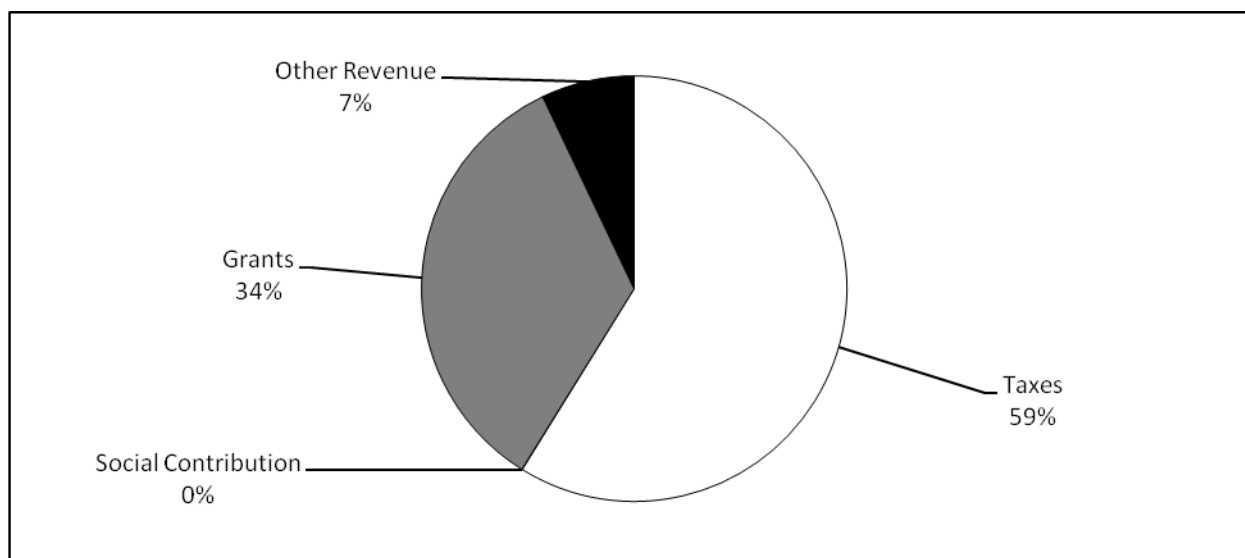


Table 7.2 Total Underlying Operating Revenue 2013/14 to 2017/18 (excluding ODA) (\$000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Taxation Revenue	97,174	103,095	104,815	103,225	105,104
Other Crown Revenue	9,207	9,943	8,569	8,579	8,579
Trading Revenue	6,344	5,518	5,518	5,518	5,518
Interest on Loans to Subsidiaries	707	684	666	684	658
Dividends	2,484	2,115	2,096	2,096	2,096
Interest on Balances	2,098	1,848	1,885	1,885	1,885
Total Operating Revenue	118,013	123,203	123,549	121,987	123,840
Growth on Previous Year		4.4%	0.3%	-1.3%	1.5%

Chart 7.2 Total Operating Revenue 2013/14 to 2017/18

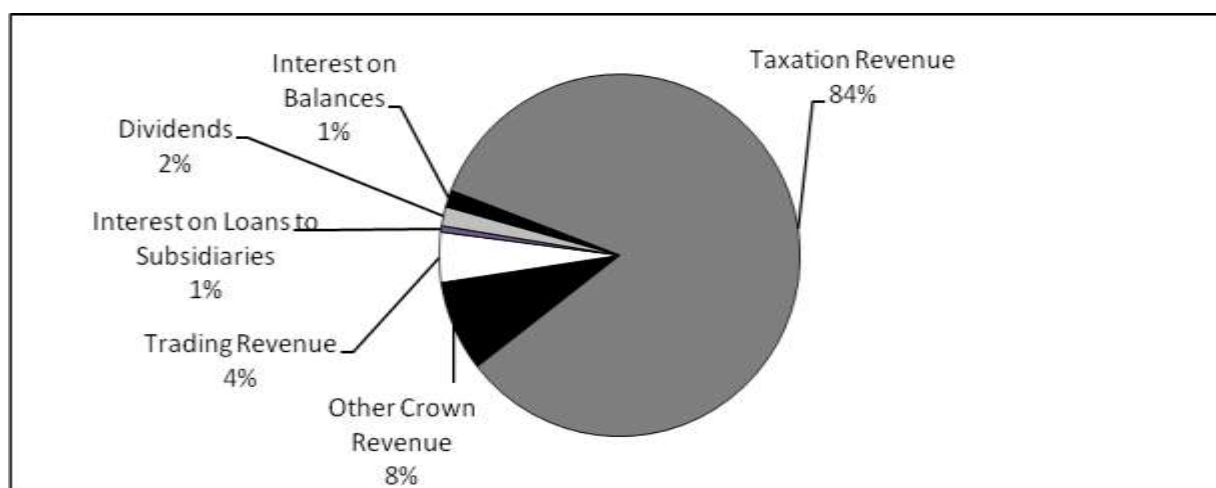


Table 7.3 GFS in comparison to previous budget standard formats 2013/14 to 2017/18 (\$000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Revenue - Statement of Fiscal Responsibility	118,013	123,203	123,549	121,987	123,840
Plus - Grants	33,208	63,693	34,679	24,414	24,414
Plus - Interest on ODA	70	70	70	70	70
Revenue as per GFS Operating Statement	151,290	186,966	158,298	146,472	148,324

Table 7.4 GFS reconciliation with previous classification 2013/14 to 2017/18 (\$'000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
GFS Classification Taxes	103,510	108,795	110,515	108,925	110,804
Less:					
Fisheries Revenue	5,503	4,920	4,920	4,920	4,920
Motor Vehicle Registration	827	775	775	775	775
Motor Vehicle Dealers	7	5	5	5	5
Previous Classification Taxes	97,174	103,095	104,815	103,225	105,104
GFS Other Revenue	14,489	14,388	13,014	13,042	13,016
Plus:					
Fisheries Revenue	5,503	4,920	4,920	4,920	4,920
Motor Vehicle Registration	827	775	775	775	775
Motor Vehicle Dealers	7	5	5	5	5
Social Contribution	14	20	20	20	20
Previous Classification Other Revenue	20,839	20,108	18,734	18,762	18,736
Total Underlying Revenue	118,013	123,203	123,549	121,987	123,840

7.2 Revenue Initiatives for 2014/15

Changes in revenue are made up of two types, parameter adjustments and policy decisions. Parameter adjustments are the result of factors outside of the immediate control of the Government, whereas Policy decisions reflect the impact of the Government's decisions.

The Government has made the following Policy decisions, these include:

Refund of New Zealand Superannuates Tax

The Government has exempted New Zealand Superannuation as eligible income for taxation purposes prior to 31 December 2012. An amendment to the Income Tax Act was given Royal Assent on 9 October 2014 has been prepared to make the legislative amendment at the next session of parliament. As some of those people in receipt of the New Zealand superannuation have paid tax on this income, Revenue Management will need to refund this tax on income that will become exempt. It is estimated the tax amount to be refunded will amount to approximately \$400,000.

Amendment to the Transport Act 2014

Amendments to the Transport Act made on the 9 April 2014 have enabled overseas full driver's license holders to use their license here in the Cook Islands on same vehicle classes that they have on their overseas driver's license. This is estimated to reduce.

The implementation of the excise-equivalent duties on local alcohol and soft-drink

From 1 July 2014, local producers of alcohol and soft-drink are required to pay the excise-equivalent duties on their production as part of the 2013 Tax Review. The extra revenue from this measure is estimated at \$0.12 million each year. To help assist producers in transitioning to the new tax regime, a transitional rebate program has been introduced to allow time for producers to adapt their systems.

Reducing the duty-free allowance on tobacco products

After the increase in tobacco import and excise-equivalent duties, it has become clear to Customs officials that there have been increased efforts by consumers to purchase cartons of duty-free cigarettes prior to customs clearance. This behavioural response to higher tobacco taxation has negatively impacted the progress made by Health authorities to reduce tobacco consumption, and also affects the collection of tax revenues on tobacco products.

Fishing penalties

The Cook Islands Government has recently settled on agreed amounts with two fishing vessels which have infringed in Cook Islands waters. The actual estimate for 2014/15 reflect actual monies received that were not reported at the previous update. Total fines received by MFEM in 2014/15 amounted to \$1.225 million.

Other revenue changes

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

- Departure tax increased from \$65.00 to \$66.30 as of 1 July 2014 as part of the annual two per cent indexation of departure tax.
- The import and excise-equivalent duty on tobacco increased from \$494.23 per kilogram or 1,000 cigarettes to \$657.53 on 1 July 2014, as part of the annual 33 per cent increase in tobacco taxes announced in the 2012/13 Budget. The final 33 per cent increase in tobacco duties will be on 1 July 2015.
- A deferral of the 5 per cent increase in alcohol and soft-drink import and excise-equivalent duty until 1 January 2015, due to the change in the application method of those duties from 1 April 2014.
- A new arrangement with Maritime Cook Islands to base revenue on turnover.

Table 7.5 Impact of Policy decisions to Revenue

Statement of Government Operations	2014/15 Budget	2015/16 Estimates	2016/17 Projected	2017/18 Projected
Revenue Parameter adjustments	-986	1,029	-5,537	-3,684
VAT Adjustments	1,023	1,209	-888	-137
Income Tax Adjustments	-402	-1,116	-2,549	-2,151
Company Tax Adjustments	153	94	-570	-362
Import Levies Adjustments	-1,889	810	-1,489	-1,189
Departure Tax Adjustments	-267	-359	-459	-238
Interest on Loans to Subsidiaries	362	356	374	347
Increase Motor Vehicle Registration	100	100	100	100
Justice technical adjustment - Court Services	-10	-10	0	0
Employers Liability Insurance reduction	-55	-55	-55	-55
Revenue Decisions	380	-557	-527	-527
One off illegal fishing settlements	1,225	0	0	0
One off Sale of Old Currency	130	0	0	0
Increase in Immigration Fees	0	0	0	0
Annual PAYE funding for overseas staff	55	55	55	55
Local excise on alcohol and soft drinks	120	120	120	120
Transitional Rebate scheme	-100	-80	-50	-50
Reduced Dividend From Te Aponga Uira	-300	-300	-300	-300
Exempt foreign drivers to hold a CI Licenses	-350	-350	-350	-350
Refund NZ Superannuation's tax	-400	0	0	0
Technical Adjustment	0	-2	-2	-2
Trading Revenue Adjustments	-708	-745	-745	-745
Agriculture	-50	-50	-50	-50
BTIB	-79	-79	-79	-79
Justice	32	32	32	32
Rakahanga	-50	-50	-50	-50
CIIC	-525	-525	-525	-525
Aitutaki Power Supply	-37	-73	-73	-73
Total Revenue Changes	-1,314	-273	-6,809	-4,956

7.3 Taxes

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

7.3.1 Direct Taxation

Table 7.6 Total Direct Taxation 2013/14 to 2017/18 (\$'000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Income tax	22,837	20,664	21,321	20,665	21,063
Company tax	11,661	12,309	12,444	12,100	12,308
Withholding tax	1,479	0	0	0	0
Total Direct Taxation	35,978	32,973	33,765	32,765	33,372
Growth on Previous Year		-8.4%	2.4%	-3.0%	1.9%

Chart 7.3 Total Direct Taxation 2014/15

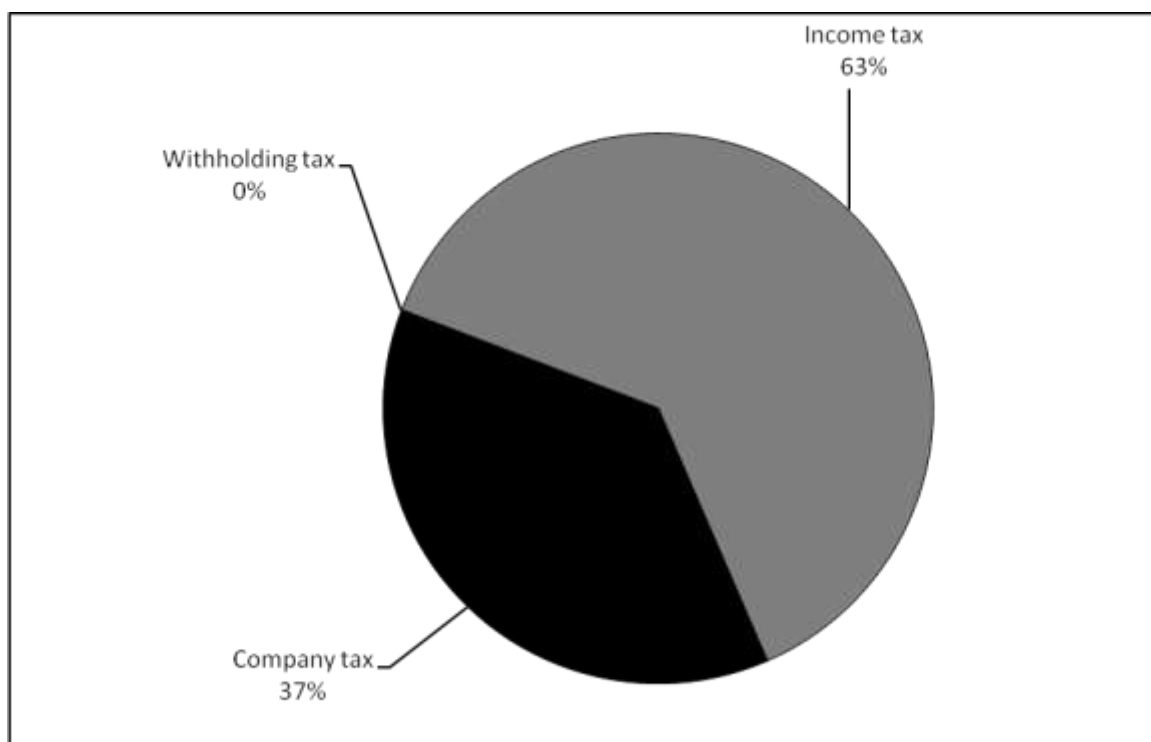
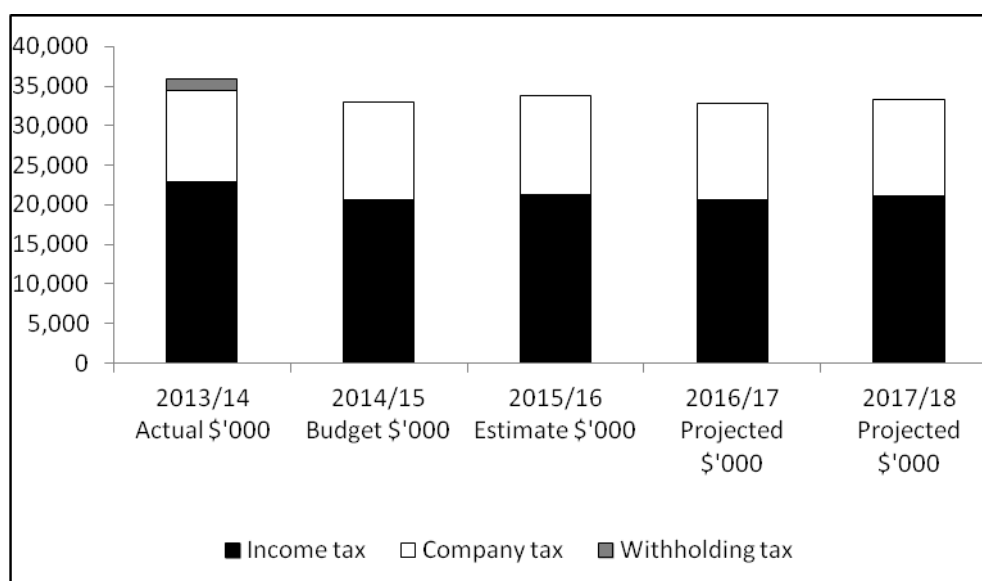


Chart 7.4 Total Direct Taxation 2014/15



Direct taxation (which includes company tax, income tax and withholding tax) is expected to decrease by 6.8 per cent in 2014/15, due largely to the reduction in income tax rates from the 2013 Tax Review.

Income tax is expected to reach \$20.7 million in 2014/15, with company tax reaching \$12.3 million.

The 15 per cent withholding tax on interest earned on domestic bank deposits has ceased as of 1 January 2014 at an annual cost of \$1.4 million a year to the Budget, with a smaller increase in the treatment of interest earnings as part of personal income tax only partially offsetting these losses.

7.3.2 Indirect taxation

Table 7.7 Total Indirect Taxation 2013/14 to 2017/18 (\$'000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
VAT	42,365	49,972	50,458	49,220	49,971
Departure tax	7,621	7,731	7,953	8,172	8,393
Import levies	11,999	12,419	12,639	13,069	13,369
Motor Vehicle Registration	827	775	775	775	775
Motor Vehicle Dealers	7	5	5	5	5
Fisheries Revenue	5,503	4,920	4,920	4,920	4,920
<i>Fisheries - US Treaties</i>	771	0	0	0	0
<i>Fisheries - Catch Revenue</i>	2,877	0	0	0	0
<i>Fishing Licences</i>	1,855	0	0	0	0
Total Indirect Taxation	68,321	75,822	76,750	76,160	77,432
Growth on Previous Year		11.0%	1.2%	-0.8%	1.7%

Indirect taxation is expected to grow by 12.0 per cent in 2014/15 predominantly due to increases in VAT, as well as proceeds from the settlements arising from illegal fishing.

VAT is expected to reach \$50 million in 2014/15, an \$8.6 million increase on the provisional actual for 2013/14 due to the full-year impact of the VAT increase to 15 per cent on 1 April 2014.

Departure Tax is estimated to be \$7.7 million in 2014/15, representing an increase of \$0.1 million on the \$7.6 million provisional actual for 2013/14. This increase is due to the 2 per cent increase in departure tax to \$66.30 offsetting a small decline in total tourist numbers for 2014/15. The 2 per cent increase is part of the annual indexation of departure tax to maintain the real value of the tax over time.

Import and excise-equivalent duties are estimated to reach \$12.4 million in 2014/15, an increase of \$0.9 million on the \$11.5 million provisional actual for 2013/14. Import levies are expected to grow in line with increased tariffs on tobacco products 1 July 2014, although inventory movements between financial years have complicated accurate forecasting of the revenue profile with suppliers shifting tobacco purchases forward to avoid increased tax rates.

Motor Vehicle Registration is estimated at a conservative \$0.8 million in 2014/15 representing an increase \$0.1 million on the \$0.7 million estimated for 2013/14. The increase is supported by the 2013/14 provisional actual of \$0.8 million and is reflective of the increase number of vehicles imported, namely, motorbikes with engine capacity over 100cc.

Fisheries Revenue is estimated to be \$4.9 million in 2014/15 representing a \$0.6 million decrease on the \$5.5 provisional actual for 2013/14. Fisheries revenue is composed of the Fisheries US treaties, Catch Revenue and Fishing Licences which is estimated to total \$4.9 million in the forward years.

The revenue from Motor Vehicle Dealers is estimated \$0.1 million in 2014/15, representing no change from the amount estimated for 2013/14.

Chart 7.5 Total Indirect Taxation 2014/15

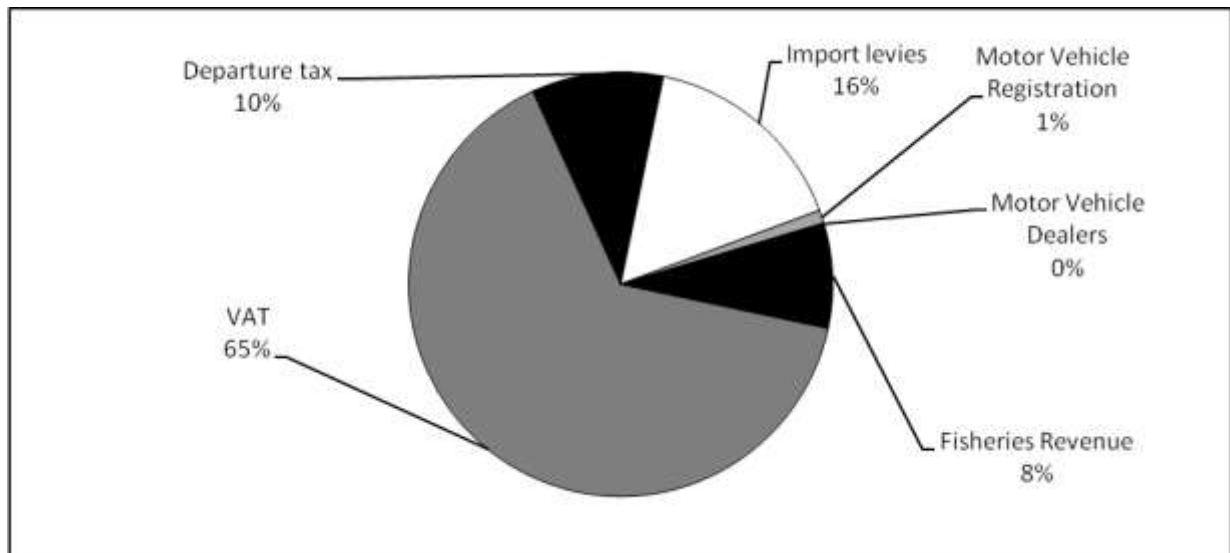
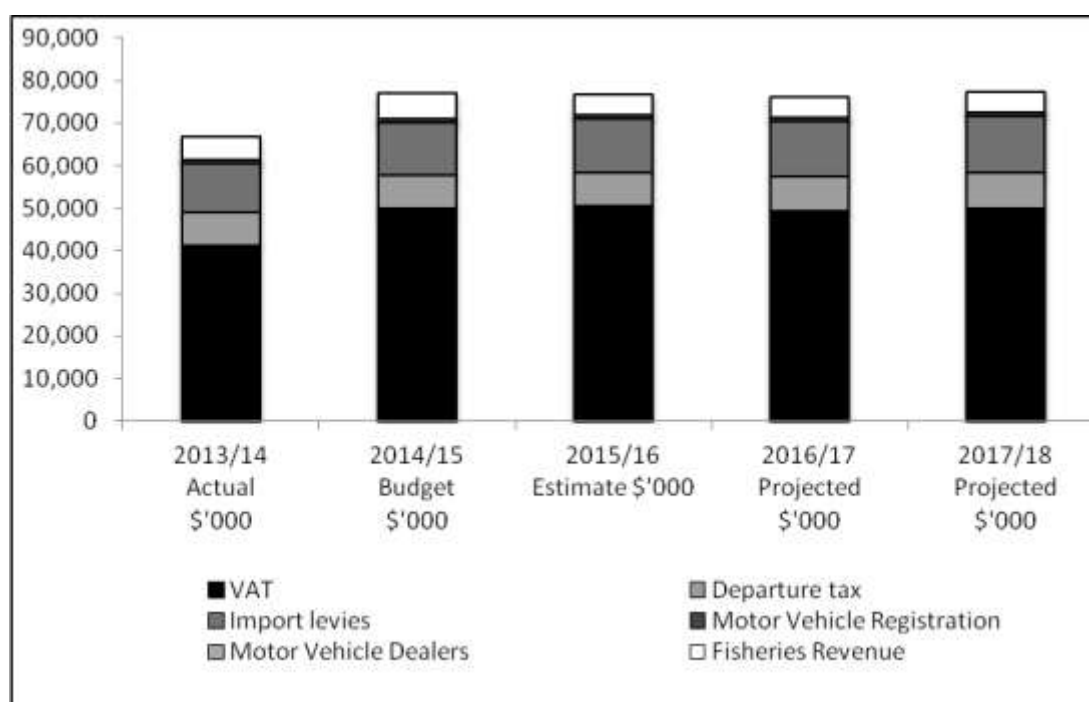


Chart 7.6 Total Indirect Taxation 2013/14 to 2017/18



7.4 Social Contributions

Table 7.8 Social Contributions 2013/14 to 2017/18 (\$'000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Employer Liabilities	14	20	20	20	20
Total	14	20	20	20	20
Growth on Previous Year		46.8%	0.0%	0.0%	0.0%

Social contributions are receipts from either employers on behalf of their employees, or from employees that secure entitlement to social benefits for the contributors, their dependents, or their survivors. The contributions may be compulsory or voluntary.

The revenue classified under this category is the Employers Liability Insurance.

7.5 Grants

Table 7.9 Grants 2013/14 to 2017/18 (\$'000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Current grants from foreign governments	14,233	17,527	12,559	9,479	9,479
Capital grants from foreign governments	18,975	46,166	22,120	14,935	14,935
Total	33,208	63,693	34,679	24,414	24,414
Growth on Previous Year		91.8%	-45.6%	-29.6%	0.0%

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

Estimated current grants from development partners (foreign governments) in the 2014/15 also includes receipts for committed capital projects in the Capital plan for the period 2014/15 to 2016/17.

7.6 Other Revenue

Table 7.10 Other Revenue 2013/14 to 2017/18 (\$'000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Interest	2,804	2,532	2,551	2,569	2,543
Dividends	2,484	2,115	2,096	2,096	2,096
Administrative fees	8,548	7,675	7,631	7,641	7,641
Incidental sales by nonmarket establishments	537	705	600	600	600
Fines, penalties, and forfeits	85	1,340	115	115	115
Miscellaneous and unidentified revenue	30	20	21	21	21
Total	14,489	14,388	13,014	13,042	13,016
Growth on Previous Year		-0.7%	-9.5%	0.2%	-0.2%

7.6.1 Interest

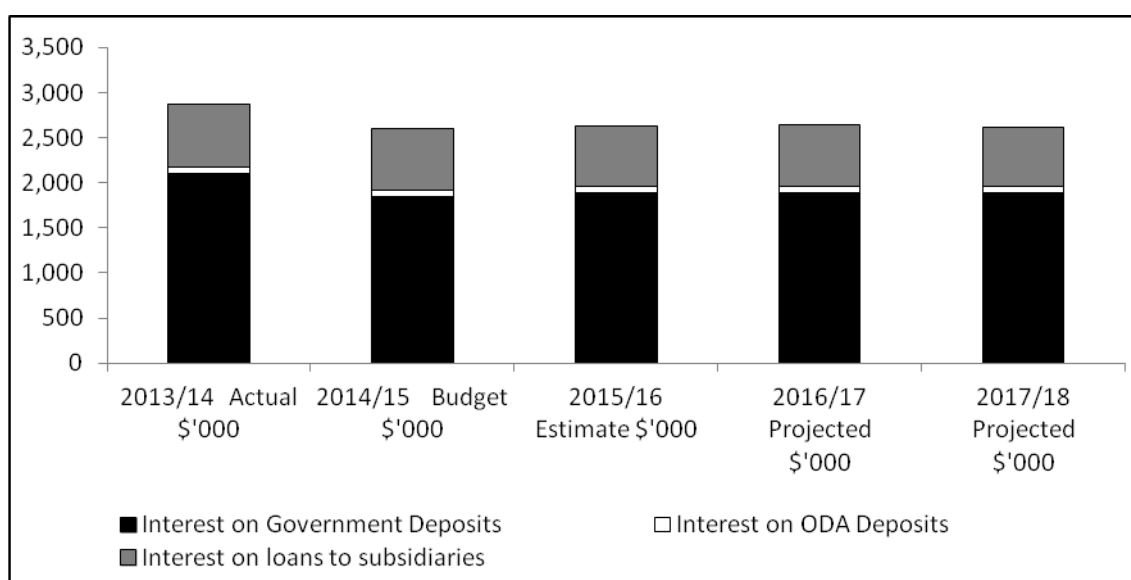
Interest revenue is estimated to be \$2.6 million in 2014/15, increasing slightly in the outer years.

Interest on ODA deposits represent all interest earned on development partner bank accounts that are administered by MFEM. This includes interest earned on term deposits and development partner operating funds. With the exception of a few development partners, all interest earned on these development partner accounts are returned to the development partners.

Table 7.11 Total Interest 2013/14 to 2017/18 (\$'000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Interest on Government Deposits	2,098	1,848	1,885	1,885	1,885
Interest on ODA Deposits	70	70	70	70	70
Interest on loans to subsidiaries	707	684	666	684	658
Total	2,874	2,602	2,621	2,639	2,613
Growth on Previous Year		-9.5%	0.7%	0.7%	-1.0%

Chart 7.7 Total Interest 2013/14 to 2017/18



7.6.2 Dividends

Total dividends due to the Crown are estimated to reach \$2.1 million in 2014/15. This represents a decrease of \$0.4 million on the \$2.5 million dividends estimated for 2013/14. The decrease is predominantly due to dividend reduction for Te Aponga Uira (TAU) in 2014/15 due to its increasing capital commitments.

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

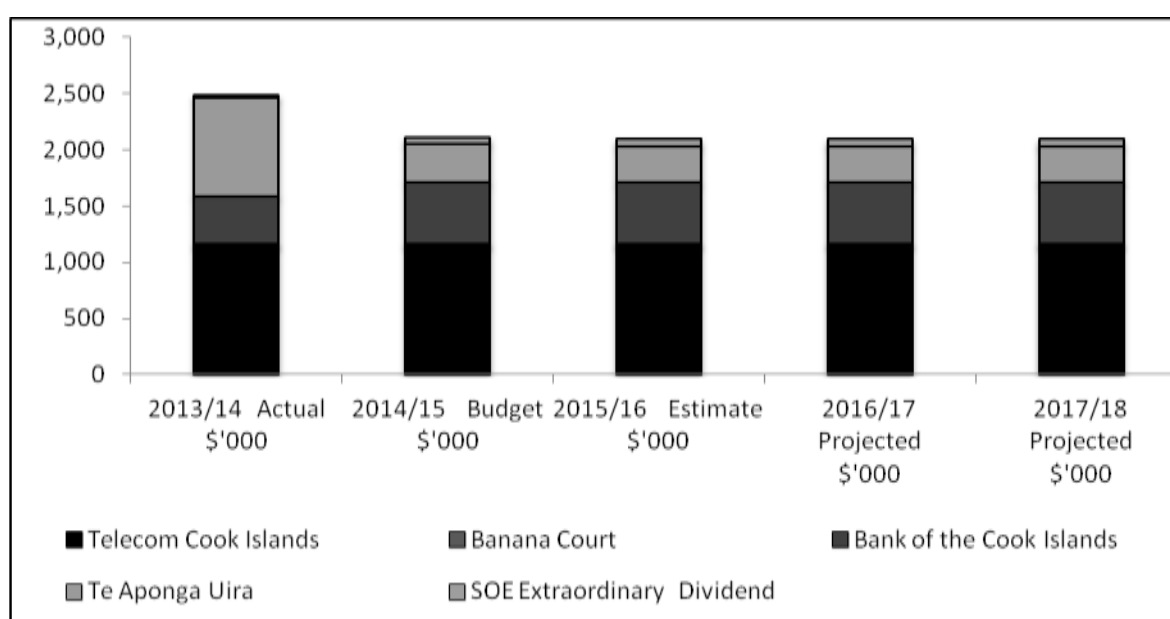
Bank of the Cook Islands (BCI) Dividend - is estimated to reach \$0.6 million in 2014/15, a slight increase on the \$0.4 estimate for 2013/14.

Telecom Cook Islands provides a dividend of \$1.2 million which is expected to remain constant over the outer years.

Table 7.12 Total Dividends 2013/14 to 2017/18 (\$'000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Telecom Cook Islands	1,150	1,150	1,150	1,150	1,150
Banana Court	10	10	10	10	10
Bank of the Cook Islands	429	557	557	557	557
Te Aponga Uira	875	338	319	319	319
SOE Extraordinary Dividend	20	60	60	60	60
Total	2,484	2,115	2,096	2,096	2,096
Growth on Previous Year		-14.9%	-0.9%	0.0%	0.0%

Chart 7.8 Total Dividends 2013/14 to 2017/18



7.6.3 Administrative Fees

A number of administrative fees are collected by agencies of government; these are regulatory in nature and include:

- Financial Services Commission (FSC) – \$0.28 million in revenue is estimated to be received in 2014/15 representing a decrease of \$0.02 million on the \$0.30 million provisional actual for 2013/14.
- Immigration Fees – \$0.59 million in revenue is estimated to be received in 2014/15 representing a decrease of \$0.07 million on the \$0.66 million provisional actual for 2013/14.
- Tattslotto Grants – \$0.14 million in revenue is estimated to be received in 2014/15 representing a slight increase on the provisional actual for 2013/14. This is expected to remain constant over the outer years. \$0.12 million of the proceeds from the Tattslotto grants is channelled through to CISNOC via a POBOC and any additional funds received will be returned back to the Crown. Noting that previous debt owed by CISNOC was carried by the Crown.

- Censorship Fees – \$0.01 million in revenue is estimated to be received in 2014/15 representing a slight increase from provisional actual for 2013/14. Total fees are anticipated to remain unchanged in the outer years.
- Permits – \$0.06 million in revenue is estimated to be received in 2014/15 representing a slight increase of \$ 0.04 million on the \$0.02 provisional actual for 2013/14. This is due to a revision of fee structures for the Firearm Fee which is expected to Increase from 1 July 2014.
- Drivers License – \$0.35 million in revenue is estimated to be received in 2014/15 representing a decrease of \$0.10 on \$0.45 million provisional actual for 2013/14. On the 9 April 2014 the Transport Act was amended whereby overseas full driver's license can be used here in the Cook Islands on classes they hold on their overseas driver's license.
- Research Fee – is estimated to remain constant for 2014/15 and outer years. Research fees are issued by the Office of the Prime Minister to individuals who wish to conduct any official research on the Cook Islands.
- Shipping Registration – \$0.13 million in revenue is estimated to be received in 2014/15 representing an increase of \$0.07 million from the \$0.06 million provisional actual for 2013/14. The estimates are reflective of the new agreement between Maritime Cook Islands and Transport as well as an expected growth in sales on moving average of 10-20 % over next 3 years.
- International Shipping License – \$0.02 million in revenue is estimated to be received in 2014/15 representing a slight increase on provisional actual for 2013/14.
- Liquor License – \$0.03 million in revenue is estimated to be received in 2014/15 representing a slight increase on the provisional actual for 2013/14.
- Upper Air Space Management – \$0.50 million in revenue is estimated to be received in 2014/15 representing an increase of \$0.04 million on the \$0.46 million provisional actual for 2013/14. The Cook Islands receives a portion of funds paid by airlines using the Upper Airspace of four Pacific nations (Samoa, Tonga, Cook Islands and Niue) estimates for the outer years are expected to increase at a constant rate.
- Ministry Trading Revenue – \$5.52 million in revenue is estimated to be received in 2014/15 representing a decrease of \$0.82 million from the estimated \$6.34 million amount for 2013/14. Trading revenue provides a means of recovery for operational costs incurred in delivering services.

Table 7.13 Administrative Fees 2013/14 to 2017/18 (\$'000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Financial Services Commission	303	276	276	276	276
Immigration Fees	663	587	584	584	584
IMO Subscription - Maritime Cook Islands	66	63	63	63	63
Tattslotto Grants	142	143	150	150	150
Censorship Fees	6	12	12	12	12
Permits	16	56	56	56	56
Drivers Licences	451	350	280	280	280
Research Fee	1	1	1	1	1
Shipping Registration	56	130	140	150	150
International Shipping Licence	10	15	15	15	15

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Liquor Licensing	31	26	26	26	26
Upper Air Management Agreement	460	498	510	510	510
Total Trading Revenue	6,344	5,517	5,517	5,517	5,517
Total	8,548	7,675	7,631	7,641	7,641
Growth on Previous Year		-10.2%	-0.6%	0.1%	0.0%

7.6.4 Incidental Sales by Nonmarket Establishments

Numismatic – \$0.5 million in revenue is estimated to be received in 2014/15 representing an increase of \$0.2 million on the \$0.3 million provisional actual for 2013/14. The increase is due to a revision of revenue estimates based on current trend.

Circulating Currency coins – \$0.2 million in revenue is estimated to be received in 2014/15 a \$0.06 million decrease on provisional actual for 2013/14. The 2014/15 estimate of \$0.2 million is due to a one off currency sale, with outer years expected to decrease to \$0.1 million.

Table 7.14 Incidental Sales by Nonmarket Establishments 2013/14 to 2017/18 (\$'000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Circulating Currency - Coins	264	205	100	100	100
Numismatics	274	500	500	500	500
Total	537	705	600	600	600
Growth on Previous Year		31.2%	-14.9%	0.0%	0.0%

7.6.5 Fines, Penalties and Forfeits

Court Services – \$0.05 million in revenue is estimated to be received in 2014/15 representing no change on the provisional actual for 2013/14.

Instant Fines – \$0.07 million in revenue is estimated to be received in 2014/15 representing an increase of \$0.03 million on provisional actual for 2013/14. No changes are expected for the outer years.

The increase in overall Fines, Penalties and forfeits estimated 2014/15 is as a result of a one-off fishing penalty estimated at \$1.2 million.

Table 7.15 Fines, Penalties and forfeits 2013/14 to 2017/18 (\$'000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Court Services	50	50	50	50	50
Instant Fines	35	65	65	65	65
Fishing Fines	0	1,225
Total	85	1,340	115	115	115
Growth on Previous Year		1476.1%	-91.4%	0.0%	0.0%

7.6.6 Miscellaneous and Unidentified Revenue

Foreign Investment Fees – \$0.02 million in revenue is estimated to be received in 2014/15 representing a slight increase on provisional actual 2013/14. No change is expected for the outer years.

The application for Foreign Investment is a set fee of \$750 for any application. An expected increase is anticipated in the outer years based on the assumption that foreign investment applicants will increase after the enforcement of the new investment code.

Table 7.16 Miscellaneous and Unidentified Revenue 2013/14 to 2017/18 (\$'000)

	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Foreign Investment - BTIB	30	20	21	21	21
Total	30	20	21	21	21
Growth on Previous Year		-32.8%	2.5%	0.0%	0.0%

8 EXPENDITURE

8.1 Total Expenditure

In 2012/13 the Cook Islands adopted the International Monetary Fund (IMF) Government Financial Statistics (GFS) format to present Crown expenditures. The Cook Islands are now consistent with international standards and demonstrates crown expenditure in a GFS format.

Total Crown expenditure will be \$140.7 million in 2014/15, an increase of \$10 million from the time of the 2014 PEFU budget update.

Table 8.1 Total GFS Expenditure 2013/14 to 2017/18 (Transactions affecting Net worth) (\$000)

	2013/14 PEFU Budget	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Compensation of employees	49,108	48,704	48,692	48,689	48,685
Use of goods and services	38,720	42,242	37,598	34,008	33,249
Depreciation	8,899	9,785	9,758	11,755	11,771
Interest	1,437	2,137	2,285	2,223	2,085
Subsidies	14,636	15,026	15,026	15,026	15,026
Social benefits	15,472	17,501	17,570	17,570	17,570
Other expense	2,385	5,323	5,267	5,267	5,267
GFS Classification Expenditure	130,657	140,722	136,198	134,539	133,654
<i>Note: Less ODA Recurrent</i>	12,098	17,527	12,559	9,479	9,479
Underlying Expenditure	118,559	123,195	123,639	125,060	124,175

Chart 8.1 Total GFS Expenditure 2013/14 to 2017/18 (Transactions affecting Net worth)

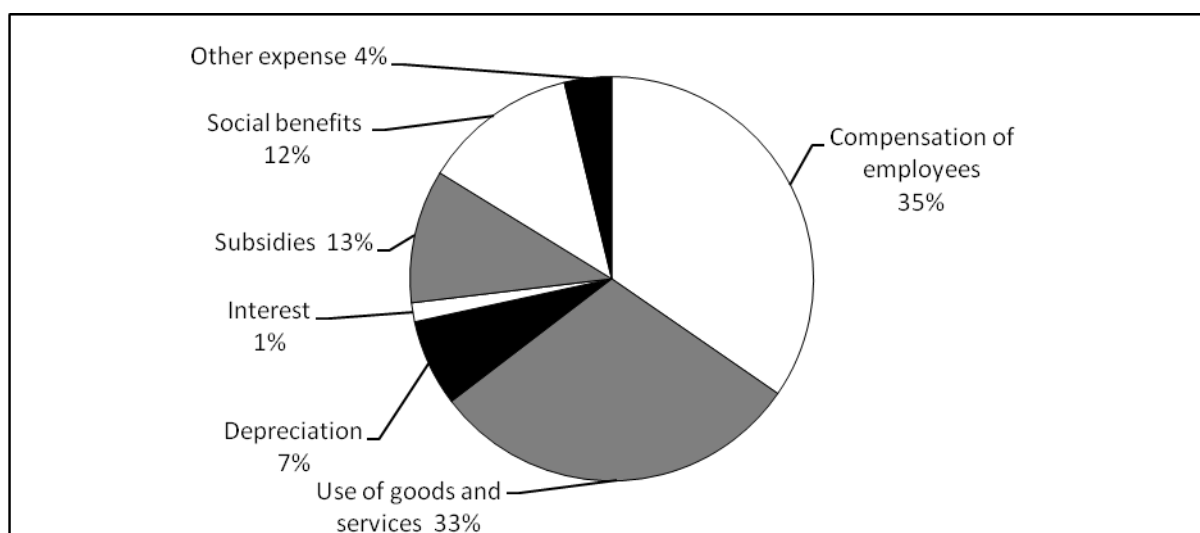
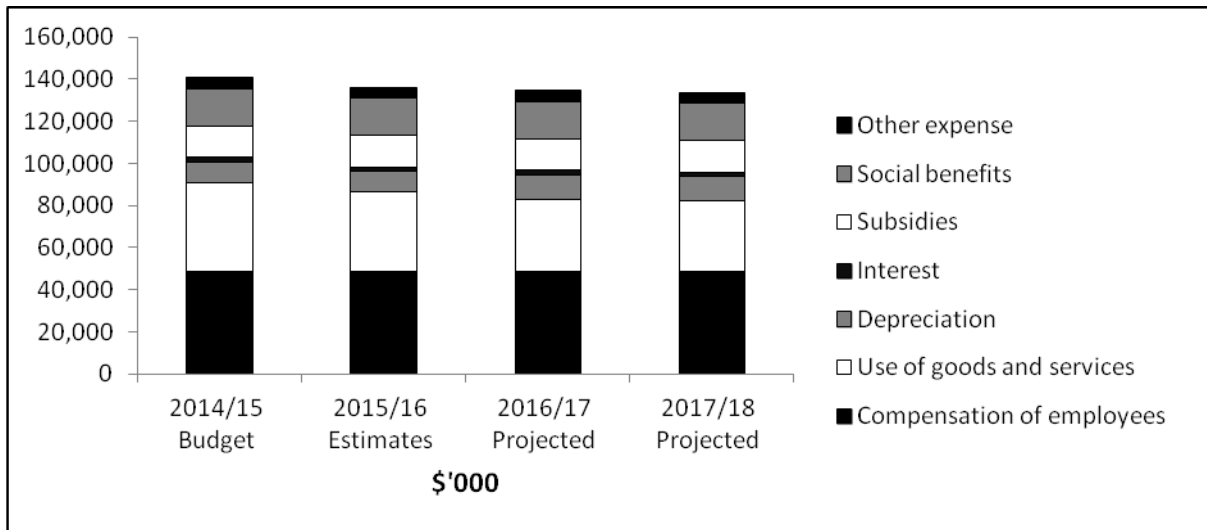


Chart 8.2 Total GFS Expenditure 2013/14 to 2017/18 (Transactions affecting Net worth)



Operating expenditure refers to expenditure on the delivery of government’s core outputs by the public service. Operating expenditure is predominately made up of compensation of employees (35 per cent), use of goods and services (33 per cent), subsidies (13 per cent), social benefits (12 per cent) and other operating expenditure (4 per cent). Total operating expenditure is estimated to come in at \$140.4 million for 2014/15.

Compensation to Employees (formerly Personnel)

The compensation to employee’s expenditure estimated for 2014/15 has decreased to \$48.7 million, this represents a \$0.39 million reduction in comparison to the PEFU Budget updated 2013/14.

Use of Goods and Services (formerly operating expenditure)

The total operating expenditure estimated for 2014/15 has increased to \$42 million. Overall this represents a \$3.3 million increase to Ministry baseline budgets as a result of new expenditure items.

Consumption of Fixed Capital (formerly Depreciation)

Total depreciation for 2014/15 is estimated at \$9.68 million, accounting for a \$0.78 million increase as a result of the purchase of new assets by agencies and increased investments in capital by the Crown.

Debt Servicing Payments

Debt servicing payments incorporate both interest and principal payments for 2014/15 are estimated to be \$4.5 million, an increase of \$0.56 million on 2013/14. An amount of \$5.8 million is transferred into a separate Loan Reserve Fund annually which is the total average amortised debt repayment for the Crown over a period of five years. This is different from the actual debt service which is the total amount transferred out of the LRF. Refer to the Crown Debt chapter for more information; it also includes the estimate movement of the LRF over the next four years.

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

Table 8.2 Total Operating Expenditure 2013/14 to 2017/18 (\$000)

Statement of Government Operations	2013/14 Actual	2014/15 Budget	2015/16 Budget Estimates	2016/17 Budget Projected	2017/18 Budget Projected
Operating Expenditure					
Ministry Outputs	63,805	65,003	65,149	65,145	65,161
<i>Personnel</i>	43,997	46,287	46,400	46,396	46,393
<i>Operating</i>	16,814	14,984	14,989	14,993	14,997
<i>Depreciation</i>	2,994	3,732	3,759	3,756	3,772
Payments on Behalf of the Crown	41,792	45,456	45,943	45,429	44,667
Airport Authority	2,048	2,048	2,048	2,048	2,048
Bank of the Cook Islands	146	181	181	181	181
Te Aponga Uira	249	350	350	350	350
Debt Servicing Interest	1,441	2,137	2,048	1,986	1,848
Asset Management (CIIC)	1,800	1,800	1,800	1,800	1,800
Crown Infrastructure Depreciation	2,156	2,920	2,920	2,920	2,920
Transfer to Emergency Response Trust Fund	0	100	0	0	0
Increase 70 year pension 15 per month	0	3,100	3,100	5,100	5,100
Disaster/ Contingency Operating Expenses	309	100	100	100	100
Total Operating Expenses	113,745	123,195	123,639	125,060	124,175

Chart 8.3 Total Operating Expenditure 2014/15

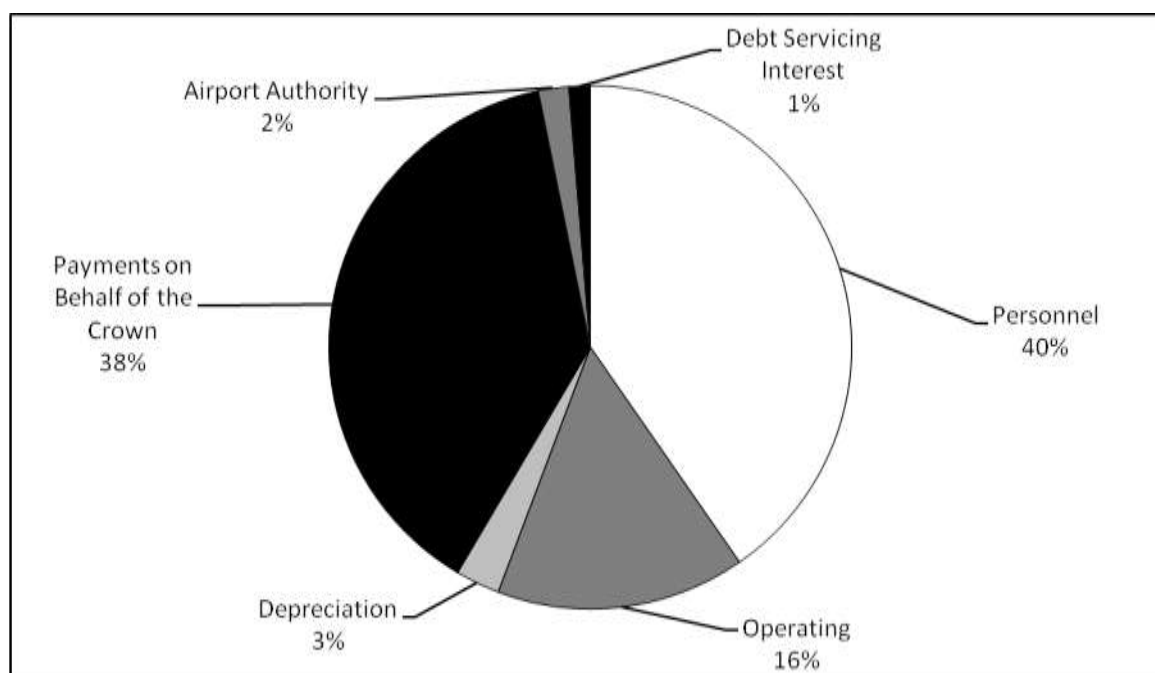
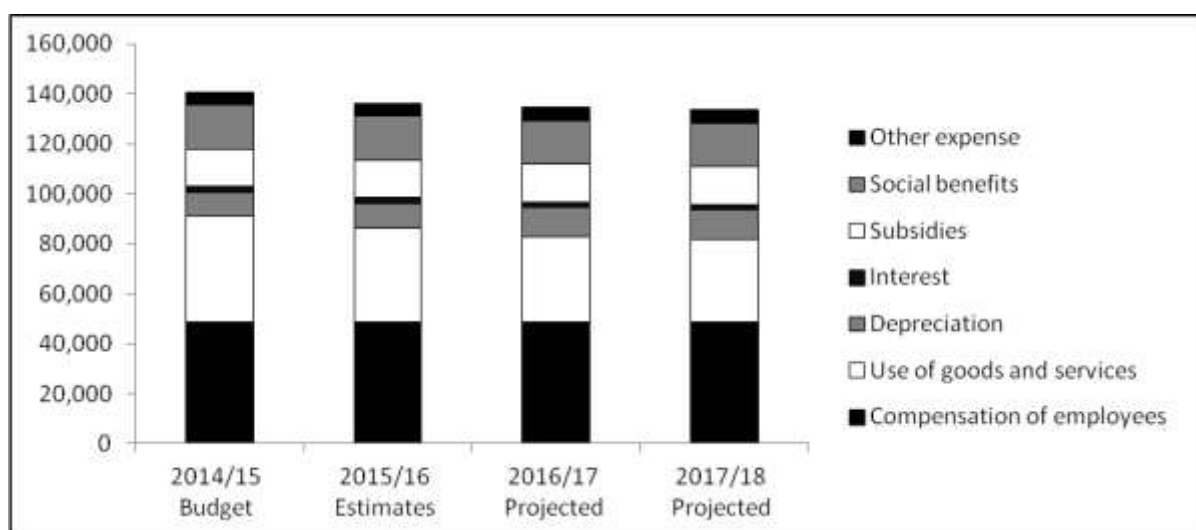


Chart 8.4 Total Operating Expenditure 2013/14 to 2017/18 (\$000)



Due to the general elections held on 9 July 2014 and the length of time it has taken to confirm the Executive, the normal development process of the budget was interrupted and changes in expenditure for 2014/15 are very minimal and result from either:

- policy decisions leading to new initiatives undertaken by Government; or
- movements that occur outside of a decision referred to as Parameter adjustments through no short term action by the government. For example, these would include depreciation, movements in welfare beneficiary numbers.

Table 8.3 demonstrates the impact of policies and Parameter adjustments on the level of expenditure in the budget.

Overall, the impact is an increase of \$2 million for expenditure from the time of the 2013/14 Budget to the 2014/15 Budget.

Table 8.3 Changes to Operating Expenditure 2014/15 to 2017/18 (excludes ODA) (\$000)

Statement of Government Operations	2014/15 Forecasts	2015/16 Forecasts	2016/17 Forecasts	2017/18 Forecasts
FINAL UNDERLYING NET OPERATING BUDGET BALANCE-EXECUTIVE ORDER	-739	-1,468	3,506	3,506
BUDGET 2014/15 EXPENDITURE CHANGES				
Expenditure Parameter adjustments	-2,580	-2,507	-583	-1,484
Debt Servicing Interest	617	765	703	565
Reduction in Crown Depreciation	-3,984	-3,984	-3,984	-3,984
Depreciation Contingency Fund	3,100	3,100	5,100	5,100
CIIC technical baseline adjustment personnel	-599	-599	-599	-599
CIIC technical baseline adjustment operating	-1,705	-1,705	-1,705	-1,705
Pa Enea Funding Formula Baseline adjustment personnel	62	61	57	53
Pa Enea Funding Formula Baseline adjustment Opex	-12	-11	-7	-3
HOS personnel baseline adjustment	-60	-60	-60	-60

Statement of Government Operations	2014/15 Forecasts	2015/16 Forecasts	2016/17 Forecasts	2017/18 Forecasts
Removal offshore MFEM taxation compliance	0	-75	-75	-75
Apex Guarantee Contract ends	0	0	0	-750
NSF Baseline adjustment	0	0	-13	-26
Expenditure Decisions	1,163	1,115	615	615
Annual PAYE funding for overseas staff	55	55	55	55
Tourism fleet marketing	250	250	0	0
Disaster Response Fund	100	0	0	0
Increase 70 year pension 15 per month from 1 January	60	120	120	120
Transfer Te Maeva Nui to OPM	0	0	0	0
Internal Audit Function at MFEM	20	35	35	35
Tax Outreach Officer	20	35	35	35
Nursing School	50	97	97	97
Minimum Wage Pa Enea	0	0	0	0
Self Government Golden Anniversary	250	250	0	0
Petition and By-election Costs	50	0	0	0
Pa Enea Education grant assistance	112	112	112	112
Severance Pay-Civil List	50	0	0	0
Reimburse Contingency	0	0	0	0
Transfer HOMs POBOC to OPSC	-1,145	-1,145	-1,145	-1,145
HOMs POBOC	1,145	1,145	1,145	1,145
Transfer Seabed POBOC to Ministry	-340	-290	-290	-290
Seabed Operating Breakdown	123	123	123	123
Seabed POBOC	212	212	212	212
Increase trading revenue adjustment Justice	32	32	32	32
Local Government Elections	35	0	0	0
Increase international subscription	4	4	4	4
Cease BTIB retiree scheme	-20	-20	-20	-20
Community Development Fund	100	100	100	100
Savings-within year personnel savings	-414	0	0	0
Agriculture	-13	0	0	0
Audit	-17	0	0	0
BTIB	-5	0	0	0
CI Pearl Authority	-3	0	0	0
Culture	-9	0	0	0
Environment	-2	0	0	0
FSDA	-4	0	0	0
Head Of State	-2	0	0	0
ICI	-4	0	0	0
Intaff	-3	0	0	0
Justice	-3	0	0	0
MFEM	-15	0	0	0
Ombudsman	-2	0	0	0
OPM	-6	0	0	0
OPSC	-7	0	0	0
PARLIAMENT	-9	0	0	0
POLICE	-34	0	0	0

Statement of Government Operations	2014/15 Forecasts	2015/16 Forecasts	2016/17 Forecasts	2017/18 Forecasts
Tourism	-4	0	0	0
Transport	-9	0	0	0
Prime Minister	-3	0	0	0
Deputy Prime Minister	-2	0	0	0
Leader of the Opposition	-3	0	0	0
Minister Brown	-1	0	0	0
Minister Turepu	-2	0	0	0
Minister Ioane	-1	0	0	0
Minister Glassie	-1	0	0	0
Air NZ Underwrite Subsidy savings	-250	0	0	0
Technical Adjustments (depreciation)	-231	-258	-262	-246
BTIB	-13	-13	-13	-13
Health	-195	-195	-195	-195
FSDA	2	2	2	2
Pearl Authority	1	1	1	1
OPSC	15	15	12	12
Rakahanga	-15	-15	-15	-15
CIIC technical baseline adjustment depreciation	-21	-21	-21	-21
Aitutaki	-14	-14	-14	-14
Palmerston	3	3	3	3
Seabed Minerals	5	5	5	5
Justice	0	-16	-16	0
CFC Depreciation Adjustment	0	-11	-11	-11
Total Expenditure Changes	-2,062	-1,651	-230	-1,115
FINAL UNDERLYING NET OPERATING BUDGET				
BALANCE 2014/15	9	-90	-3,072	-335

8.2 New Expenditure Initiatives

The Government has approved new spending initiatives totaling \$1.163 million in 2014/15, \$1.115 million in 2015/16 and \$0.615 million in 2016/17 and 2017/18. The full details on each initiative are provided below.

Table 8.4 New Expenditure Initiatives (\$000)

Description	2014/15	2015/16	2016/17	2017/18	Total
	1,163	1,115	601	589	3,508
Annual PAYE funding for overseas staff	55	55	55	55	220
Tourism fleet marketing	250	250	0	0	500
Disaster Response Fund	100	0	0	0	100
Increase 70 yoa pension 15 per month	60	120	120	120	420
Internal Audit Function at MFEM	20	35	35	35	125
Tax Outreach Officer	20	35	35	35	125
Nursing School	50	97	97	97	341
Self-Government Golden Anniversary	250	250	0	0	500
Petition and By-election Costs	50	0	0	0	50
Pa Enea Education grant assistance	112	112	112	112	447
Severance Pay-Civil List	50	0	0	0	50
Transfer HOMs POBOC to OPSC	-1,145	-1,145	-1,145	-1,145	-4,579
HOMs POBOC	1,145	1,145	1,145	1,145	4,579
Transfer Seabed POBOC to Ministry	-340	-290	-290	-290	-1,210
Seabed POBOC	123	123	123	123	493
Seabed POBOC	212	212	212	212	847
Increase trading revenue adjustment Justice	32	32	32	32	129
Cease retiree scheme	-20	-20	-20	-20	-80
Community Development Fund	100	100	100	100	400
Increase to International Subscriptions	4	4	4	4	16
Local Government Elections	35	0	0	0	35
TOTAL EXPENDITURE	1,163	1,115	615	615	3,508

Annual PAYE funding for overseas staff

Staff from the Ministry of Foreign Affairs (MFAI) located in the Cook Islands High Commission (CIHC), in Wellington accepted contracts that exempted their allowances from tax. The Ministry of Foreign Affairs (MFAI) is seeking extra funding to cover PAYE on the non-taxable allowances given to CIHC staff. A tax assessment by Revenue Management highlighted the misinterpretation of the Income Tax Act. Revenue Management have since clarified the intent of the Act results in these members based in New Zealand not being eligible to receive the exemption from tax on their allowances as stated in their contracts.

Tourism fleet marketing

Additional funds have been provided to Cook Island Tourism Corporation to assist them in their Long Haul Growth marketing Strategy. This strategy is aimed to support the long haul aviation services agreement (airline underwrite) to prepare for the aircraft step change in 2015 (B767 aircraft phased out and replaced with B777-200) and deliver a 75% load factor or better to reduce the underwrite payment by the crown.

Cook Islands Tourism will embark on strategies to ensure that the Cook Islands achieves it's full potential as a leading sustainable tourism destination.

Disaster Response Fund

A total of \$100,000 has been injected into the DRF. The DRF will enable an immediate response resourcing required in the event of natural disaster. This trust provides access to funds towards immediate response to natural disasters. The total amount of the funds in the fund will increase to \$0.5 million.

Increase 70+ pensions by \$15 per month

Government has committed to a phased increase in the old age pension (aged 70 and over) to the rate to \$800 a month. Currently the old age pensioners receive \$625 per month and the additional funding provided in this budget will be to increase their monthly payments by \$15 per month bringing their total receivable amount to \$640 per month.

Internal Audit Function at MFEM

As part of the PEFA review carried out in 2013, one of the recommendations to improve the overall rating is the re-establishment of the internal audit function, this is aimed at addressing:

- Reporting on the existence of fraudulent activities, weaknesses in control environments and internal controls;
- existence of material errors in the annual financial reports of the Ministries resulting in overspending and poor management of funds thereby nullifying the ministries obligation to authorize expenditure limited to their allocation;
- assessment of internal controls by External Auditors is performed on a piece meal basis and under ad-hoc arrangements; and
- external audit still a couple of years behind means that current fraudulent activities within ministries may not be detected in a timely manner.

This is also the recommended strategy from both PEFA road map and our application for becoming an accredited National Implementation Entity (NIE). Funding was previously removed due to non-filling of the position.

Tax Outreach Officer

This programme would see a dedicated staff member within the Revenue Management Division to assist in providing taxpayer services to the community. The community outreach officer will also be charged with making the various tools and assistance provided by the Revenue Management Division more readily available for the general public to use.

The officer will establish and maintain a robust community outreach programme to assist taxpayers in complying with their tax and other regulatory obligations.

Nursing School

Strengthening infrastructure and health systems will encourage healthier lifestyles and safer environments through the re-opening of the nursing school to support nursing shortages and replacement of an aging nursing workforce.

The Ministry of Health faces a growing nursing shortage in both the short and long term. In 2010, the Ministry could not fill 15 vacant nursing positions due to resignations, retirements and low salaries offered. It is difficult to hire from overseas or prevent staff leaving to go overseas when the median remuneration for a staff nurse is 50% of that in New Zealand. Most new nurses are recruited from neighboring low income countries like Fiji, Solomon Islands, Vanuatu and Tonga.

Extra funding is required in order for health to continue with the training of Nursing Students to acquire the required the number of nursing students into the Health workforce, there is a need to have the second intake of more students.

Minimum Wage Pa Enea

On 1 April 2014 the minimum wage in the Cook Islands was increased from \$5 an hour to \$6 an hour. In the public sector there is a small portion of workers that are on the minimum wage, with most of these minimum wage workers being employed by Island Governments in the Pa Enea. With no increases in personnel budgets, agencies would be required to absorb the extra wage costs within their existing appropriations. However, the higher concentration of minimum wage workers in the Pa Enea would be difficult for some Island Government's to absorb into their existing budgets, and hence, budgetary support of \$100,000 will be given to Island Governments via the Pa Enea Funding Model to assist in the transition.

Self-Government Golden 50th Anniversary

Additional funds of \$250,000 have been given to the Office of the Prime Minister to fund the 50th Anniversary Celebrations of Self-Governance for the Cook Islands which is seen as a significant milestone. The Ministry of Culture and Development has maintained the baseline budget of \$772,500 which will be largely used towards the annual Te Maeva Nui Festival that will be run in conjunction with the 50th Anniversary Celebrations.

General Election Costs

Total costs for the conduct of the 9 July 2014 will be \$0.205 million. In 2013/14 \$0.160 million was provided to the Ministry of Justice. However these costs excluded any costs associated with the hearing of petitions, and also the Mitiaro by election. These are expected to be \$0.050 million.

Pa Enea Education grant assistance

Students in the Pa Enea successfully completing the highest level of education available on island are financially supported to continue their senior secondary education at an accredited College offering the final years of formal schooling (normally Tereora College). Families host students providing them with room and board as well as pastoral and other support during their time in Rarotonga. Host families have been paid \$50 per week. With the increase in transport costs for students to get to and from school and the increase in the general costs of living, it is becoming difficult for families to be able to host and provide for a student. Government have increased the student allowance to a level of \$100 per week to support the wellbeing of the young people concerned.

Severance Pay - Civil List

The Civil List legislation and Executive Council Order has a provision for the Members who have been unsuccessful in the General Elections to be paid three months' salary from the date the Chief Electoral Office declared the General Election results. Government have granted an additional \$50,000 towards the Civil List to accommodate for this.

Transfers from POBOC into Operating Budgets

There have been two transfer of funds from POBOC into Operating budgets below:

- **HOM's Salary POBOC** that was previously managed by the Office of the Public Service Commission will now be moved into their operating budget under personnel
- **Seabed Minerals POBOC** has been shifted from POBOC funding into a ministry allocated budget and the Seabed Minerals Office will now be treated as a stand-alone ministry.

Increase to International Subscriptions POBOC

Additional funds of \$4,000 have been provided for the Pacific Immigration Directors' Conference (PIDC). The PIDC provides a forum for immigration agencies to meet and discuss issues of mutual interest aimed at strengthening participants' territorial borders and the integrity of their entry systems. Besides strengthening Pacific nations' security and border integrity, PIDC aims to foster multilateral co-operation, co-ordinate the exchange of technical assistance, facilitate information

sharing, and act as the focal point for collaboration with various regional law enforcement organisations.

Local Government Elections

The Island Government Election was last held in December 2011. The next Island Government elections are scheduled to take place in the financial year 2014/15. Additional funding of \$35,000 has been directed to the Office of the Prime Minister to administer the elections.

8.3 Savings in Expenditure

The Government has identified total one off savings of \$0.414 million.

Table 8.5 Savings in Expenditure (\$000)

SAVINGS	2014/15	2015/16	2016/17	2017/18	Total
<u>Better use of our Public Servants - Within</u>					
<u>Year Personnel Savings</u>					
Agriculture	-13	0	0	0	-13
Audit	-17	0	0	0	-17
BTIB	-5	0	0	0	-5
CI Pearl Authority	-3	0	0	0	-3
Culture	-9	0	0	0	-9
Environment	-2	0	0	0	-2
FSDA	-4	0	0	0	-4
Head Of State	-2	0	0	0	-2
ICI	-4	0	0	0	-4
Intaff	-3	0	0	0	-3
Justice	-3	0	0	0	-3
MFEM	-15	0	0	0	-15
Ombudsman	-2	0	0	0	-2
OPM	-6	0	0	0	-6
OPSC	-7	0	0	0	-7
PARLIAMENT	-9	0	0	0	-9
POLICE	-34	0	0	0	-34
Tourism	-4	0	0	0	-4
Transport	-9	0	0	0	-9
Air New Zealand Savings	-250	0	0	0	-250
TOTAL	-401	0	0	0	-401

SAVINGS	2014/15	2015/16	2016/17	2017/18	Total
<u>Making Ministerial Support Offices more</u>					
<u>Efficient</u>					
Prime Minister	-3	0	0	0	-3
Deputy Prime Minister	-2	0	0	0	-2
Leader of the Opposition	-3	0	0	0	-3
Minister Brown	-1	0	0	0	-1
Minister Turepu	-2	0	0	0	-2
Minister Glassie	-1	0	0	0	-
Minister Ioane	-1	0	0	0	-1
TOTAL	-13	0	0	0	-13

8.4 Ministerial Support Offices

The Ministerial Support Office budgets have been reduced for the 2014/15 Budget based on the actual spend versus the 2013/14 Budget. A summary of the reduction per Ministerial office is provided in Table 8.6.

Table 8.6 Ministerial Support Office Summary 2014/15

Summary	Budget 2013/14	Budget 2014/15	
	Gross Appropriation	Budget Efficiencies	Net Appropriation
Prime Minister	425,382	- 3,000	422,382
Deputy Prime Minister	223,000	-2,000	221,000
Minister Brown	275,870	-1,000	274,870
Minister Turepu	193,000	-2,000	191,000
Minister Glassie	193,000	-1,000	192,000
Minister Ioane	193,000	-1,000	192,000
Leader of the Opposition	205,000	-3,000	202,000
Total	1,708,252	-13,000	1,695,252

8.5 Payments on Behalf of the Crown

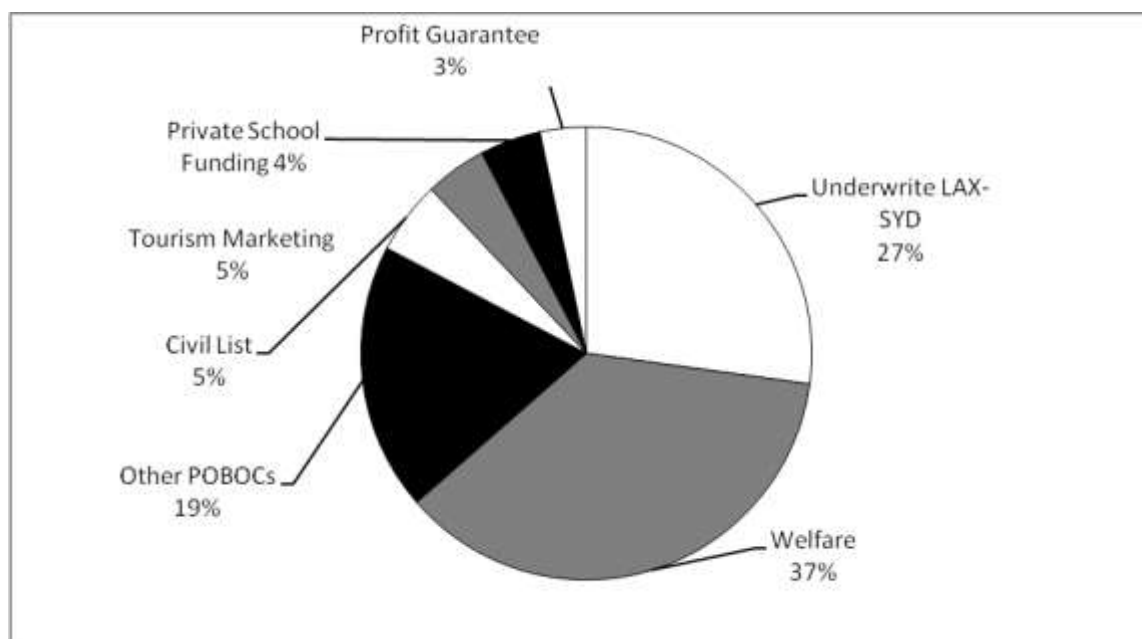
Payments on Behalf of Crown (POBOCs) have increased by \$2.3 million to a total of \$45.5 million in 2014/15 in comparison to the budget 2013/14 of \$43.2.

Government POBOC's comprise of a large variety of payments to Ministries that serve different purposes. The POBOC's of significant value can be seen below in Table 8.7.

Table 8.7 POBOC Summary 2014/15 – 2017/18 (\$000)

POBOCS	2013/14 Actual	2014/15 Budget	2015/16 Estimate	2016/17 Projected	2017/18 Projected
Air NZ Underwrite	11,102	12,350	12,600	12,600	12,600
Welfare	14,430	16,541	16,881	16,881	16,881
Other POBOCs	7,522	8,458	8,406	8,142	7,379
Civil List	2,350	2,374	2,324	2,324	2,324
Tourism Marketing	2,000	2,250	2,250	2,000	2,000
Private School Funding	1,983	1,983	1,983	1,983	1,983
Profit Guarantee	1,500	1,500	1,500	1,500	1,500
HOM's Salaries	1,126	0	0	0	0
Total POBOCS	42,011	45,456	45,943	45,429	44,667

Chart 8.5 POBOC Summary for 2014/15



Based on Chart 8.5, it is evident that the Underwrite of long haul services and Welfare POBOCs equate to a large portion of the total POBOC appropriation for 2014/15. More detail on each of the POBOC's with significant value is provided below.

8.5.1 Subsidies

Table 8.8 Air New Zealand Underwrite of Los Angeles and Sydney Aircrafts

2014/15	2015/16	2016/17	2017/18
12,350,000	12,600,000	12,600,000	12,600,000

This supports two non-commercial long haul services operated by Air New Zealand from Los Angeles to Rarotonga and from Sydney to Rarotonga. The 2014/15 Budget estimates that the underwrite will be \$12.3 million in 2014/15 and \$12.6 million in the following years. Further information is available in the chapter on contingent liabilities and sensitivity analysis.

Table 8.9 Apex - Profit Guarantee POBOC

2014/15	2015/16	2016/17	2017/18
1,500,000	1,500,000	1,500,000	750,000

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

8.5.2 Use of Goods and Services

Table 8.10 Civil List

2014/15	2015/16	2016/17	2017/18
2,374,105	2,324,105	2,324,105	2,324,105

The purpose of the Civil list POBOC is to provide funding for salaries, allowances, constituency travel and other privileges for Parliamentarians that are provided for under the *Remuneration Tribunals Order 2009/4 (the Act)*. In 2014/15, a one off increase of \$0.050 million has been added to the Civil List POBOC for the provision of 3 months' salary to those members of parliament who were unsuccessful in the recent general elections which was held on 9 July 2014.

Table 8.11 Marketing – Tourism Growth Strategy

2014/15	2015/16	2016/17	2017/18
2,250,000	2,250,000	2,000,000	2,000,000

The purpose of the Tourism Growth Strategy is to commit to sales and marketing programmes to support the additional long haul air services between Los Angeles to Rarotonga and Sydney to Rarotonga which are underwritten by the Cook Islands Government. The establishment of this POBOC is vital for the survival of the direct flights. The marketing funds are aimed at strengthening the load factor for these route services.

Table 8.12 Tertiary Training Institutions

2014/15	2015/16	2016/17	2017/18
760,000	760,000	760,000	760,000

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

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

Table 8.13 Pharmaceuticals

2014/15	2015/16	2016/17	2017/18
670,000	670,000	670,000	670,000

The purpose of the Pharmaceuticals POBOC is to purchase essential medicine for distribution to the public on directives issued by medical officers and control and monitor expenditure as a recommendation by the Budget Support Group.

An annual budget is allocated to purchase the Essential Medicines List (EML) items and consumables such as bandages, gloves, needles etc. Freight is inclusive of this budget allocation.

There are 413 items on the EML (as per the approved 2012 listing) of which 103 are NCD drugs (24% of EML). The NCD drug items are in the following categories:

- a) Cardiovascular- 57;
- b) Diabetes -8;
- c) Respiratory -10;
- d) DMARDs Gout -5;
- e) Behavioural and anticonvulsants- 19;
- f) Antineoplastics-4

Table 8.14 Waste Management

2014/15	2015/16	2016/17	2017/18
550,000	550,000	550,000	550,000

This POBOC administers payments for the contractor to collect rubbish and recyclables in a timely manner.

8.5.3 Social Assistance - Welfare POBOC

Table 8.15 Welfare POBOC

2014/15	2015/16	2016/17	2017/18
16,541,348	16,880,548	16,880,548	16,880,548

This POBOC supports and protects the most vulnerable members of our society through the provision of legislated welfare benefits.

The payments are aimed at assisting the disadvantaged, the elderly, disabled and young families to meet the cost of basic needs such as food, shelter and clothing. Without this support, there would be greater levels of poverty in the Cook Islands.

Table 8.16 Old Age Welfare Funds

	2013-14 Actual	2014-15 Budget	2015-16 Estimate	2016-17 Estimate
Legislated Payments				
1 Child Benefit	2,650,736	2,692,800	2,637,360	2,581,920
2 New Born Allowance	234,000	250,000	250,000	250,000
3 Old Age Pension	9,981,900	11,775,000	11,947,500	12,120,000
4 Destitute and Infirm Persons Payment	375,681,	396,000	395,000	390,600
5 Government-funded Paid Maternity Leave	80,024	144,000	144,000	144,000
Non-legislated Welfare Payments				
6 Caregiver's Allowance	273,076	346,500	356,400	376,200
7 Christmas Bonus	280,700	278,250	276,350	274,700
8 Funeral Allowance	217,834	170,000	170,000	170,000
9 Power Subsidy	75,822	87,120	87,120	87,120
10 Special Assistance	100,000	100,000	100,000	100,000
11 Bank of Cook Islands Transaction Fees	147,000	147,000	147,000	100,000

Table 8.17 Details on Welfare Payments

	Payment Rate	Beneficiaries 2013/14 Budget	Beneficiaries 2014/15 Estimated	Assumptions	
Legislated Welfare Payments					
Child Benefit (monthly)	66	3,570	3,400	A greater number of children expected to be removed from payment on reaching age of 12 and leaving the Cook Islands permanently. This is partially offset by an expected minor increase in new births.	
New Born Allowance*	1,000	310	250	The number of births has not increase to the expected number based on current trends however an increase is still anticipated.	
Old Age Pension - 60 to 69 years of age (monthly)	500	1,010	1,100	A minor increase in the number of people turning 60 years of age is expected based on current trends.	
Old Age Pension - 70 years of age and over (monthly)	625	690	690	Maintenance of the current number of people turning 70 years of age based on current trends.	
Destitute and Infirm Persons Payment (monthly)	165	230	202	An increase in the number of people receiving these payments based on current trends.	
Non-legislated Welfare Payments					
Caregiver's Allowance (monthly)	165	175	175	Maintenance of the current number of people that will qualify for caregiver's allowance based on current trends.	
Christmas Bonus*	50	6,000	6,000	Estimated number of beneficiaries expected to receive payment in December 2014.	
Funeral Allowance*	2,400	70	70	Estimated number of old age beneficiaries expected to receive funeral assistance.	
Power Subsidy (quarterly)	66	360	330	Estimated number of old age beneficiaries expected to receive power subsidy.	
Other Payments					
Government-funded Maternity Leave***	Paid	1,440	160	100	A reduction in the number of births by working women in the private sector based on actual trends in 2013-14

Note that some payments are not made on a monthly basis.

*The New Born Allowance, Christmas Bonus and Funeral Assistance are paid on each occurrence. Funeral assistance rate is calculated at the value of six months of the payment type the beneficiary received.

***The Paid Maternity Leave is expected to be paid over a six week period for working mothers in the private sector who have given birth from 1 January 2013.

8.5.4 WELFARE PAYMENTS

Legislated Entitlements

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

- Child Benefit, including a lump sum payment at birth, known as the New Born Allowance;
- Old Age Pension; and
- Destitute and Infirm Persons Relief.

The Employment Relations Act 2012 provides for the Government Funded Paid Maternity Leave payment.

Child Benefit

The Child Benefit is provided to parents, or guardians, of children under the age of 12. The rate of the payment is \$66 per month and is paid in two monthly installments on the 1 and the 16 of each month. This was raised from \$40 to \$50 per month in 2002 and to \$60 in 2003. On 1 March 2014, it was increased by 10% to \$66 as part of the tax reform package. On average, it is estimated that there will be approximately 3,500 children eligible for this payment in 2014-15.

New Born Allowance

The New Born Allowance is provided as a lump sum payment to mothers on the birth of a child born in the Cook Islands. The rate of the payment is \$1,000. This was raised from \$200 to \$300 in 2004 and to the current rate in November 2010. It is estimated that there will be approximately 300 eligible births in 2014-15. Applications for payment must be made within six months of the birth of the child.

Old Age Pension

The Old Age Pension is provided to eligible Cook Islanders from the age of 60.

For eligible Cook Islanders aged between 60 and 69, the rate of payment is \$500 a month and \$640 a month for those aged 70 and over. Payments are paid in two monthly installments on the 1st and the 16th of each month.

This payment has received regular reviews with increases in 2002, 2003, 2004, 2005, 2008, 2012, 2013 and most recently on 1 March 2014 to the current rate as part of the tax reform package. From 1 March 2014, the tax exemption of the payment was removed and now forms part of taxable.

On average, it is estimated that there will be approximately 1,100 eligible beneficiaries aged between 60 and 69 years and 690 eligible beneficiaries aged 70 and over in 2014-15.

Destitute and Infirm Persons Payment

The Destitute and Infirm persons payment is provided to Cook Islanders that are unable to permanently support themselves by their own means or labour and includes persons with dependents where such dependents are unable through infirmity or age to support themselves by their own means and labour.

Eligibility for payment is determined by a committee appointed by the Minister of Internal Affairs and continued eligibility is reviewed every three months in the first year of payment.

The rate of payment is \$150 per month and is paid in two monthly instalments on the 1 and the 16 of each month. On average, it is estimated that there will be approximately 200 beneficiaries eligible for this payment in 2014-15.

Government Funded Paid Maternity Leave payment

The Government introduced the first ever national paid maternity leave scheme in the Cook Islands with the enactment of the *Employment Relations Act 2012*. Since 1 January 2013, all working women who give birth while employed in the Cook Islands are entitled to no less than six weeks maternity leave from her employer and will have a right to return to their former position of employment, or equivalent, prior to maternity leave.

The Government has allocated \$190,000 in 2014-15 to assist private sector employers in meeting the new maternity leave obligations by introducing a new payment to pay for 6 weeks maternity leave for all eligible working women who give birth.

The Government funded payment will be paid at the minimum wage at 40 hours per week. The payment was increased from \$200 a week to \$240 a week as a consequence of the increase in the minimum wage from \$5 per hour to \$6 per hour on 1 April 2014. The rate of payment is set at the equivalent of \$240 per week for six weeks.

The payment is paid in one lump sum to employers of eligible women who are then expected to provide the payment to eligible women, in accordance with usual income payment arrangements. The payment is subject to income tax.

On average, it is estimated that there will be approximately 100 women eligible for this payment in 2014-15.

The Government already provides six weeks maternity leave to women employed in the public service directly through agency appropriations and these funds are not included in this POBOC.

Non-legislated Welfare Payments

In addition to payments made under the Welfare Act and the Employment Relations Act, the Government has provided executive authority for the payment of five additional welfare payments or allowances:

- caregiver's allowance;
- Christmas bonus;
- funeral allowance;
- power subsidy; and
- special assistance.

Caregiver's Allowance

The Caregiver's Allowance is provided to people that are required to provide substantial day to day care to elderly Cook Islands pensioners or people with permanent disabilities who have high care needs and do not have capacity to access such care. The rate of payment was increased by 10 per cent from \$150 per month to \$165 per month as part of the tax reform package. It is paid in two monthly installments on the 1st and the 16th of each month. On average, it is estimated that there will be approximately 130 people caring for eligible beneficiaries in 2013-14.

Christmas Bonus

A Christmas Bonus of \$50 is a bonus payment expected to be paid out to all eligible beneficiaries in December 2012 as a contribution from the Government to assist with costs at that time of the year. It is estimated that there will be approximately 6,000 people eligible for this assistance in 2013-14.

Funeral Allowance

A funeral allowance is provided to families on the death of a person receiving a welfare payment. The rate of payment depends on the benefit type that the person was receiving and is generally set at six months of the welfare payment for that person based on the 2013-14 rates. For example, someone in receipt of the old age pension would receive \$2,400 (6 months payment of the 2013-14 monthly rate of \$400 a month) or someone on the infirmed benefit will receive \$900 (six months payment of the 2013-14 monthly rate of \$150 a month).

Power Subsidy

A power subsidy may be provided, subject to an income test, for beneficiaries of the aged, destitute or infirm relief payment. People receiving an overseas old age pension are not entitled to this benefit

regardless of their total income. The subsidy of \$30 per quarter is provided directly to Te Aponga Uira to offset the power bills of eligible Rarotonga based beneficiaries and directly to individuals for eligible beneficiaries on the outer islands.

Special Assistance

Special assistance may be provided on a case by case basis and subject to an income and asset test to very elderly beneficiaries and people with severe disabilities to improve accessibility and mobility.

Bank of Cook Islands Transactions

Welfare benefits are paid directly into approved Bank of Cook Islands accounts at a transaction charge of \$1 per transaction. It is estimated that in general each beneficiary account will be paid twice per month.

8.5.5 Health POBOC

Table 8.18 Patient Referrals

2014/15	2015/16	2016/17	2017/18
550,000	550,000	550,000	550,000

The purpose of the Patient Referral POBOC is to provide equitable and timely access to primary, secondary and/or tertiary health care services in the Cook Islands and to New Zealand

According to the published 2012 Statistical Bulletin of the Ministry of Health, “the number of patients referred overseas, mainly to New Zealand, is steady around 150 to 200 patients, within the last three calendar years. Patients referred to Rarotonga from the outer islands recorded 289 in 2010 and 280 in 2012”.

There are increasing numbers of patients presenting with multiple chronic diseases and complications from cardiovascular disease, diabetes, cancer, renal failure, stroke; as well as multiple injuries from road traffic accidents, the majority of which are alcohol related. These represent a myriad of ailments requiring tertiary level services which the Cook Islands health system currently cannot viably provide in-country (CT Scan, MRI cases, renal dialysis and cancer treatment). The referral system to New Zealand therefore is an important system for meeting these needs.

8.5.6 Current Miscellaneous Other Expense

Table 8.19 Private School Funding POBOC

2014/15	2015/16	2016/17	2017/18
1,982,627	1,982,627	1,982,627	1,982,627

The Education Act (2012) allows for the establishment of private schools. The Act also allows for the registration of private tertiary and TVET providers in addition to pre-primary, primary and secondary providers.

A private provider of education must demonstrate to the Ministry of Education that the establishment of their institution fulfils a need of the country. Private schools have an aspect of “special character”. There are currently eight private providers in the Cook Islands; the special character of five of these schools are identified through religious affiliation with the other three relating to different groups of parents or types of governance.

All private schools receive 100 per cent equivalent funding to government schools for professional staff salaries and operating costs based on enrolment. No funds are provided for maintenance of grounds or buildings or their construction. Funding is conditional on the school being open to education and quality

assurance and financial audit to ensure compliance with education regulations and guidelines and foster the provision of quality education. This policy of 100 per cent equivalent funding has been in place since 2007/08. Prior to this time, private schools received varying amounts of funding (50 – 95 per cent equivalent) depending on the level of integration into the public education system.

All private schools receive the same services, as government schools, from the Ministry of Education with respect to service training for teachers, specialist services and specific resourcing or pedagogical projects.

Private schools may charge additional fees. These are utilised to fund buildings, ancillary staff (e.g. library and office staff) and some schools choose to privately fund additional teachers.

Chart 8.6, Chart 8.7, and Chart 8.8 demonstrate the total enrolments for all schools in the Cook Islands for 2013.

Chart 8.6 Total Private School Enrolments for 2014

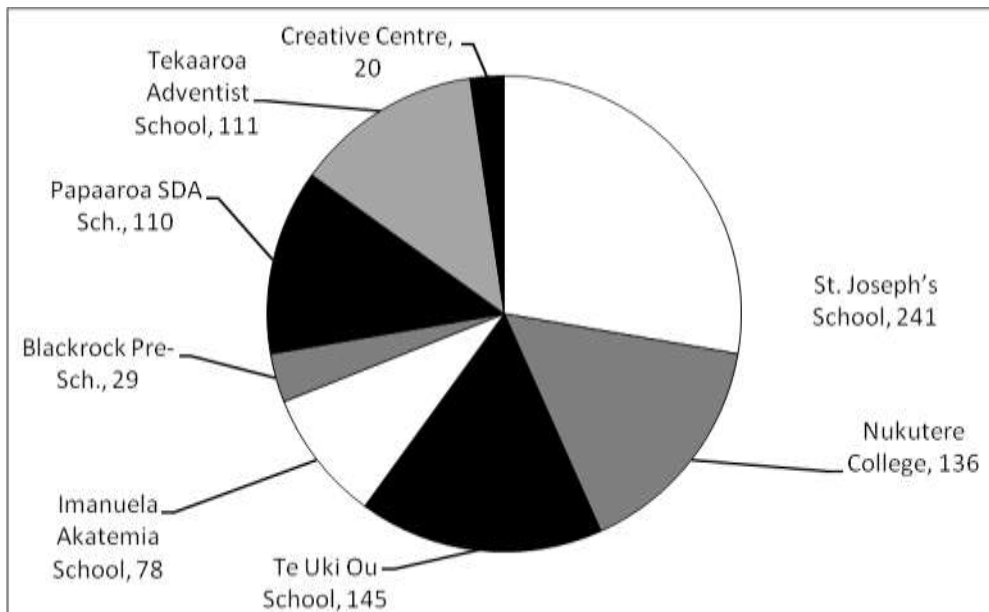


Chart 8.7 Total Rarotonga Public School Enrolments for 2014

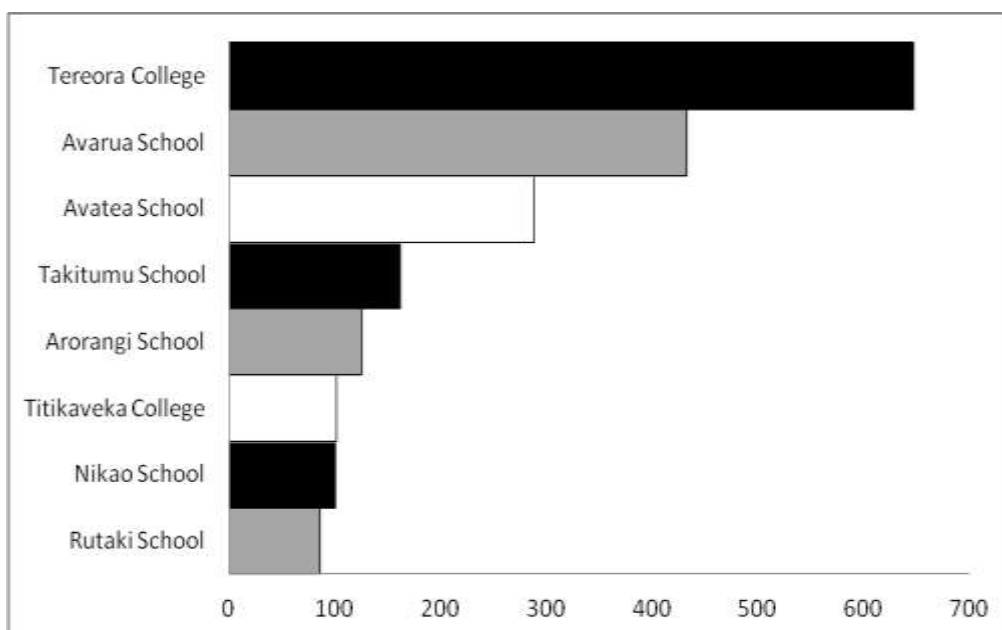


Chart 8.8 Total Government Pa Enua School Enrolments for 2014

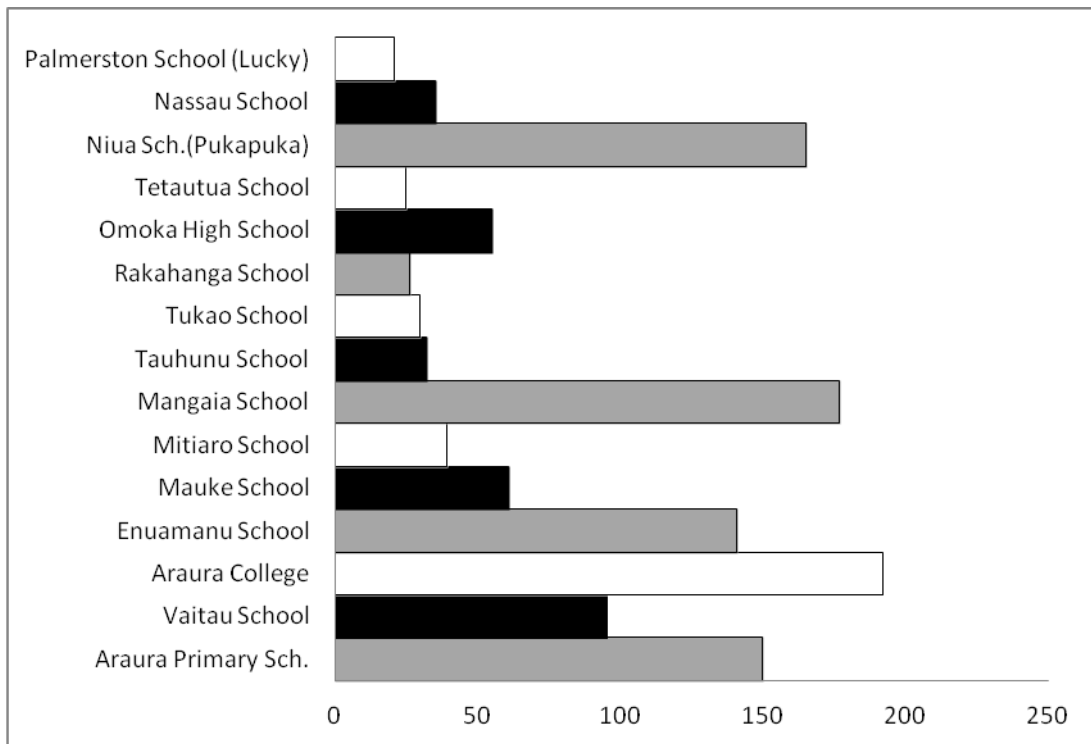


Table 8.20 Regional and International Organisation Contributions 2014/2015

Organisation	Currency	Foreign Amount	Exchange Rate *	NZD Equivalent
Secretariat of the Pacific Commission (SPC)	XPF	5,200,000	64.69230	80,380.51
African, Caribbean & Pacific Group States (ACP)	EUR	9,544	0.54211	17,605.35
Asia Pacific Telecommunity (APT)	USD	4,549	0.84700	5,370.72
Commonwealth Fund for Technical Cooperation (CFCT)	GBP	5,431	0.36799	14,758.51
Commonwealth Local Government Forum (CLGF)	GBP	2,190	0.36799	5,951.25
Comprehensive Nuclear-Test-Ban Treaty (CTBTO)	USD	1,466	0.84700	1,730.81
Comprehensive Nuclear-Test-Ban Treaty (CTBTO)	EUR	79	0.54211	145.73
Comprehensive Nuclear-Test-Ban Treaty (CTBTO)	USD	5,463	0.84700	6,449.82
Comprehensive Nuclear-Test-Ban Treaty (CTBTO)	EUR	565	0.54211	1,042.23
Commonwealth Youth Program (CYP)	GBP	8,885	0.36799	24,144.61
Food and Agriculture Organisation (FAO)	USD	2,594	0.84700	3,062.87
FAO (Rotterdam Convention)	EUR	1,907	0.54211	3,518.32
FAO (Rotterdam Convention)	USD	402	0.84700	474.62
Forum Fisheries Agency (FFA)	USD	14,962	0.84700	17,664.70
Pacific Islands Forum Secretariat (PIFS)	FJD	43,274	1.18359	36,561.65
Global Forum on Tax Transparency	EUR	15,000	0.52650	28,490.03
International Criminal Court	EURO	3325	0.54211	6,133.46
International Maritime Organisation	USD	56702.3	0.84700	66,944.86
International Seabed Authority	USD	487	0.84700	574.97
International Tribunal for the Law of the Sea	EUR	792	0.54211	1,460.96
Organisation for the Prohibition of Chemical Weapons (OPCW)	EUR	686	0.54211	1,265.43
Pacific Immigration Directors Conference (PIDC)	AUD	1000	0.66660	1,500.15
Pacific ICT Regulatory Resource Centre (PIRRC)	USD	500	0.84700	590.32
South Pacific Regional Environment Programme (SPREP)	USD	10,184	0.84700	12,023.61
South Pacific Regional Fisheries Management Organisation (SPRFMO)	NZD	13,696	1.00000	13,696.00
United Nations Convention to Combat Desertification (UNCCD)	EURO	373.00	0.54211	688.05
United Nations Convention to Combat Desertification (UNCCD)	USD	67.00	0.84700	79.10
United Nations Development Programme (UNDP)	USD	34,502	0.84700	40,734.36
UNEP (Convention on Biological Diversity)	USD	418	0.84700	493.51
UNEP (Conservation of Migratory Species)	USD	4,833	0.84700	5,706.06
United Nations Educational Scientific & Cultural Organisation	USD	6,584	0.84700	7,773.32
UNESCO	EUR	2,968	0.54211	5,474.92
United Nations Framework Convention on Climate Change (UNFCCC)	USD	777	0.84700	917.36
UNFCCC (Climate Change)	USD	486	0.84700	573.79
United Nations Population Fund (UNFPA)	NZD	1,500	1.00000	1,500.00
Western and Central Pacific Fisheries Commission (WCPFC)	USD	16,087	0.84700	18,992.92
World Health Organisation	USD	8,940	0.84700	10,554.90
WHO (Framework Convention on Tobacco Control) FCTC	USD	124	0.84700	146.40
World Meteorological Organisation	CHF	12,490	0.89373	13,975.17
International Civil Aviation Organisation	NZD	72,000	1.00000	72,000.00
Pacific Aviation Safety Office	NZD	22,482	1.00000	22,482.00
TCl- Maritime Shipping Service	NZD	79,191	1.00000	79,191.00
TOTAL				\$ 632,824

9 TAX EXPENDITURE

A key element of fiscal transparency is the analysis and management of tax expenditures. Tax expenditure in broad terms, is a tax provision that deviates from a benchmark tax system.

Tax expenditures may take a number of forms: exclusions, exemptions, allowance, deductions, credits, preferential tax rates, or tax deferrals. Tax holidays and tax free zones are tax expenditures subject to specific time periods or geographical areas.

To identify what a tax expenditure is, a normative or a benchmark tax structure must be established.⁸In the case of the Cook Islands the benchmark tax structure is the existing tax regime as governed by the following Acts, the:

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

The Ministry of Finance and Economic Management has not attempted to cost these expenditures, but identified them.

Import Levies

1. Concession on fuel to the outer islands.

Fuel to all outer islands is free of levy except Aitutaki where the rate is 15 cents per litre on petrol and 5 cents per litre on diesel.

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

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

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

3. Concessions for returning Cook Islanders.

All levies are waived for returning Cook Islanders who have been away for more than three years and are returning to live in the Cook Islands for the next two years.

4. Levy free jet fuel.

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

Income Tax

1. Deductions allowed in respect of donations to charitable organisations.

Charitable donations are deductible from taxable incomes at the marginal rate of one's income. The minimum donation is \$200 and the maximum donation is \$5,000 per annum.

2. Some of the income derived by international airlines operating in the Cook Islands.

⁸Swift, Zhicheng Li **Managing the Effects of Tax Expenditures on National Budgets** http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2006/05/23/000016406_20060523092056/Rended/PDF/wps3927.pdf Accessed 17 May 2012

Some of the income derived by international airlines is exempt of tax.

3. Income of Queen's Representative.

The income of the Queen's Representative is exempt.

4. Pensions arising from disability or from services provided in respect of any war.

All 'war pensions' and allowances paid to persons who served in a war or were injured during any service in the armed forces of any nation are exempt of income tax.

5. Income from approved superannuation funds.

Incomes derived by either the New Zealand Government Superannuation Fund or by a superannuation fund approved by the Collector are exempt from tax.

6. Income derived by charitable organisations.

All income derived by charitable organisations is exempt of tax.

7. Income derived by promoters of amateur sports.

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

8. Income derived under a government approved supplementary scheme.

Incomes derived by teachers and other employees approved by government under a supplementary scheme are exempt of tax. This applies only to the supplementary income received, not the income paid by the Cook Islands government.

9. Income derived by consular and diplomatic personnel.

Income derived by consular and diplomatic personnel as is exempted under the Diplomatic Privileges and Immunities Act 1968.

10. Income derived from a foreign source in the context of international foreign aid.

Income derived in the context of foreign aid, paid by a non-resident to a non-resident employer is exempt of tax.

11. 95 per cent of incomes derived upon retirement.

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

Value Added Tax

1. Financial services provided by the banking industry.

Financial services provided by domestic trading banks are exempt of VAT.

2. Attendance dues paid to private schools.

Attendance dues paid to private schools are exempt of VAT.

3. Goods imported by non-profit and religious organisations, schools and for disaster relief.

Goods imported by non-profit and religious organisations, schools and for disaster relief are exempt of VAT upon importation.

4. Goods imported by the Queen Representative and New Zealand High Commission.

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

10 CROWN DEBT

10.1 The Crown Loan Reserve Fund (LRF)

In 2001 an informal reserve was established to enable the Crown to access and subsequently on lend concessional loans to State Owned Enterprises (SOEs). Repayment terms with the external lenders included a grace period (normally five years) that was not extended to the SOEs. SOEs were required to service the average debt servicing cost at the initial point of drawing down the loan. These funds were subsequently set aside into a debt reserve.

In February 2014 the Parliament of the Cook Islands passed *the Cook Islands Loan Repayment Fund Act 2014* formally creating a Loan Reserve Fund (LRF). The effect of the LRF is to quarantine those monies previously accumulated from being utilised for anything outside of debt servicing requirements. Parliament also legislated a framework for the management of the timely allocation of money from the budget as required for the servicing of all sovereign debt held by the Crown.

At the time of this publication, the LRF has sufficient funds to fully cover all debts owed on behalf of SOEs to lenders. These SOEs include the Bank of the Cook Islands (BCI), Te Aponga Uira (TAU) and Telecom Cook Islands Limited (Telecom).

MFEM, has put out to tender the analytical services and management of the LRF to local banking institutions, it is expected a formal commercial arrangement is expected to be in place by November 2014.

Table 10.1 Loan Repayment Fund Transactions (\$000)

Debt Reserve Working	Transfer In	Transfer Out	Balance	SOEs Debt
Budgets 2005-2006	0	0	17,018	0
2006-07 transfer to reserve	1,529	0	18,547	22,390
2007-08 transfer to reserve	1,287	0	19,834	23,497
2008-09 transfer to reserve	1,100	0	20,934	21,018
2009-10 transfer to reserve	1,100	0	22,034	18,465
2010-11 loan repayment	0	1,529	20,505	17,365
2011-12 loan repayment	0	1,429	19,076	16,177
2012-13 loan repayment	0	1,529	17,547	14,548
2013-14 loan repayment	0	1,336	16,211	13,347

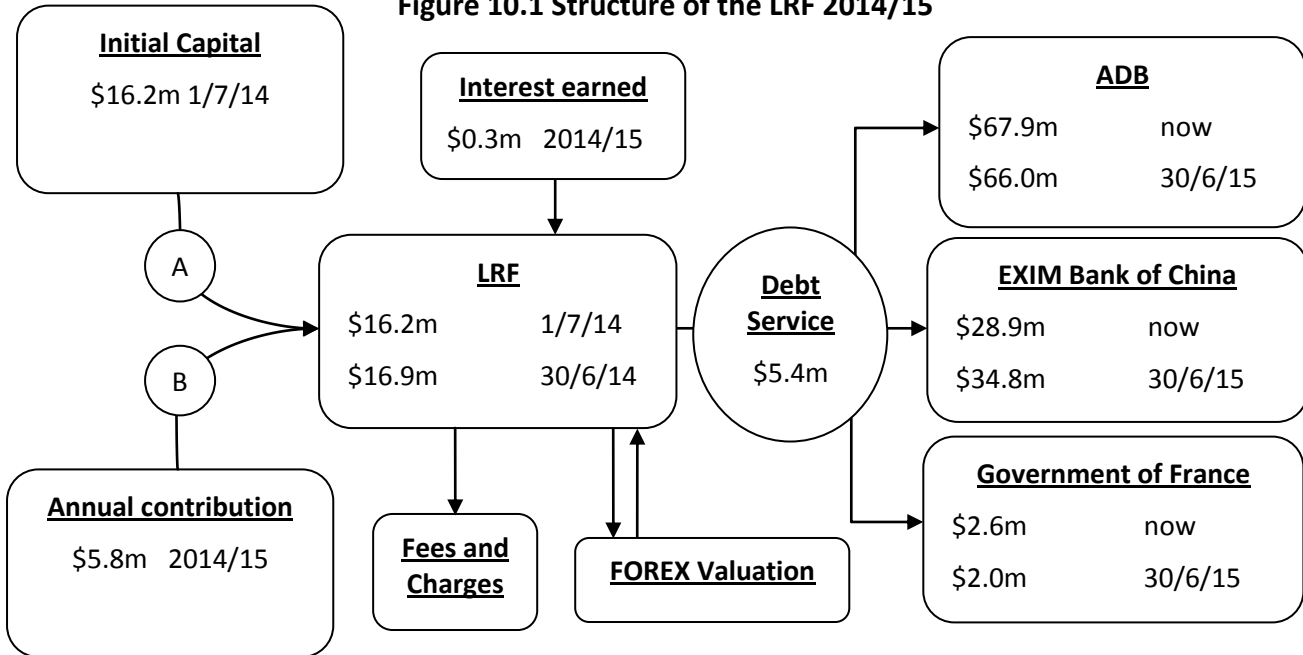
Table 10.1 shows the LRF with a balance of \$16.2 million as at 30 June 2014. This balance will be transferred to capitalise the LRF.

A significant amount of the gross sovereign debt owed by the Crown is denominated in non-New Zealand dollars (\$33 million in NZD, \$69.9 million in non NZD). Exchange rate volatility is another parameter which needs to be taken into account in managing sovereign debt. The Cook Islands has benefited from a stronger NZD/USD, and has taken the opportunity to restructure some loans with the ADB to NZD.

The LRF will have the capacity to invest in other currencies but such investments will be limited to holding stocks of currency in which debt has been incurred, RMB, USD, EUR and SDR components.

Ultimately the value of the fund could be affected by net foreign exchange valuations.

Figure 10.1 Structure of the LRF 2014/15



- A** At 30 June 2014, LRF balance of \$16.2 million will be transferred as the fund's initial opening balance.
- B** Annual contribution by Government will be the average of the total amortised debt repayment schedule revised annually for exchange movement and new debt.

Table 10.2 estimates the movement of the LRF over the next four years. The amount of \$5.8 million transferred in annually is the total average amortised debt repayment for the Crown over a period of five years. This is different from the actual debt service which is the total amount transferred out of the LRF.

Table 10.2 Loan Repayment Fund Statement 2014/15

	2014/15	2015/16	2016/17	2017/18	2018/19
Opening LRF balance	16,211	16,090	15,897	15,136	12,737
Transfer in	5,787	5,787	5,787	5,787	5,787
Interest earned (avg 2%)	324	322	318	303	255
Total transfer in	6,111	6,109	6,105	6,090	6,042
Repayment from LRF balance					
Principal	1,200	1,227	1,253	1,253	968
Interest	125	114	103	92	81
Total repayment from LRF	1,325	1,341	1,356	1,345	1,049
Repayment of other debt					
Principal	3,092	3,065	3,664	5,425	5,479
Interest	1,815	1,897	1,845	1,718	1,590
Total repayment other debt	4,907	4,962	5,510	7,143	7,069
Other service fees *	-	-	-	-	-
LRF stock balance	16,090	15,897	15,136	12,737	10,661

*Other service fees is the management cost of the fund, this will be determined and paid to the successful bidder

As illustrated in Chart 10.1, the amount transferred into the LRF is revised up or down every five years depending on the level of debt servicing. This method smooths out the lumps in future cash requirement for debt servicing repayment.

This annual amortised amount will be reviewed and adjusted annually to take into account changes to the stock of debt – including any new debt taken on by the Crown and significant changes to the exchange rate.

Chart 10.1 Debt servicing vs Average amortisation over the next 20 years

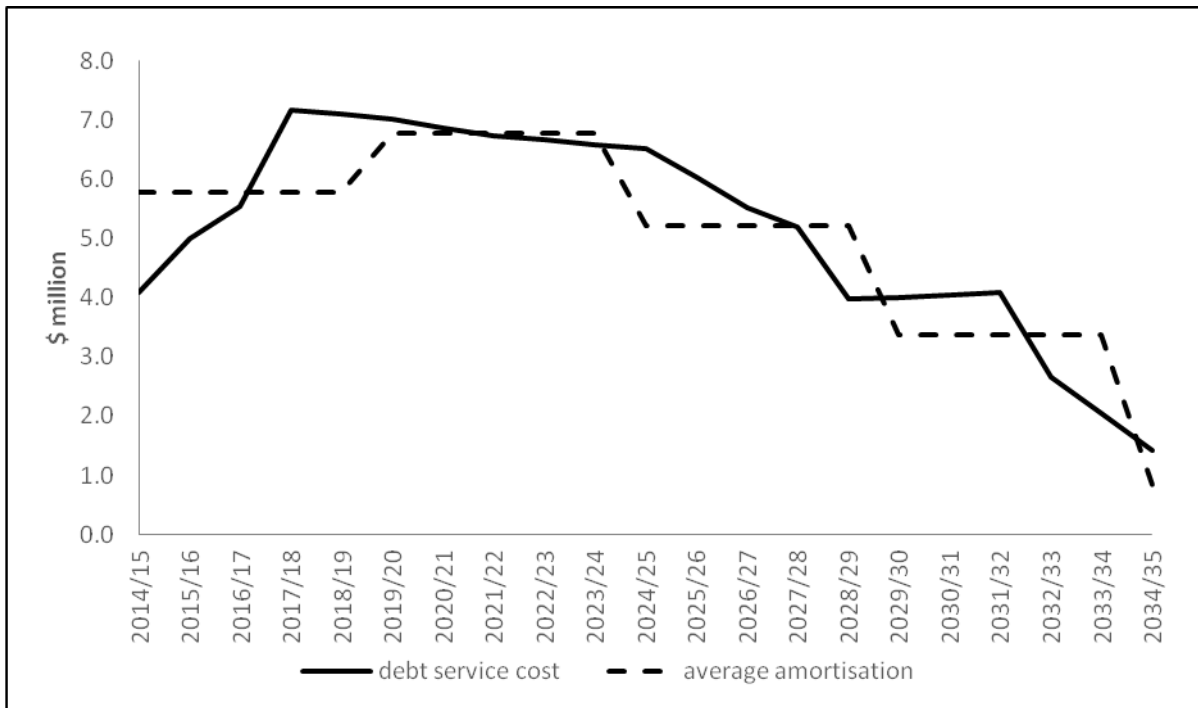
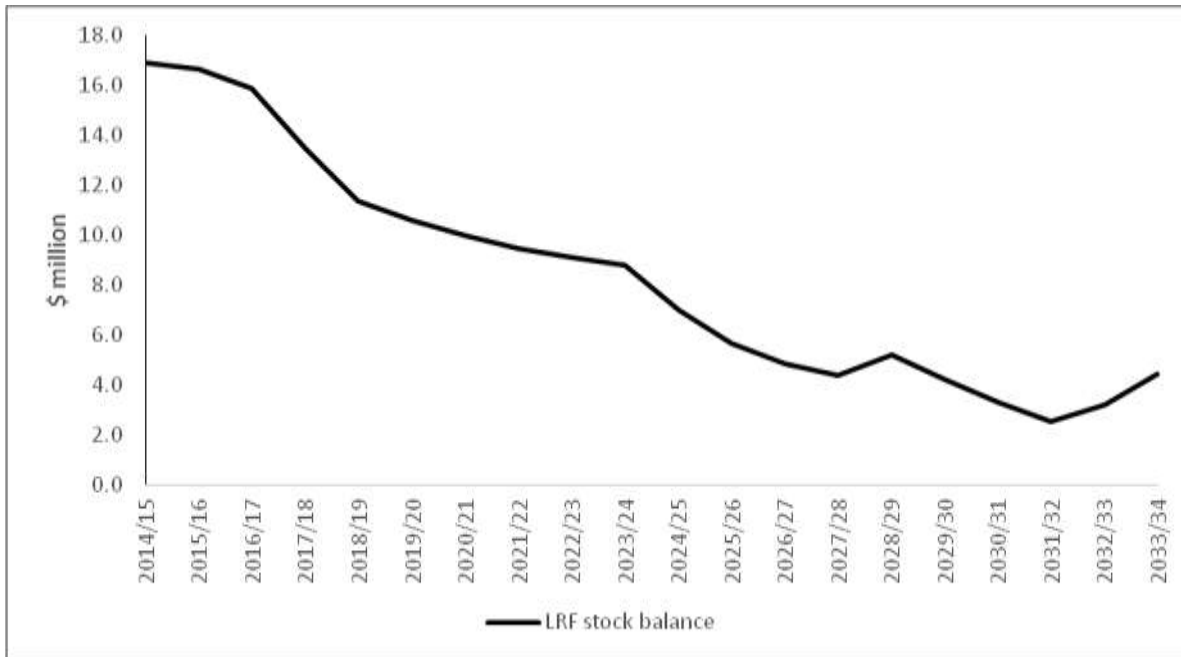


Chart 10.2 illustrates the trend movement of the LRF. The downward trend reflects the debt repayment schedule over the next 20 years.

Chart 10.2 Movement in the LRF over the next 20 years



10.2 Gross Debt owed by the Crown

Total gross debt owed by the Crown is estimated to reach \$93.7 million by 30 June 2015. A net reduction of \$4.4 million from what was estimated during the 2014 PEFU.

The variance compared to the 2014 PEFU was due to the delay in drawdown of the Rarotonga Water Ringmains Upgrade project (\$6.4 million) now re-phased out to 2015/16, the finalisation of the debt conversion for the Avatiu Port Development loan (USD \$13.3 million) and the Economic Recovery Support Program loan (USD \$10 million) to New Zealand dollars (NZD) of \$3.7 million and \$1.6 million on foreign exchange gain.

Table 10.3 Reconciliation on 2014/15 Loan Movement

Movement Reconciliation	\$ Million
Initial estimated gross debt for 30 June 2015 (PEFU)	98.1
Movement during the period	
Loan conversion adjustments	3.7
Delay in drawdown - Water/Road loan from China	-6.4
Unrealised exchange (gain)/loss	-1.6
Total movement during the period	-4.4
Estimated gross debt for year ending 30 June 2015	93.7

The exchange rate assumption reflects the ten day average exchange rates as at 14 August 2014 and these remain constant over the forward estimates period. Past changes in major exchange rates against the New Zealand dollar (NZD) are reflected in

Chart 10.3.

Chart 10.3 Changes in Major Exchange Rates

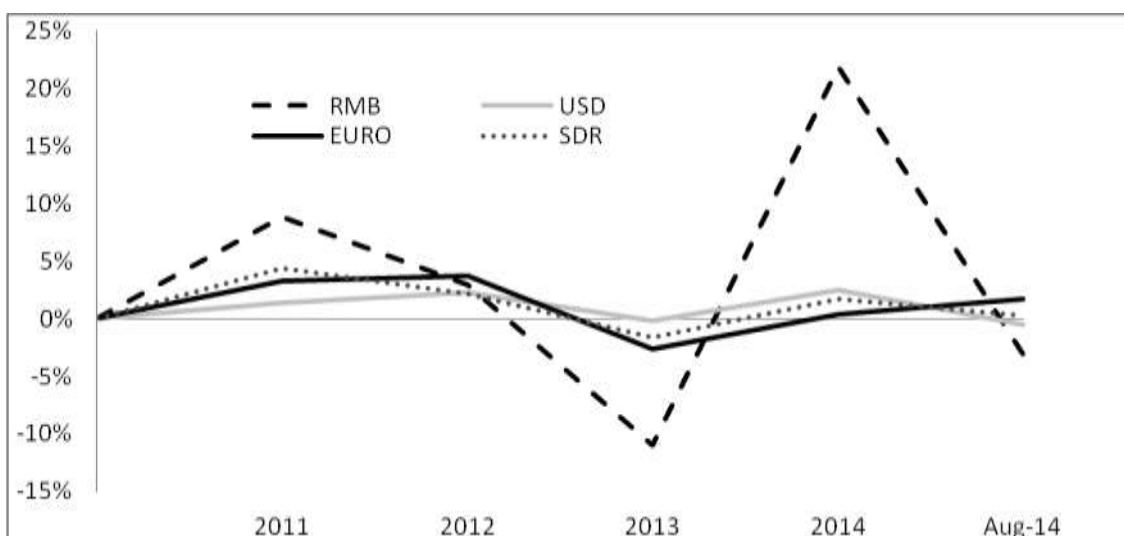


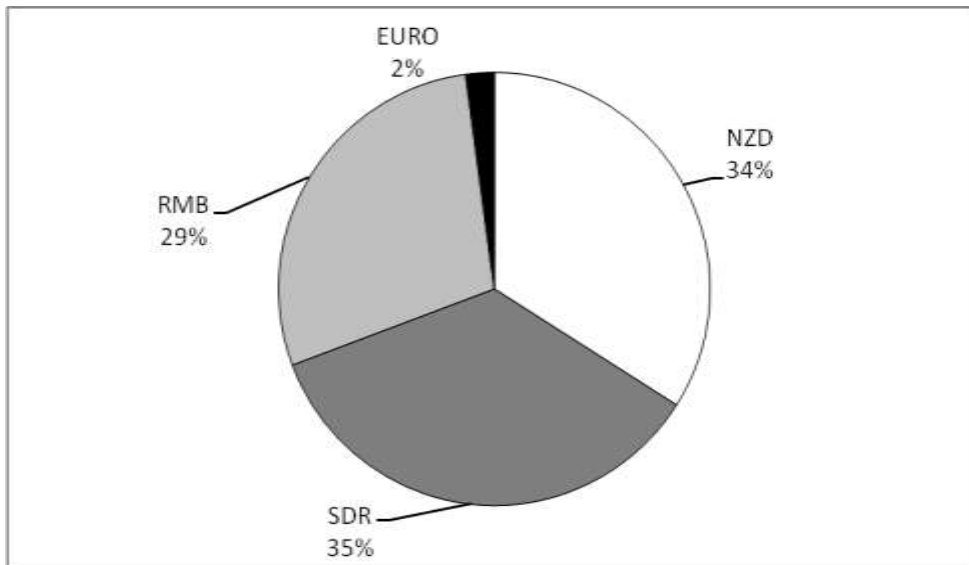
Chart 10.3 illustrates the movement of major currencies against the NZD in the last three years. The Chinese Renminbi (RMB) which makes up 34 per cent of Government’s debt portfolio has demonstrated the greatest level of volatility.

Table 10.4 Average Exchange Rates Used

Foreign Exchange Currency	March 2014 Average	10day average - Aug 14	Changes
EUR	0.6160	0.6330	2.8%
USD	0.8517	0.8470	-0.6%
RMB	5.2550	5.2240	-0.6%
SDR	0.5509	0.5540	0.6%

Table 10.4 shows the movement between exchange rates utilised for the 2014 PEFU and the 2014/15 Budget. The NZD has strengthening against the Euro and the SDR, but weakens against the RMB and the USD.

Chart 10.4 Composition of Crown Debt estimated for 30 June 2015 by Currency



Total Crown debt as reported in Chart 10.4 is mainly denominated in SDR with 35 per cent, followed by NZD (34 per cent), RMB (with 29 per cent) and the final two per cent denominated in Euro.

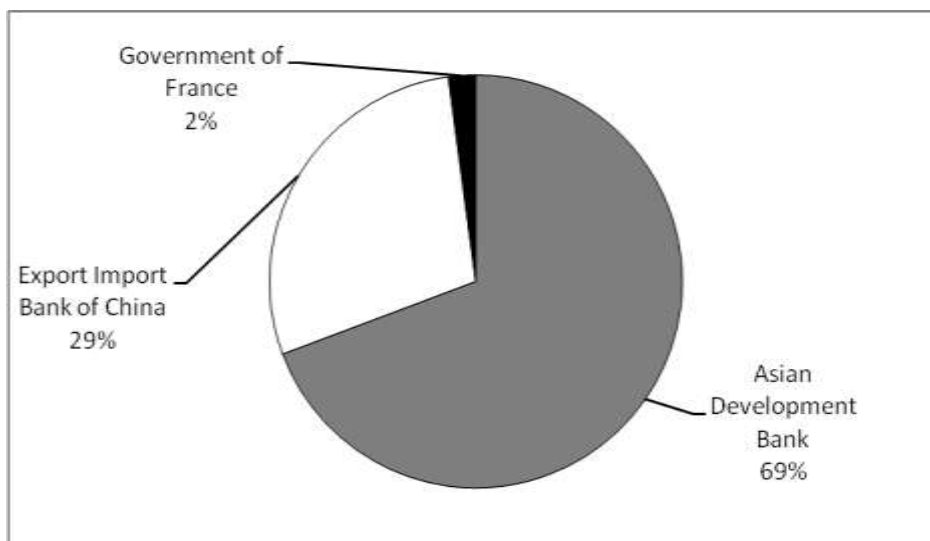
The total share of NZD denominated loans has increased from seven per cent to 34 per cent as a result of recently converted loans held with the ADB valued at USD \$23.3 million (Ports Authority loan of USD \$13.3 million and Economic Recovery Support Program (ERSP) tranche one of USD \$10 million).

10.2.1 Gross Debt by Lenders

The estimated gross debt by lenders owed to the Crown at June 2015.

As illustrated in Chart 10.5, the majority of the Crown's borrowings are held by two creditors, the ADB and the Export Import Bank of China (EXIM Bank).

Chart 10.5 Gross Debt Estimates by Lenders as at 30 June 2015



As illustrated in Chart 10.5, the majority of the Crown's borrowings are held by two creditors, the ADB and the Export Import bank of China (EXIM Bank).

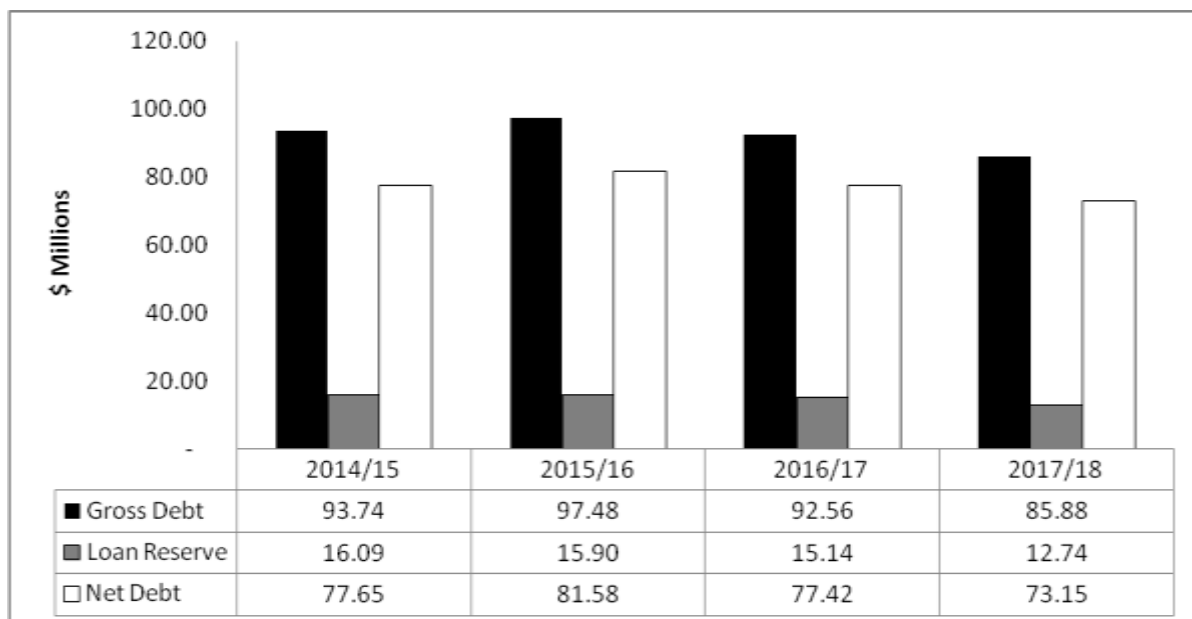
The Government is in the final stages of presenting a further proposal as per the requirements of the Loan Repayment Fund Act 2014 with the ADB for renewable energy development in the Southern Group.

The project will be resourced through a combination of funds from a European Commission grant, an ADB loan and PEC funding. The project will support the construction of up to six solar photovoltaic power plants in the Southern group, provide institutional strengthening to the Office of the Energy Commissioner (OEC) and Renewable Energy Development Division (REDD) at OPM, and provide project management support to the power utilities Te Aponga Uira (TAU) and REDD to implement core and non-core subprojects.

10.2.2 Crown Debt Outlook

If no new debt is taken on by the Crown then it is expected that total gross debt will gradually reduce as the principle is repaid.

Chart 10.6 Cook Islands overall debt position outlook



10.2.3 Status of Government Loans

Table 10.5 shows that the total amount drawn down is \$93.7 million which does not include \$13 million loan from the ADB for renewable energy projects and \$8 million drawdown on the Rarotonga Water Ringmains Upgrade project.

The additional proposed new debt will take the total gross debt portfolio for the Crown to \$114.8 million, offsetting this is the LRF estimated to be \$16.9 million by the end of 2014/15.

If the Government were to take up the \$13 million loan from the ADB it would be denominated in NZD, and the annual contribution to the LRF would be expected to increase from \$5.8 million to \$6.1 million.

Table 10.5 Status of Government loans estimated at 30 June 2015

Loans drawn down	Date loan taken	Original loan amount (\$000)	Current balance (\$000) (NZD)	Expected date of repayment	Amount covered by LRF (\$000)
ADB 461 (SF) Multi Project	November, 1980	SDR1,000	524	August, 2020	0
ADB 567 (SF) CIDB Project	July, 1982	SDR1,500	489	April, 2022	489
ADB 849 (SF) 2nd Multi-Project	December, 1987	SDR2,067	1,806	August, 2027	1,806
ADB 1031 (SF) Outer Islands Telecom Project	October, 1990	SDR3,541	4,280	August, 2030	4,280
ADB 1155 (SF) 2nd CIDB Project	March, 1992	SDR939	1,079	December, 2031	1,079
ADB 1171 (SF) Emerg. Telecom Rehab Project	August, 1992	SDR291	371	June, 2032	371
ADB 1309 (SF) Pearl Industry Dev. Project	December, 1994	SDR336	416	August, 2034	0
ADB 1317 (SF) Educ'n Dev Project	February, 1995	SDR1,836	2,535	August, 2034	0
ADB 1380 (SF) 3rd CIDB Project	January, 1996	SDR1,538	2,127	September, 2035	2,127
ADB 1466 (SF) Economic Restructure Program	September, 1996	SDR3,430	4,700	September, 2036	0
ADB 1588 (SF) Cyclone Emergency Rehab Project	January, 1997	SDR475	788	January, 2038	0
Restructured French Loans	January, 1999	Euro5,413	1,995	September, 2018	1,995
ADB 1832 (SF) Waste Mgt Project	December, 2001	SDR1,695	2,143	June, 2033	0
ADB 2174 (SF) Cyclone Emergency Assist Project	June, 2005	SDR1,895	3,644	June, 2045	0
China - Multi-Functional Indoor Sports Stadium	August, 2008	RMB74,100	12,293	August, 2028	0
ADB 2472 (OCR) Avatiu Port Development Project*	September, 2009	NZD10,058	9,796	November, 2033	0
ADB 2473 (SF) Avatiu Ports Development project	September, 2009	SDR8,346	8,166	November, 2040	0
ADB 2565 OCR Economic Recovery Support Program 1*	January, 2010	NZD11,053	9,546	October, 2024	0
ADB 2739 (OCR) Amendment Avatiu Port project*	December, 2011	NZD5,290	5,290	November, 2035	0
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB118,000	14,507	December, 2032	0
ADB 2565 OCR Economic Recovery Support Program 2	December, 2012	NZD7,250	7,250	December, 2028	0
Total loans drawn down			93,745		12,147
Debt Committed but not yet drawn					
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB118,000	8,025	December, 2032	0
ADB Renewable Energy Project	December, 2014	NZD12,980	12,980	December, 2039	0
Total proposed new debt			21,005		0
Total loans commitment			114,750		12,147

Chart 10.7 Current Bilateral and Multilateral Estimate Loans Outstanding Next 10 Years

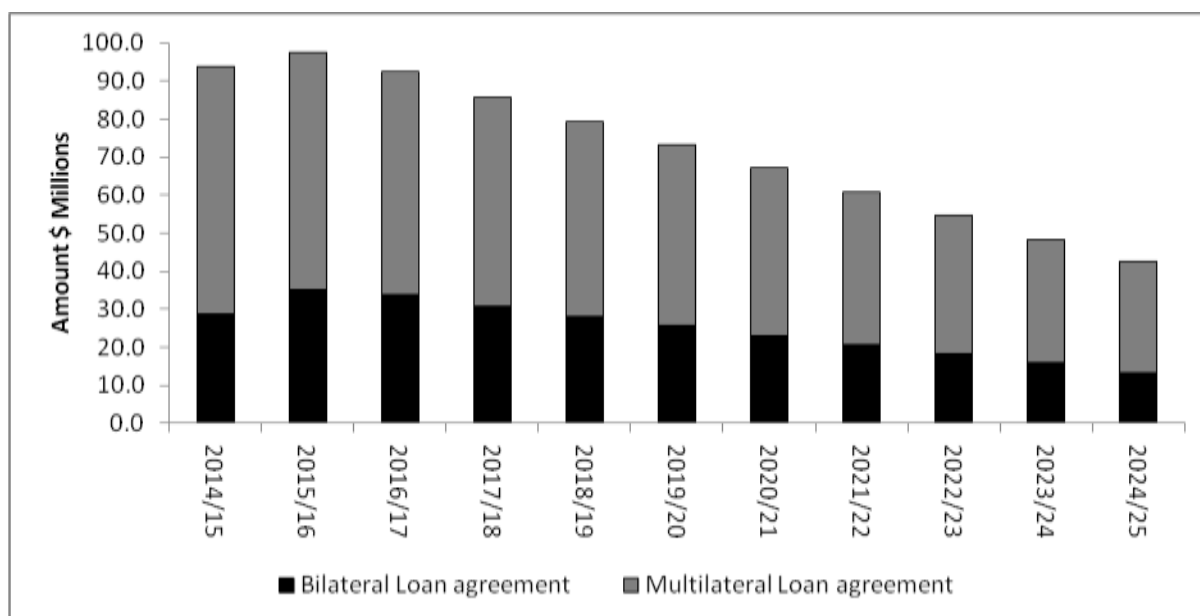


Chart 10.7 shows the bulk of debt is committed from multilateral agreements with the ADB (64 per cent), compared to bilateral agreements of 34 per cent with the EXIM bank of China and 2 per cent with the Government of France.

10.3 Net Debt

For the purpose of this chapter, 'Net Debt' is the total gross debt net of the LRF or the difference between the total gross debt and monies held in the LRF.

Net debt is estimated to be \$77.7 million (19.6 per cent of GDP) by the end of June 2015. Table 10.6 shows that by 2017/18 we will be close to the 5 per cent threshold set by Government for Net Debt to Total Revenue.

Table 10.6 Estimated net debt to 2017/18

Current Statement	2014/15	2015/16	2016/17	2017/18
	Projected	Projected	Projected	Projected
Statement of Borrowings	\$m	\$m	\$m	\$m
Gross Crown Debt, End of FY	93.7	97.5	92.6	85.9
... net of loan reserves, End of FY	77.7	81.6	77.4	73.1
as percentage of GDP	19.6%	20.4%	19.9%	18.5%
Loan Repayment Reserves Held	16.1	15.9	15.1	12.7
Gross Debt Servicing	6.2	6.3	6.9	8.5
Net Debt Servicing	4.2	4.2	4.4	5.9
... as percentage of Total Revenue	3.4%	3.4%	3.6%	4.8%

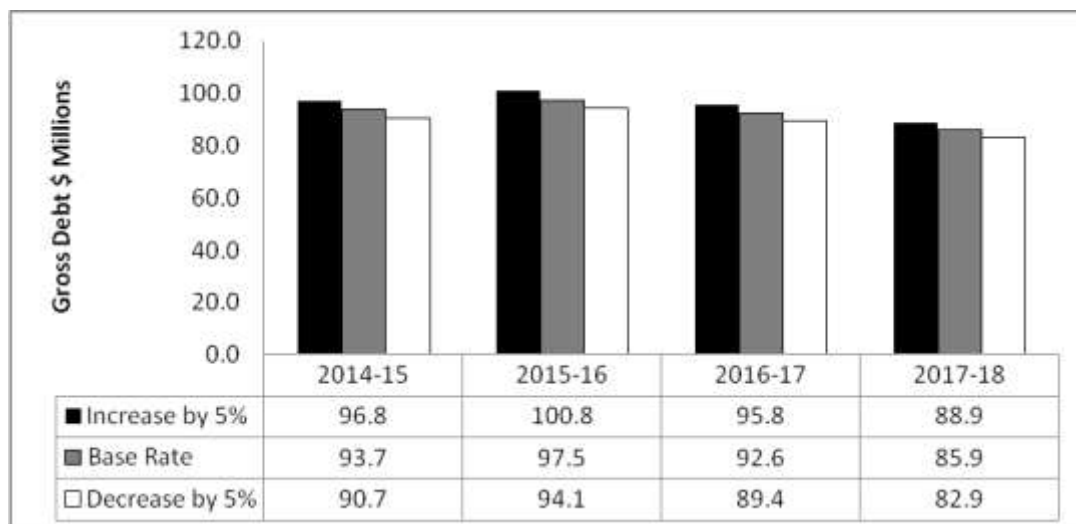
10.4 Crown Debt Exchange Rate Sensitivity Analysis

Table 10.7 Base rate used for budget assumption with +/- five per cent

Foreign Exchange Currency	-5%	Budget assumption base rate	+5%
EURO	0.6663	0.6330	0.6029
USD	0.8916	0.8470	0.8067
RMB	5.4989	5.2240	4.9752
SDR	0.5832	0.5540	0.5276

The largest risk to the stock of debt is the long term level of the New Zealand dollar. The sensitivity analysis aims to demonstrate the impact of a five per cent appreciation or depreciation in the New Zealand dollar on the gross borrowings and debt servicing costs.

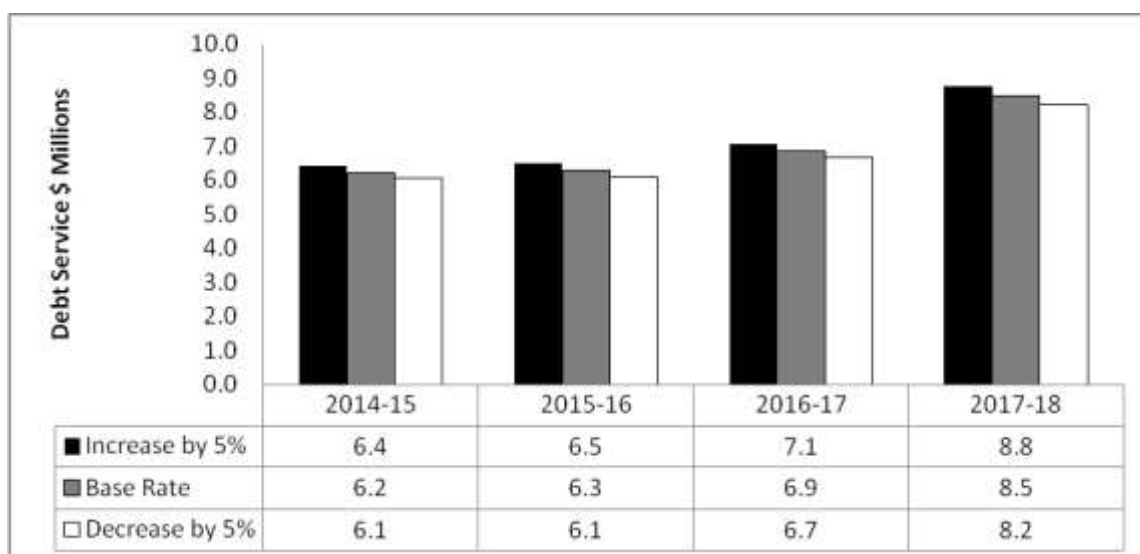
Chart 10.8 Sensitivity of Total Crown Gross Debt



If the exchange rate was to depreciate by five per cent, total Crown debt would increase by an estimated \$3.1 million (as compared to a \$5.3 million increase at the time of the 2014 PEFU). A change of \$2.2 million within a period of six months shows how sensitive our debt stock is to movement in exchange rate.

If the New Zealand dollar depreciated by more than five per cent, this would reduce the opportunity for further borrowings and increasing debt servicing costs to unsustainable levels.

Chart 10.9 Sensitivity of Debts Servicing Costs



The impact of the five per cent increase or decrease on debt servicing cost is relatively consistent with the impact on gross debt.

Any decision to commit to further borrowings will need to be assessed carefully against the strength of the New Zealand dollar as it presents a clear risk to the debt sustainability of the Cook Islands.

10.5 Future Borrowings and Fiscal Responsibility Ratios Relating to Debt

Proposals to take on new loans must be treated under transparent processes as required by the MFEM Act 1995/96 and the LRF Act 2014.

The LRF Act 2014 requires MFEM to analyse and report to the Parliament and the public on the impact of new borrowing in the context of Government lending policy, including the amortisation schedule, the impact on debt service burden of the government over the life of the loan, and an assessment of the sustainability of aggregate government debt. Reports should be made in advance of loan agreements being finalised.

10.5.1 Projected debt profile including forward loan commitments

The Government is combining to take a loan from the Asian Development Bank's (ADB) ordinary capital resources (OCR) and a European Commission (EC) grant. The amount of \$24.3 million will support the construction of up to six solar photovoltaic power plants in the Cook Islands Southern group, provide institutional strengthening to the Office of the Energy Commissioner (OEC) and Renewable Energy Development Division (REDD), as well as provide project management support to the power utilities, Te Aponga Uira (TAU) and REDD to implement core and non-core subprojects.

It is expected that the project will provide increased energy security in an environmentally sustainable manner. The outcome will be an increased access to a higher share of electricity generated by renewable energy sources.

The project will have two outputs:

- Solar Photovoltaic Power System Development. The project will construct up to six solar photovoltaic power plants with a total installed capacity of about 3 megawatt peak coupled with advanced secondary battery energy storage installation, and rehabilitate the existing distribution network for core and non-core subprojects. The project will feature three core subprojects on

Mangaia, Mauke, and Mitiaro and up to three non-core subprojects on Aitutaki, Atiu, and Rarotonga.

- Institutional Strengthening and Project Management Support. The project will provide institutional strengthening to OEC and REDD for (a) developing the energy efficiency policy implementation plan including an energy audit and monitoring scheme to enhance demand side energy efficiency management practices for targeted major electricity consumer groups; (b) developing capacity for renewable energy technology assessment and appropriate off-take tariff setting for power purchase agreements for private sector funded projects, and (c) updating the CIRECIP through refining electricity load demand up to 2020, renewable technology choice, and least cost investment plan. The consultants to be engaged under this component will be the project owner's engineers (POE) who will also provide project management support for REDD and TAU to help implement core and non-core subprojects in the Southern group islands.

The total estimated cost of the project is \$27.18 million.

Table 10.8 Financing Plan

Source	(\$million)	Share of total
Asian Development Bank		
Ordinary Capital Resources (loan)	12.98	48%
European Commission (grant)	8.37	31%
Government of the Cook Islands*	5.83	21%
Total	27.18	100%

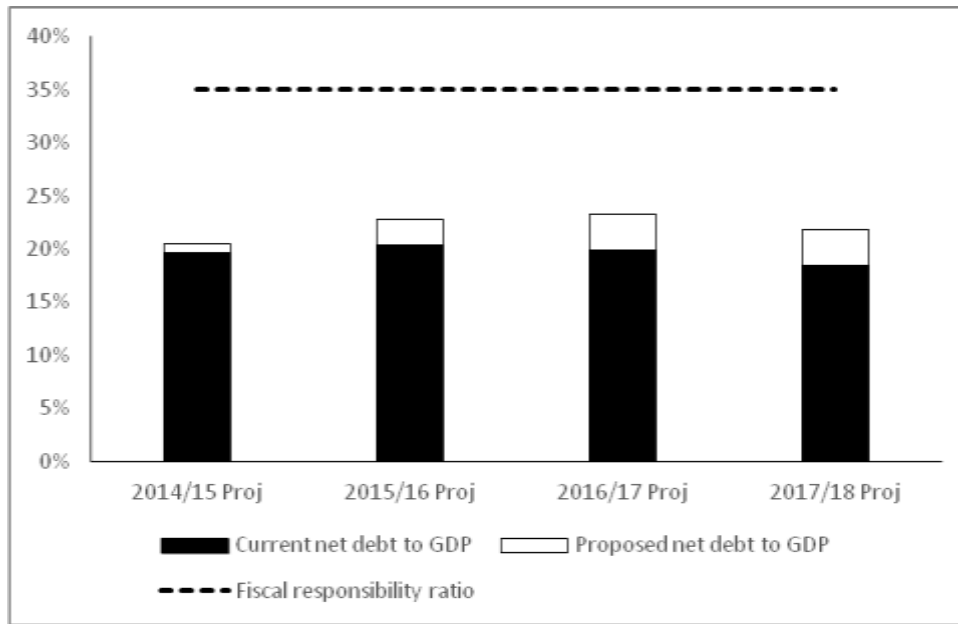
*The Government's contribution comprises land acquisition, tax and duties (exemption), and solar photovoltaic module procurement.

The impact on the LRF is shown in Table 10.9.

Table 10.9 Proposed LRF statement taking in to account new proposed loan (\$000)

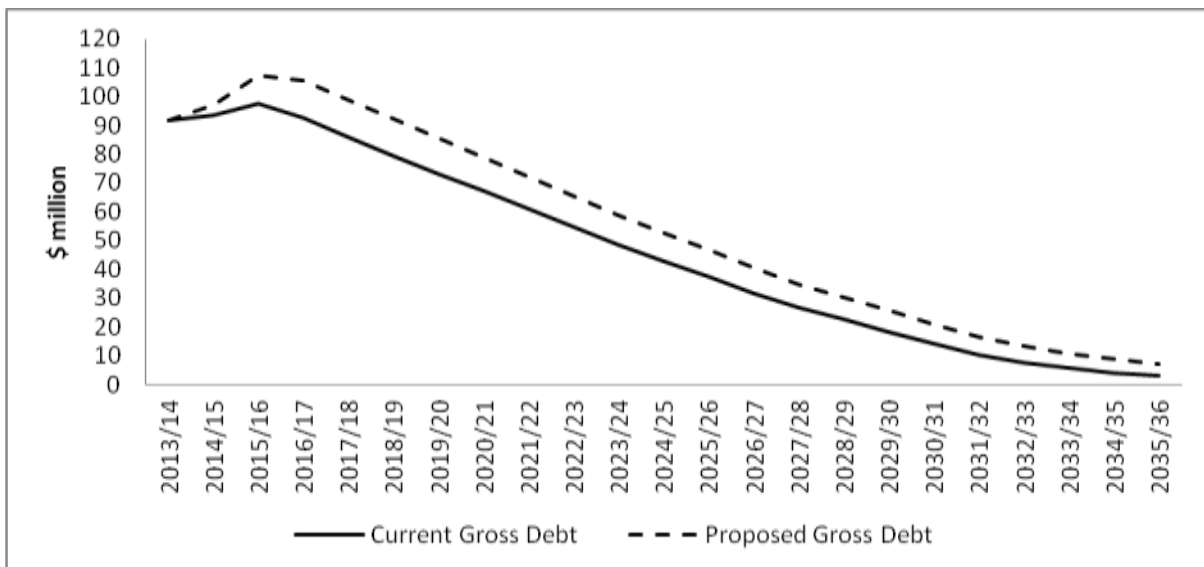
	2014/15	2015/16	2016/17	2017/18	2018/19
Opening LRF balance	16,211	16,436	16,400	15,702	13,368
Transfer in	6,230	6,230	6,230	6,230	6,230
Interest earned (avg 2%)	324	329	328	314	267
Total transfer in	6,554	6,558	6,558	6,544	6,497
Repayment from LRF balance					
Principal	1,200	1,227	1,253	1,253	968
Interest	125	114	103	92	81
Total repayment from LRF	1,325	1,341	1,356	1,345	1,049
Repayment of other debt					
Principal	3,092	3,065	3,664	5,425	5,479
Interest	1,912	2,189	2,235	2,108	1,980
Total repayment other debt	5,004	5,254	5,899	7,533	7,459
Other service fees	-	-	-	-	-
Proposed LRF stock balance	16,436	16,400	15,702	13,368	11,358

Chart 10.10 Net Debt as a proportion of GDP



As can be seen from Chart 10.10, Government is currently well within its fiscal responsibility ratio threshold of 35 per cent even after taking into account the proposed renewable energy loan. For this to reach 35 per cent would require an additional amount equivalent to \$45.7 million to be added on to the current level of debt.

Chart 10.11 Estimated Gross Debt for next 20 years

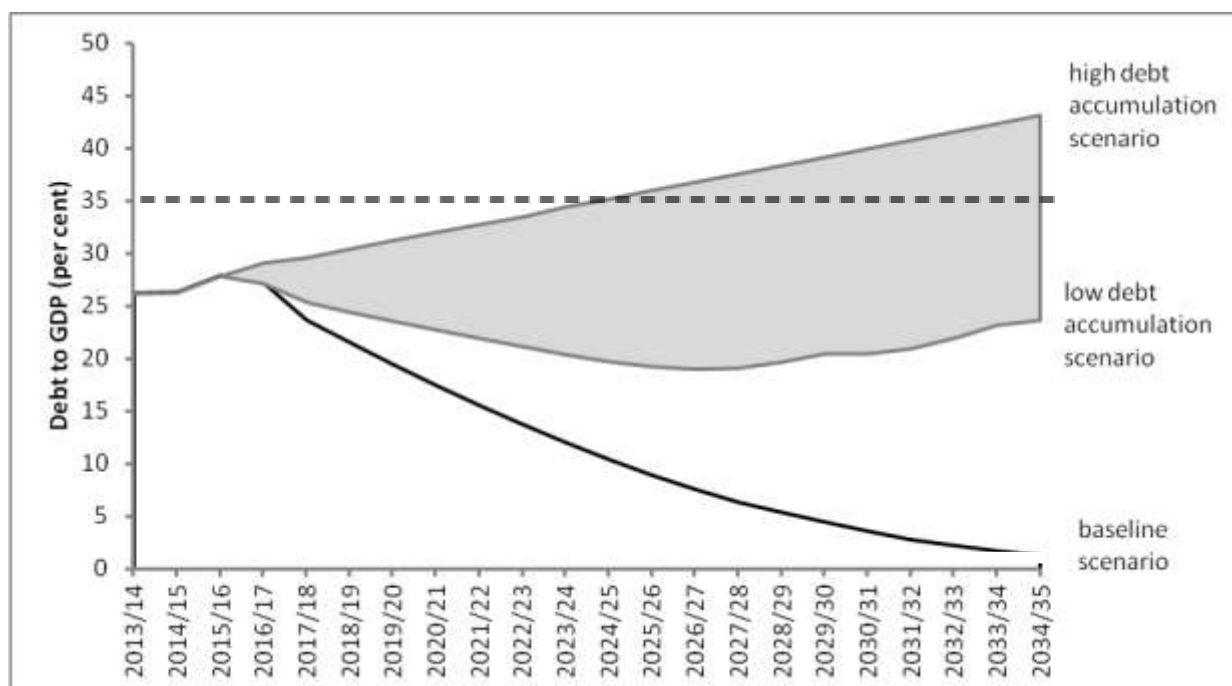


These ratios should not be observed in isolation, any proposed additional borrowing must be looked at in the context of whole of Government budget and the ability to manage debt servicing requirements.

10.5.2 Projected debt profile including unknown future loan commitments

It is important to note the difference between the profile on the current debt stock and the expected debt profile. In evaluating the capacity to take on new debt-funded initiatives, it is important to estimate what the likely evolution of the debt profile is over time. While this chapter relates mainly to the current or near-term debt commitments, it is unlikely that that Government will not take on new debt relating to other infrastructure needs.

Chart 10.12 Forecast debt profile for next 20 years, including future loan commitments



In Chart 10.12, two alternate scenarios are presented relating to the expected profile of debt for the next 20 years, with the shaded area representing the range of likely debt profiles.⁹

The high debt accumulation scenario assumes that operational spending continues to grow at recent trends and that economic growth follows its long-term average. Under this set of assumptions, cash reserves are depleted by operational deficits, and capital needs become increasing financed by debt financing. The persistence of overall deficits in the face of continued infrastructure needs leads to a breaching of the 35 per cent debt:GDP ratio in 2024/25.

The low debt accumulation scenario assumes that net operating surpluses are achieved over the medium term, with these surpluses being diverted into financing the capital budget. This becomes increasingly difficult over the long term however, with growth in expenditures outpacing revenue. Debt financing of the capital program again becomes a dominant feature of the Budget from 2026/27 onwards.

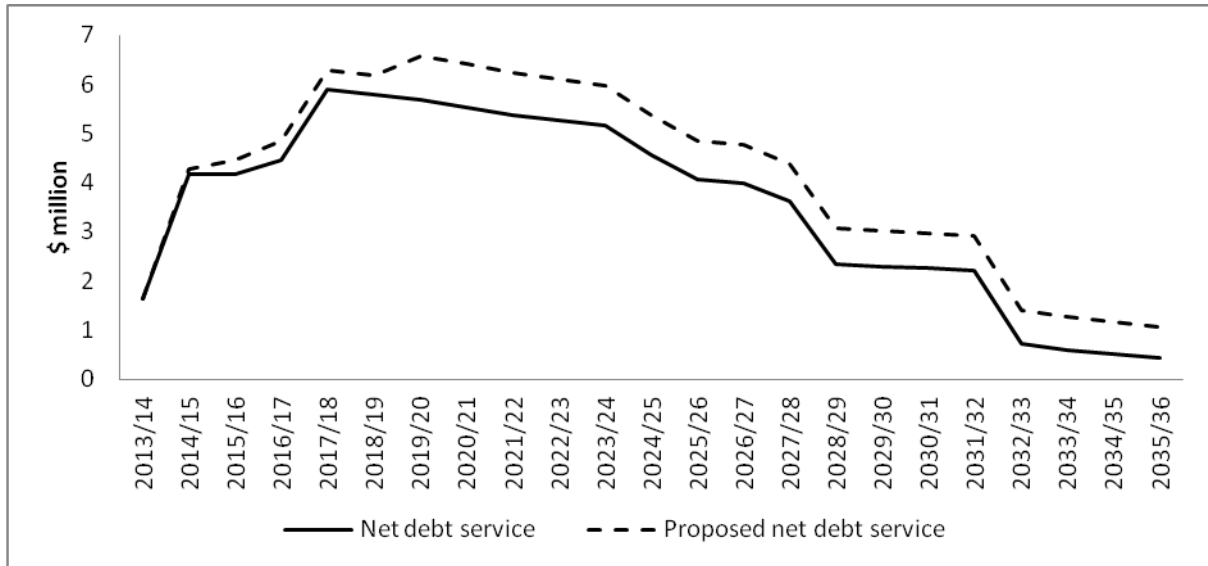
Both of these scenarios suggest that current expectations of expanding operational budgets cannot coexist with the recent levels of capital spending. At some point in the future, either capital or operational spending will need to be scaled back to match revenue growth. Importantly, neither scenario assumes major capital works beyond those already scheduled, despite major infrastructure needs still being prevalent after the current projects are completed. On the other hand, neither scenario includes major cost-saving initiatives in personnel nor operating, although both scenarios show that in the absence of strong revenue growth, such savings plans would eventually be necessary.

⁹ The two frameworks for fiscal forecasting were developed in conjunction with the Asian Development Bank (the ADB Fiscal Management Model) and the International Monetary Fund (Fiscal Analysis and Forecasting workshop, Fiji, March 2014), with the models being used for the low debt accumulation and high debt accumulation scenarios respectively.

10.5.3 Net debt Service to Total Revenue

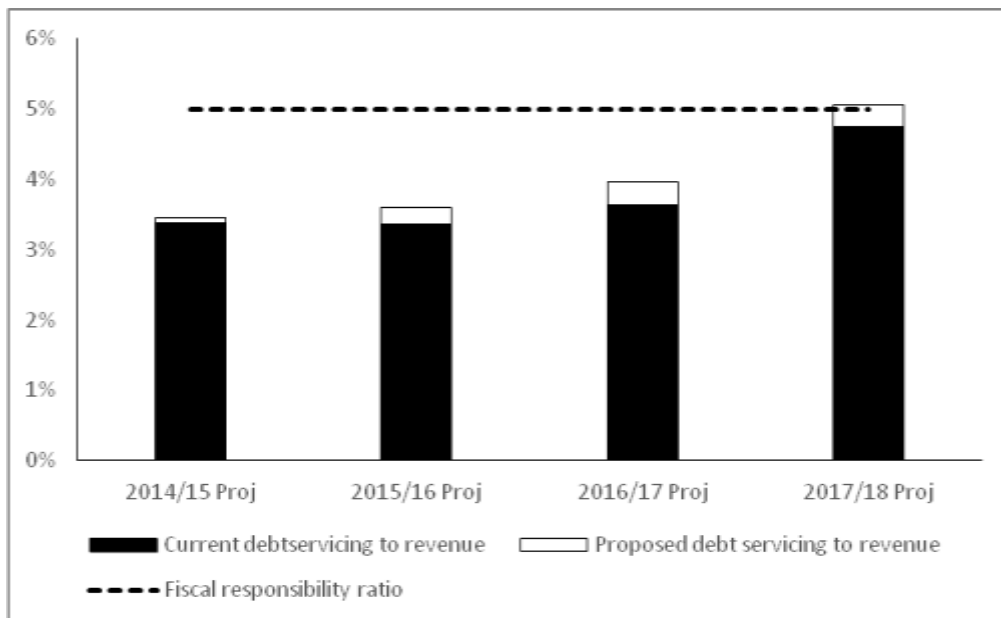
This ratio analyses the capacity to service of existing debt. Taken together with the total revenue envelope, this ratio measures how much debt servicing is crowding out other components of government spending. Debt servicing includes interest and principal repayments. Debt service is not the same as the contribution made into the LRF.

Chart 10.13 Estimated net debt service on current debt for next 20 years



The benchmark for debt servicing to the total revenue ratio is set at five per cent of total Crown revenue. As shown in Chart 10.14, by 2017/18 the proposed net debt servicing to total revenue will exceed this benchmark when repayment of the loan associated with the Rarotonga ring main loan commences.

Chart 10.14 Net Debt as a proportion of Revenue



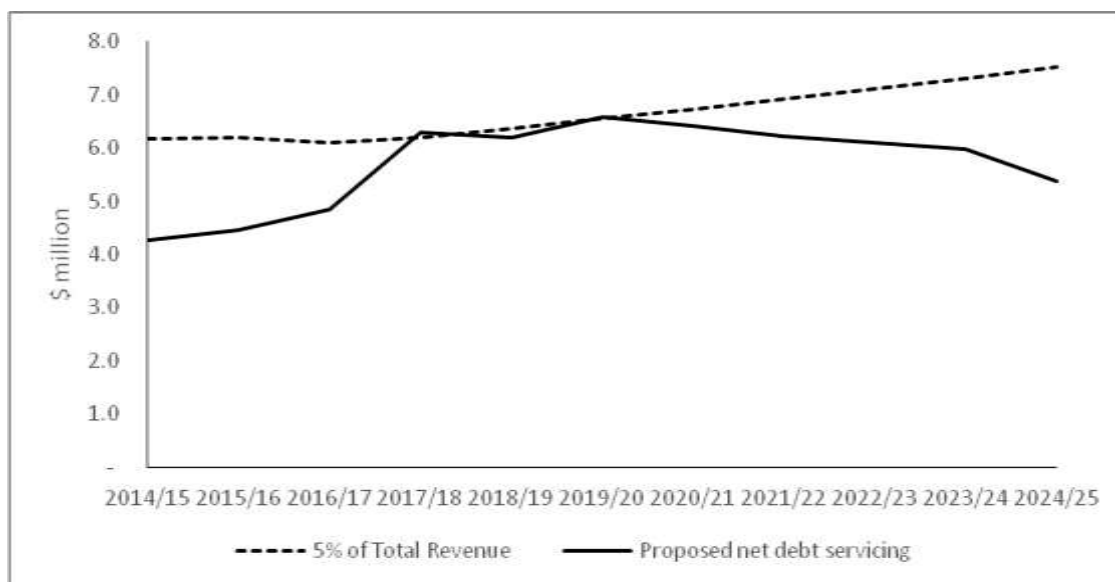
Whilst this ratio is projected to be surpassed in 2017/18, there are considerations that need to be taken into account when concluding whether the net debt servicing ratio is a significant issue or not.

Firstly, the total debt servicing includes loans which are currently serviced by the Port Authority (the numerator) but the revenue portion (denominator) is limited to revenue earned by the General

Government Sector, including the Port Authority revenue, inclusion of these revenues reduces the rate from 3.5 per cent in 2014/15 to 3.4 per cent and from 5.1 per cent in 2017/18 to 5.0 per cent.

Secondly, there is a question at the appropriateness of five per cent level and whether it is in fact too low. An independent assessment undertaken by the ADB outlined that the debt servicing to revenue ratio was too conservative and inconsistent with the debt to GDP ratio and that a more reasonable and consistent ratio of debt servicing to GDP would be 10 per cent.

Chart 10.15 Proposed net debt service to total revenue – 10 year estimates



It should be noted from Firstly, the total debt servicing includes loans which are currently serviced by the Port Authority (the numerator) but the revenue portion (denominator) is limited to revenue earned by the General Government Sector, including the Port Authority revenue, inclusion of these revenues reduces the rate from 3.5 per cent in 2014/15 to 3.4 per cent and from 5.1 per cent in 2017/18 to 5.0 per cent.

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Chart 10.15 that the proposed net debt servicing to total revenue is estimated to surpass the threshold once by 2017/18 and falls within the benchmark after that.

For the purpose of this estimate, total revenue is estimated to grow at a nominal rate of 2.8 percent after 2017/18 fiscal year.

10.6 Other State Owned Enterprise Debt

State Owned Enterprises can take loans directly without Government guarantee, this analysis does not include those loans.

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

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

The loan is secured by registered mortgage debenture over the assets and undertakings of the Airport Authority. A financial covenant will apply where the amount of EBITDA generated less dividend paid will at all times be greater than twice the annual debt servicing commitments. The

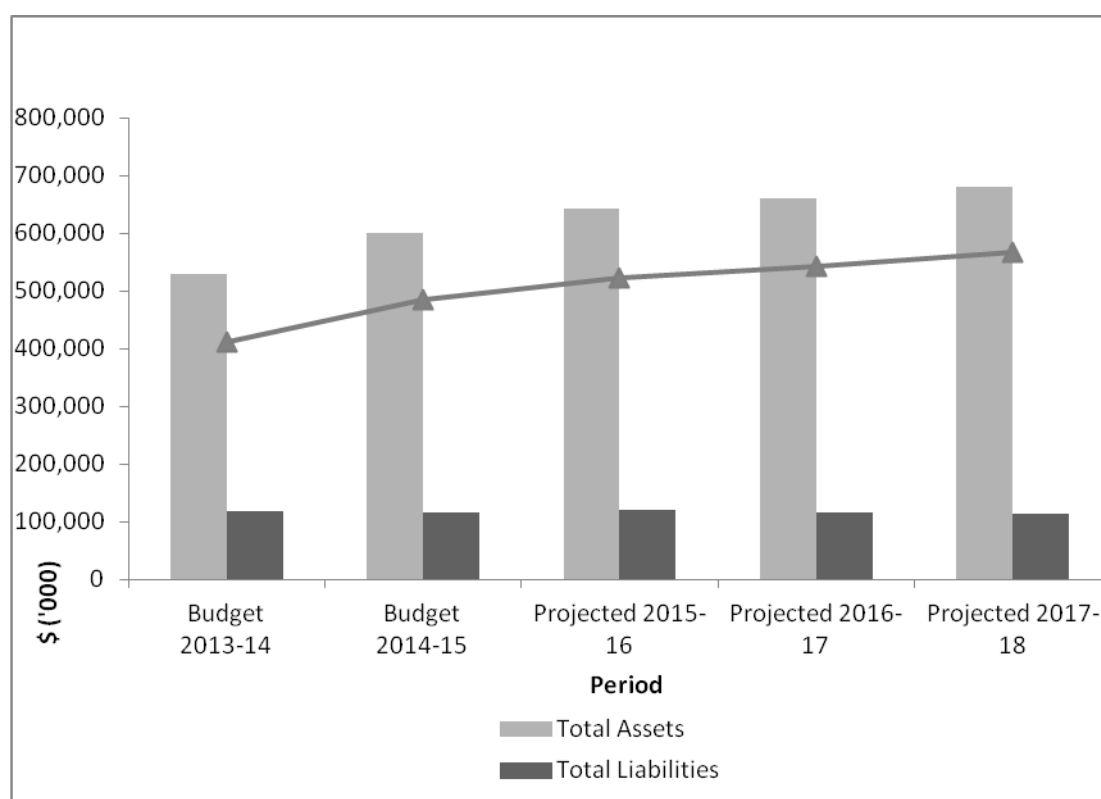
Covenant will be measured annually in arrears. The Airport Authority is considering additional borrowing of \$23 million for further airport upgrades of Rarotonga International Airport.

Te Aponga Uira have also indicated they are considering new borrowings to finance new investments in electricity generation and supply assets including infrastructure aimed at improving renewable energy distribution and supply.

10.7 Net Worth

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

Chart 3.4.1 - Net Worth 2013/14 to 2017/18, (\$'000)



The estimated net worth of the Crown at June 2015 has increased from the 2013/14 Budget Estimates of \$530.50 million to \$600.09 million. This is a net movement of \$69.6 million. This was a result of increases in the forecasted physical assets against decreases in the Crown's total liabilities.

The Crown's net worth will increase in the outer years from 2015/16 as long as there is an estimated operating surplus. Also a major contributor to the forecast upward trend is the decrease in borrowings, decrease in tax receivables and an injection to the Crown's asset from development partner funding.

10.8 Specific Financial Risks

The total quantifiable contingent liabilities are estimated at \$3.2 million in 2014/15. This is made up of the following:

Guarantees and Indemnities

- The Government has entered into a program under the New Zealand Aid Programme focused on Pearl Sector Support run through the Cook Islands Pearl Authority. Through the program the CIG has agreed to guarantee up to \$0.5 million as security for loans associated with the Pearl Production Credit Scheme. The full guarantee has been included as a contingent liability. There has been no change since the time of the 2013/14 Budget Estimates.

Uncalled Capital

- The Government also holds \$1.4 million in the Asian Development Bank - Cook Islands Government Property Corporation. This takes the form of 88 uncalled shares with a par value of US\$13,500 each.

Legal Proceedings and Disputes

- Total quantifiable risk to the Crown under legal proceedings and disputes is \$0.3 million.
- \$1.1 million in relation to smaller legal claims against government departments, namely Police and Health.

11 CIIC AND STATE OWN ENTERPRISES

11.1 CIIC

11.1.1 Brief overview on CIIC's role

The functions of the Corporation are to:

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

The principal objectives of the Corporation are to:

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

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

11.1.2 Brief overview of the SOE Reform Programme

In September 2012, CIIC and its four main subsidiaries; Airport and Ports Authorities, BCI and TAU, commenced implementation of a three-year CIIC-SOE Reform Programme. Amongst other things, the Reform Programme will clarify CIIC's oversight role in relation to the four SOEs as well as the CIGPC, restructure CIIC's Board, streamline the legislative and related operational linkages, begin training of board directors, and clarify Community Service Obligations and dividend processes and expectations. A significant review in February/March 2013 of the policy governance framework on which legislative changes were being drafted has resulted in a delay in the implementation of the reform programme. No further progress was made in relation to the legislative changes envisaged under the reform programme but will be pursued during 2014/15.

11.1.3 Developments and future plans

National Infrastructure Investment Plan

A draft ten year Cook Islands National Infrastructure Investment Plan (CI-NIIP) was completed in May 2014 under the overall guidance of the Infrastructure Committee with the support of the Pacific Regional Infrastructure Facility (PRIF). The draft CI-NIIP has been subjected to a wide public consultation process and will be submitted to Cabinet for final consideration.

The CI-NIIP covers the following infrastructure sub-sectors: air transport, marine transport, road transport, water supply, sanitation, solid waste management, energy, telecommunications and information technology. The CI-NIIP identifies and prioritises the package of infrastructure investments which best meets the country's needs in the coming years, and includes plans for the funding and implementation of these investments. The CI-NIIP also recommends actions for consideration by government regarding the long term sustainability of infrastructure assets and identifies the implications of climate change and disaster risk for these types of infrastructure.

It is proposed to develop a similar investment plan for educational and health infrastructure with the assistance of PRIF.

Asset Management Information System

CIIC is the lead agency involved in the implementation of an asset management information system; a tool for managing government owned infrastructure assets including buildings, roads, landfill, sanitation, water supply, electricity supply, airport and port facilities, with technical support provided by AECOM New Zealand funded by the Asian Development Bank (ADB).

The ultimate goal of asset management is to ensure that the public, including the private sector, benefit from the services infrastructure assets deliver and enable sustainable use of the assets at an affordable price for current and future generations.

A contract for the supply of a 'whole of government' asset management information system following a tender process was awarded to AssetFinda, an international company from New Zealand in July 2014. The software was installed in August on a government server which will then be accessed by all users via the intranet or internet. AssetFinda staff are providing training on the use of the software to the major infrastructure providers: CIIC, Airport Authority, Infrastructure Cook Islands, Ports Authority and Te Aponga Uira as well as the Pa Enea Division of the OPM. The application of the software is also being extended to the Island Councils of Aitutaki, Atiu, Mangaia and Mauke with training to be provided during September and October with the rest of Te Pa Enea to be incorporated into the system through 2015 to 2016.

As part of the project, a National Asset Management Policy will be put in place as well as regulations which will give government the mandate for requiring its agencies to practise prudent asset management.

Conversion to International Financial Reporting Standards

The conversion of CIIC and SOE financial statements, from *Generally Accepted Accounting Practise to International Financial Reporting Standards (IFRS)*, commenced in 2012/13 and is funded by New Zealand under the Cook Islands Technical Assistance fund (CITAF). IFRS is intended to strengthen the credibility of the financial reports by aligning them to the standards of our major development partners. This will ensure improved confidence, transparency and consistency in the reports generated. The conversion to IFRS will be completed in 2014/15.

11.2 Airport Authority

The Airport Authority manages the airports on the islands of Aitutaki and Rarotonga. Its functions are to establish, improve, maintain, operate and manage airports, services and facilities in connection with the operations of any airport or the operation of aircraft engaged in civil aviation.

11.2.1 Developments and investments

Developments for the 2014/15 financial year include the acquisition of a fire truck and investments in renewable energy.

Further upgrades are planned for the Rarotonga passenger terminal over the next two years. It awaits the results of a feasibility study funded by the European Investment Bank, to identify the cost and determine the feasibility of a number of upgrades proposed for Rarotonga and Aitutaki.

11.2.2 Social contributions costs

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

Table 11.1 Social contributions for the Airport Authority (\$)

	Budget 2014/15
The provision of Fire Service to the Rarotonga Community	536,000
The provision of a rent free VIP lounge to government	181,000
The provision of land for the Cool Store building	355,000
Total	\$1,072,000

11.2.3 Dividends

In 2012/13 the Airport Authority incurred a net loss after tax of \$2.6 million; of which \$2 million was for impairment loss of assets. Additionally the Authority recorded \$32 million in equity through an impairment of the runway asset. It is estimated from this point on the business will be profitable.

However, with the SOE's adopting the International Financial Reporting Standards in the 2013/14 Financial Year, the Airport Authority has been advised by both the Audit Office and CIIC's auditors KPMG that the impairment of assets the Authority made in the 2012/13 financial year would not be accepted under IFRS and the Authority has to go back to its original valuation before the impairment in order to comply. The higher asset values obviously means higher depreciation costs and instead of projecting profits, the Authority is not expecting to make any for at least the next three years. Current policy calculated dividend on 35 per cent of NPAT. Based on this, the Airport Authority is not projecting dividend payments for at least the next three years.

11.3 Bank of the Cook Islands

11.3.1 Brief overview on SOE and its functions

The Bank of the Cook Islands Holding Corporation (the Corporation) was established in December 2003 under the Bank of the Cook Islands Act 2003 to assume all rights and obligations of the Cook Islands Development Bank and the Post Office Savings Bank. Section 4 of the Act sets out the functions of the Corporation, as follows:

- To establish the Bank of the Cook Islands Ltd in accordance with the Act and to exercise the Corporation's rights and powers and to perform its obligations and duties in relation thereto.
- To establish CIDB Former Loans Limited in accordance with the Act and exercise the Corporation's right and powers and to perform its obligations and duties thereto (*now dissolved*).
- To establish Development Finance Limited in accordance with the Act and to exercise the Corporation's rights and powers and to perform its obligations and duties in relation thereto.
- To manage any assets vested in the Corporation.
- To undertake any other matters prescribed in the Act.

The Bank of the Cook Islands Limited (BCI) was registered under the Companies Act 1970-71 in March 2004 with the objective of providing banking services throughout the Cook Islands. BCI is fully licensed as required by the Banking Act 2011 and operates in compliance with the requirements of the Financial Supervisory Commission Act 2003 and the Financial Transaction Reporting Act 2004.

The Crown's investment in the Corporation as measured by its investment in BCI has steadily increased from \$13.3 million as at 30 June 2011, to \$15.3 million at 30 June 2013.

11.3.2 Developments and investments

The resources required to achieve the performance targets of BCI are internally generated. Allowance has been included for receipt from Crown of social obligation costs in relation to BCIs

delivery of banking services to communities outside Rarotonga. Also in accordance with shareholder expectations, and capital expenditure plans BCI has implemented a constant dividend pay out ratio based on a fixed per cent of net profit after tax achieved in each financial year.

BCI's medium and long term fixed asset investment programme, includes maintenance and upgrading of core operating assets and investment in new products and services while ensuring a sustainable financial structure having regard to the risks from predicted short and medium term changes to the forecast operating environment including economic conditions, competition, changing customer behaviour and expectations, and technological developments.

Table 11.2 Social contributions costs and Dividends for BCI (\$)

	Budget 2013/14	Budget 2014/15	Budget 2015/16
Dividend	536,000	557,053	557,000
Social Obligation of providing banking services	181,000	181,000	181,000
Net contribution to government	355,000	376,053	376,000

11.4 Ports Authority

11.4.1 Brief overview on SOE and its functions

The Cook Islands Ports Authority (CIPA) is a Crown owned statutory corporation established in 1995. The objectives of the Ports Authority are to provide commercially viable port facilities and develop growth opportunities from its asset base which include Crown land and buildings, wharves, port facilities, tug boats, barges, plant and equipment, storage sheds and open storage space.

CIPA is the sole sea port services provider in Rarotonga and Aitutaki and serves the Cross border supply chain needs of most of the Nation's trade goods.

11.4.2 Community Service Obligations

The CIPA continues to accommodate Governments community service obligations (CSO's). The following table outlines the costs incurred by CIPA in 2013/14 for Rarotonga and Aitutaki in the provision of CSO's.

Table 11.3 Community Service Obligations for the Ports Authority (\$)

Rarotonga	Amount
Reoccurring	\$54,490
Approved Waived Port Charges	\$ 8,378
<i>Total</i>	<i>\$62,868</i>
Aitutaki	
Approved waived Charges	\$ 823
<i>Total</i>	<i>\$ 823</i>
Overall Total Community Service Obligation Cost at year end 30 June 2013	\$63,691

11.4.3 Dividends

The CIPA notes the shareholder's desire to receive dividends and will use its best endeavours to accommodate that desire within the constraints imposed by the Directors' obligations to act in accordance with their statutory duties and in the best interests of the Company.

It is noted that the Ports Authority has loan commitments to ADB with interest payments having recently commenced and bi-annual principal repayments commencing on 15 May 2014 and 15 May 2017 respectively. Dividend payments to shareholders would seriously compromise the company's

ability to meet its loan commitments as these already demand a significant improvement in financial trading to be able to be met.

Table 11.4 Dividends from the Ports Authority (\$)

	Budget 2013/14	Budget 2014/15	Budget 2015/16
Revenue	2,735,111	2,785,167	2,843,726
Expenses	2,853,995	2,899,408	2,946,184
Operating Loss Before Finance Charges	(118,884)	(114,241)	(102,458)

Draft accounts for 2014 indicate an operating loss of \$610k before realised and unrealised foreign exchange gains of \$660k.

No dividend is envisaged in the medium term.

11.5 Te Aponga Uira

11.5.1 Brief overview on SOE and its functions

Primary function is the provision of electricity to the people of Rarotonga in a reliable, safe and economical manner. The generation of electricity is predominantly diesel based but with the announcement of the national renewable energy goals, plans have been incorporated into TAU's investment plans to increase the contribution of renewable energy to reach those goals. There will be a transition from diesel based to a renewable based system and this may include a transformation of the business model of TAU.

11.5.2 Developments and investments

There will be investment in both conventional and renewable generation systems including augmentation of the entire power network over the years. The projected investment over the next 10 years is significant with an estimated \$14.6 million in 2014/15. Plans for subsequent years will be refined annually.

Subject to formal government approval process, it is likely that the monitoring and provision of technical support services for Te Pa Enea electricity generation including renewable energy installations will become the responsibility of TAU commencing this financial year.

Table 11.5 Social contributions costs and Dividends (\$)

	Budget 2014/15	Budget 2015/16	Budget 2016/17
Dividend (35% NAPT)	\$337,800	\$337,800	\$337,800
Uneconomic Power Lines	0	0	0
Other Social responsibility costs (energy for streetlights, new street lights and street light maintenance)	\$362,200	\$380,000	\$380,000

An interim dividend of \$0.250 million was paid on the 6th August 2014 for the 2014 year.

12 PUBLIC SECTOR STAFFING

12.1 Public Service Departments, Crown and Statutory Agencies and Others

Table 12.1 Cook Islands Public Sector

Public Service Departments (13)	Crown and Statutory Agencies (14)	Island Governments (10)
Ministry of Agriculture	Business Trade and Investment Board	Aitutaki
Ministry of Cultural Development	Cook Islands Audit Office	Atiu
Ministry of Education	Cook Islands Investment Corporation*	Mangaia
Ministry of Foreign Affairs and Immigration	Cook Islands Parliamentary Services	Manihiki
Ministry of Finance and Economic Management	Cook Islands Pearl Authority	Mauke
Ministry of Health	Cook Islands Police Service	Mitiaro
Ministry of Justice	Cook Islands Seabed Minerals Authority	Palmerston
Ministry of Internal Affairs	Cook Islands Tourism Corporation	Penrhyn
Infrastructure Cook Islands	Crown Law Office	Pukapuka/Nassau
Ministry of Marine Resources	Financial Services Development Authority	Rakahanga
Ministry of Transport	Financial Supervisory Commission*	
Office of the Prime Minister	Head of State	
Office of the Public Service Commissioner	National Environment Service	
	Office of the Ombudsman	
Ministerial Support Offices (7)	Others (8)	State Owned Enterprises* (4)
Prime Minister, Henry Puna	Members of Parliament and Support	Bank of the Cook Islands
Deputy Prime Minister, Teariki Heather	House of Ariki	Cook Islands Airport Authority
Minister, Mark Brown	Island Councils	Cook Islands Ports Authority
Minister, Nandi Glassie	Aitutaki Power Supply	Te Aponga Uira o-Tumu-te-Varovaro
Minister, Kiriau Turepu	Cook Islands National Superannuation Fund	
Minister, Mona Ioane	Natural Heritage	
Leader of the Opposition, William Heather	Punanga Nui Market	
	Public Expenditure Review Committee	

*Employee data for these agencies are not captured on the centralised government Human Resource Management Information System (HRMIS) and not reflected below.

12.2 Employee Data

Table 12.2 Cook Islands Public Sector Employees – Full time equivalent (FTE) numbers.

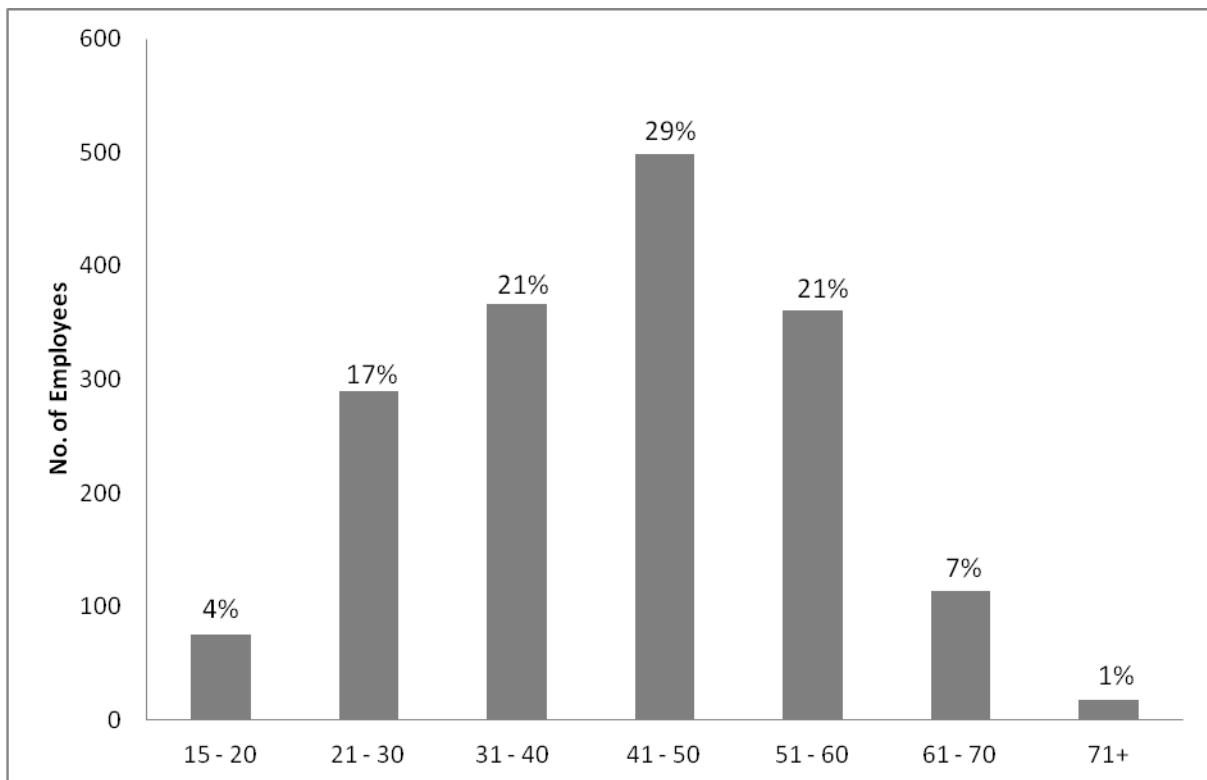
Name and type of agency	Female	Male	Total
Public Service Departments (13)			
Ministry of Agriculture	4	26	30
Ministry of Cultural Development	11	10	21
Ministry of Education	263	98	361
Ministry of Finance and Economic Management	54	37	91
Ministry of Foreign Affairs and Immigration	12	7	19
Ministry of Health	185	109	294
Ministry of Infrastructure Cook Islands	6	53	59
Ministry of Internal Affairs	24	15	39
Ministry of Justice	38	36	74
Ministry of Marine Resources	17	29	46
Ministry of Transport	5	11	16
Office of the Prime Minister	16	24	40
Office of the Public Service Commissioner	7	1	8
Totals	642	456	1098
Crown Agencies* (12)			
Business Trade Investment Board	9	4	13
Cook Islands Audit Office	12	7	19
Cook Islands Investment Corporation	8	9	17
Cook Islands Parliamentary Services	7	7	14
Cook Islands Pearl Authority	3	1	4
Cook Islands Police	29	85	114
Cook Islands Seabed Minerals Authority	2	1	3
Cook Islands Tourism Corporation	14	6	20
Crown Law Office	9		9
Financial Services Development Authority	2		2
Head of State	2	3	5
National Environment Service	10	15	25
Office of the Ombudsman	4	1	5
Totals	119	143	262
Island Governments (10)			
Aitutaki	7	40	47
Atiu	8	37	45
Mangaia	4	39	43
Manihiki	6	29	35
Mauke	4	31	35
Mitiaro	7	32	39
Palmerston	5	5	10
Penrhyn	1	25	26
Pukapuka/Nassau	18	38	56
Rakahanga	6	17	23
Totals	66	293	359

Name and type of agency	Female	Male	Total
Ministerial Support Offices (7)			
Minister and Prime Minister Honourable Henry Puna	2	5	7
Minister and Deputy Prime Minister Honourable Teariki Heather	2	2	4
Minister Honourable Mark Brown	3	2	5
Minister Honourable Nandie Glassie	2	1	3
Minister Honourable Mona Ioane	1	-	1
Minister Honourable Turepu Turepu	1	3	4
Leader of the Opposition, Honourable Wilkie Rasmussen	2	2	4
Totals	13	15	28
Members of Parliament and Support			
House of Ariki	6	10	16
Island Councils	10	58	68
Aitutaki Power Supply	2	10	12
Cook Islands National Superannuation Fund	6	1	7
Natural Heritage	-	1	1
Punanga Nui Market	2	4	6
Public Expenditure Review Committee	1	1	2
Totals	31	107	138
GRAND TOTAL	871	1014	1885

State Owned Enterprises (4)			
Cook Islands Airport Authority	30	83	113
Cook Islands Ports Authority	4	27	31
Bank of the Cook Islands	46	23	69
Te Aponga Uira O Tumu Te Varovaro	12	38	50
Totals	92	171	263

* Employees of the Cook Islands Investment Corporation and the Financial Supervisory Commission are not captured in this data.

Chart 12.1 Age Profile of Employees



12.3 Remuneration ranges

Table 12.3 Public Sector Annual Salary ranges.

Annual Salary range	Public Service		State Services				Total
	PS Depts	Island Govt	Crown Agencies*	Parliament**	Island Councils	Others	
≤\$9,999	6			18	54		78
\$10,000 - \$15,999	211	301	47	5	14	6	584
\$16,000 - \$19,999	145	31	26	2			204
\$20,000 - \$29,999	355	25	76	6		1	463
\$30,000 - \$39,999	248	2	42	2		1	295
\$40,000 - \$49,999	71		19	5			95
\$50,000 - \$59,999	26		6	22		1	55
\$60,000 - \$69,999	11		3	2			16
\$70,000 - \$79,999	10		7	1			18
\$80,000 - \$89,999	7		2	5			14
\$90,000 - \$99,999	4		1	1			6
\$100,000 - \$109,999	2		1	1			4
\$110,000+	2		3				5
Total FTEs	1,098	359	233	70	68	9	1,837

* Heads and employees of the Cook Islands Investment Corporation, Financial Supervisory Commission, Airport Authority, Port Authority, Bank of the Cook Islands and Te Aponga Uira are not captured in is data.

**Includes: Members of Parliament, House of Ariki Representatives and Ministerial Support Office staff.

13 COOK ISLANDS TECHNICAL ASSISTANCE FUND

The Cook Islands Technical Assistance Fund (CITAF) has continued to be an enabling mechanism for government and crown agencies to address capacity and capability development needs within the Cook Islands Public Sector. The overall goal of CITAF is to enable the Cook Islands Public Sector to deliver high quality services, underpinned by sound financial management.

CITAF is a grant funded through the New Zealand Aid programme and administered by the Office of the Public Service Commissioner, with financial administrative support from the Ministry of Finance and Economic Management. A Fund Coordinating Committee considers and approves applications for technical assistance. A total amount of \$2,970,000 is available to support technical assistance and training projects for the period December 2011 to 30 June 2015.

As at 30 June 2014, a total of 34 projects were approved with \$2,903,206 committed. Projects completed numbered 19 at a cost of \$1,003,438 and 15 projects are still in progress with approvals totalling \$1,899,768. Savings from completed projects were returned to the project funding pool. All active projects are being monitored closely to ensure completion before 30 June 2015.

Table 13.1 CITAF Projects by Agency

Agency Name	Project	Status
Cook Islands Audit Office	Government Financial Statements Catch-Up Project	Completed
Cook Islands Audit Office	Audit Government Financial Statements Catch-Up	Completed
Cook Islands Investment Corporation	Conversion to International Financial Reporting Standards (IFRS)	In Progress
Crown Law	Solicitor General capacity supplementation	In Progress
Financial Services Development Agency	Financial Services Legislative Drafting	In Progress
Ministry of Agriculture	Training for vanilla growers	Completed
Ministry of Education	Five Year Strategy for Tertiary Continuing and Community Education	Completed
Ministry of Education	Completion of HRD 2010/11, 2011/12 Statutory Accounts	Completed
Ministry of Education	Review of Curriculum Framework	Completed
Ministry of Finance and Economic Management	Government Annual Accounts Catch-Up	Completed
Ministry of Finance and Economic Management	Review of Sydney and LA to Rarotonga underwrites	Completed
Ministry of Finance and Economic Management	Senior Tax Auditor capacity supplementation	Completed
Ministry of Finance and Economic Management	Economic Policy Advisor capacity supplementation	In Progress
Ministry of Finance and Economic Management	Financial Secretary capacity supplementation	Completed
Ministry of Finance and Economic Management	Financial Secretary capacity supplementation	In Progress
Ministry of Health	Health Clinical Audit	Completed
Ministry of Health	Review Clinical Nursing Standards	Completed
Ministry of Health	NCD Specialist	In Progress

Agency Name	Project	Status
Ministry of Health	Surgeon capacity supplementation	In Progress
Ministry of Infrastructure and Planning	Working Group for establishment of Solid Waste Management financing	Completed
Ministry of Infrastructure and Planning	Blasting Refresher Course	Completed
Ministry of Internal Affairs	Cook Islands Employment Bill Drafting Service	Completed
Ministry of Internal Affairs	Dangerous Goods Installation Inspections on Triad Pacific Petroleum Ltd	Completed
Ministry of Internal Affairs	Follow-Up Audit of Dangerous Goods Installation	In Progress
Ministry of Internal Affairs	Strengthening Consumer Services	In Progress
Ministry of Internal Affairs	Aged Care Facility Scoping Study	In Progress
Ministry of Marine Resources	ISO Laboratory Certification	In Progress
Ministry of Transport	Aviation Meteorological Service	Completed
Office of the Prime Minister	ICT Consultation	Completed
Office of the Prime Minister	Strengthening Policy and Planning in the Public Service	In Progress
Office of the Public Service Commissioner	Capability Analysis of the Public Sector	Completed
Office of the Public Service Commissioner	Public Sector Strengthening	Completed
Office of the Public Service Commissioner	HRMIS Technical Assistance Element	In Progress
Seabed Mining Authority	Seabed Minerals Legislative Review and International Tender Process	In Progress

14 NATIONAL SUSTAINABLE DEVELOPMENT PLAN 2011-2015 (NSDP)

The purpose of the NSDP is to set national goals and effective strategies to guide policy decisions over the medium term with the intention of realising our national vision:

‘To enjoy the highest quality of life consistent with the aspirations of our people in harmony with our culture and environment’

The goals of NSDP 2011-2015 are:

1. A vibrant Cook Islands economy;
2. Infrastructure for economic growth, sustainable livelihoods and resilience;
3. Energy security;
4. Opportunity for all people who reside in the Cook Islands;
5. Resilient and sustainable communities;
6. Environment for living;
7. Good governance and;
8. Safe, secure, just and stable society

Since 2011, Government has made a concerted effort to deliver the strategies and actions encapsulated in the NSDP by linking the delivery of public services to the implementation of the NSDP. These efforts are embodied in the business plans of each agency where their activities are linked to the strategic objectives outlined by the NSDP.

This year marks the inaugural publishing of the NSDP Indicator Report which looks to objectively measure national progress on NSDP objectives set out in the 2011 document. These efforts build on the monitoring and review process undertaken in 2012 which accessed the machinery of government to ensure that the implementation of the NSDP was central to the business of all government agencies.

The 2013 NSDP Indicator Report looks at 80 indicators that are outlined under the eight NSDP goals which aim to measure and quantify different aspects of the Cook Islands’ development. The totality of these indicators offers insight into areas where progress has been made and highlights areas that need further strengthening and support to achieve national goals.

A summary of the on the general findings under each of the eight goals is contained in the table below.

Table 14.1 NSDP Indicator Report outcomes (2013)

Goal 1: ‘ A vibrant Cook Islands Economy’	
Economic growth continues on the back of steady growth in tourism. Efforts to diversify the economic base have not yet come to fruition. The Cook Islands economy remains highly vulnerable to any volatility in the Tourism industry.	ON TRACK
Goal 2: ‘Infrastructure for Economic Growth, Sustainable Livelihoods and Resilience’	
There has been significant uptake in infrastructure development particularly in the water, ports, and sanitation areas. However,	MIXED RESULTS

this is not reflected by the monitoring due to data being fragmented and incomplete and therefore gaining the rating of 'mixed results'.

Goal 3: 'Energy Security'

Up to December 2013, progress has been slower than originally expected. However, a significant change in the structure of implementation in the last quarter of 2013 will ensure that the renewable energy targets are realised.

MIXED RESULTS

Goal 4: 'Opportunity for all who reside in the Cook Islands'

Trends in education show indicators trending positively whilst most health indicators are trending negatively largely due to NCDs and STIs. Other social statistics are mixed with slow progress on the political aspects of gender equality and financial constraints impacting on the delivery of other social services.

MIXED RESULTS

Goal 5: 'Resilient and sustainable communities'

Up to December 2013, progress in this area has been slower than projected. There is expected to be some improvements in 2014 going forward particularly with the consideration of climate change and disaster risk management in infrastructure development.

MIXED RESULTS

Goal 6: 'Environment for Living'

Information in this area is highly fragmented and incomplete for all islands. This will be addressed in the upcoming National State of the Environment Assessment and in future monitoring efforts as demand grows for environmental data with the implementation of 'evidence based' policy.

OFF TRACK

Goal 7: 'Good Governance'

Progress in this area is difficult to quantify. There have been some strong improvements in the financial governance frameworks in accordance with the public financial management road-map. However, improvements in performance management and overall governance have been slower than expected.

MIXED RESULTS

Goal 8: 'Safe, Secure, Just and Stable Society'

Data is not of sufficient quality to be reported on or just does seem to be collected or managed. The capacity and/or resource constraints inhibiting the collection and management of information in this area need to be addressed.

OFF TRACK

This is the first report to quantify progress against the goals of the NSDP. It has demonstrated there are numerous gaps where data was insufficient, fragmented or non-existent such that no trend or reliable figures could be extracted. In other instances, the data lacked the adequate rigor and integrity to be reported on, or data sets were incomplete, and did not represent an accurate depiction of development across the entire country. These gaps are to be somewhat expected with this being the inaugural NSDP Indicator report and the first time that we have attempted such a wide scale monitoring regime. In future iterations we expect the coverage, accuracy of data and

these indicators to improve as ministries and agencies adapt and integrate the monitoring and evaluation framework into their strategic efforts.

It is important to note that many of these indicators are “outcome” based and are not necessarily reflective of efforts in the last year or even three years to improve national outcomes. For example, there is not a specific indicator on the work done on vital infrastructure, such as the work on Mangaia harbour, or work-in-progress such as Te Mato Vai or the Water Tank Subsidy Scheme. These works will result in positive outcomes some years after full completion as benefits from new and improved infrastructure begin to manifest across Cook Islands society.

A follow up another indicator report will be produced in 2015 to lead into the development of the next NSDP for 2016 onwards

15 PA ENUA

This chapter outlines central Government spending in the Pa Enua. This chapter aims to provide clarity on financing appropriated to the Pa Enua, including the funding which is directed through the budgets of key agencies operating in the Pa Enua as well as development partners.

Overall, the estimated \$66.8 million investment made by the Government and development partners in 2014/15 in the Pa Enua is significant by any measure, and represents the importance of the Pa Enua to the Cook Islands Government and Cook Islands people.

15.1 The Pa Enua Funding Model

The Pa Enua Funding Model aims to determine the appropriate level of funding to each of the Outer Islands Governments.¹⁰ The system was first introduced in the 2013/14 Budget to ensure, firstly, a fairer and more transparent allocation of financial resources across the Pa Enua, and secondly, a provision of basic levels of service delivery at a broadly comparable level. The remoteness and small populations in the Pa Enua challenges the capacity of Government to deliver public services, and it is important that each island is adequately funded to overcome their unique challenges.

The Funding Model determines the minimum level of funding required to provide a basic level of public services that are delivered through the Island Government. Additional funds are also allocated for local economic development efforts (such as agriculture or fisheries). This funding forms the Island Government's cash appropriation (net appropriation not including depreciation), with trading revenue forming an additional source of revenue that the Island Government can use for local development.

The Funding Model may suggest a different level of funding compared to the current allocation (either higher or lower). Assuming no change in the total funding to the Outer Islands, each island administration will only have its operational funding adjusted toward the suggested allocation by a maximum of three per cent in a given Budget year.

summarises the major cost factors used in the Funding Model. These cost factors were determined based on relevance and reliability. The Funding Model does not include depreciation (as this is a non-cash item and is not appropriated to agencies or Island Governments) or capital spending (which is goes through the Infrastructure Committee process).

Table 15.1 Cost factors of the 2014 Pa Enua Funding Model

Factor/Output	What determines the amount of funding for the relevant factor
<u>Administration</u>	Population as per the Census
<u>Councils</u>	The number and wages of councillors, Ui Ariki and Aronga Mana as per the <i>Outer Islands Local Government Act 2012/13</i>
<u>Infrastructure</u>	
Water	Fixed amount per person / household

¹⁰ 'Operational funding' is defined as the cash funding allocation in each island's appropriation. This is the amount of cash funding to each island, and therefore excludes depreciation (which is a non-cash item) and capital allocations, which will follow the regular Budget process.

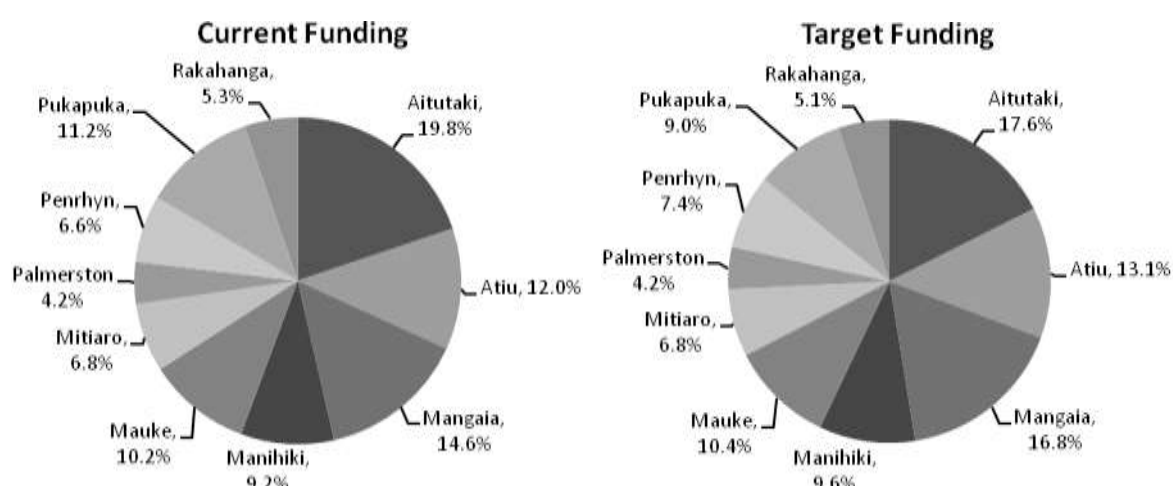
Factor/Output	What determines the amount of funding for the relevant factor
Road maintenance	
<i>Sealed</i>	Per km of road
<i>Unsealed</i>	Per km of road
Maintenance (of machinery and vehicles)	Per cent of the value of registered assets
Airstrip	Per km or runway
Waste Management	Fixed amount per person
Literage (unloading of boats)	Island Administrations to cost recover
Beautification	Per km of road
Building maintenance	Funding and services provided through the Cook Islands Investment Corporation
<u>Energy (electricity generation)</u>	Estimation of generation cost (varies between Northern and Southern Group)
	Estimated trading revenue from appropriate usage charges
<u>Other costs¹</u>	varies by island

¹ "Other costs" include island specific costs not factored into the general model (such as motu-to-motu transport for Penrhyn and Manihiki).

In the 2014/15 formulation, \$6.1 million is estimated as basic service needs for the whole Pa Enua, with an additional \$0.9 million in local development funding to be utilised by Island Governments. These figures include an additional \$100,000 in personnel expenses resulting from the decision to increase the minimum wage from five to six dollars on 1 April 2014. This funding excludes the trading revenue generated by the Island Governments, particularly in the area of energy, where it is assumed that Island Governments will charge and collect a tariff of 60 cents per kilowatt hour.¹¹

¹¹ It is notable that the costs of electricity generation are higher than 60c per kWh on every island except Aitutaki. All Island Governments (except Aitutaki) receive an energy subsidy to make energy affordable at this level for the Island Government, with the more remote islands receiving higher subsidies than those closer to Rarotonga. If Island Governments charge less than 60c per kWh, this subsidization comes from their own appropriations, often at the expense of other outputs.

Chart 15.1 Allocation of total funding across Island Governments



A summary of the Funding Model results are provided in the table below:

Table 15.2 Pa Enea Funding Model Results for 2014-15 (\$'000)

	Funding Model Results					2013/14 Cash Funding
	2013/14 Cash Funding	Current per cent of total Cash Funding (per cent)	Minimum Cash Funding	Target per cent of total Cash Funding (per cent)	Adjustment towards target	
Aitutaki	1,367	19.8	1,068	17.6	-4	1,363
Atiu	826	12.0	793	13.1	20	846
Mangaia	1,007	14.6	1,018	16.8	26	1,033
Manihiki	637	9.2	585	9.6	15	652
Mauke	707	10.2	629	10.4	17	723
Mitiaro	469	6.8	410	6.8	10	480
Palmerston	286	4.2	256	4.2	7	293
Penrhyn	458	6.6	450	7.4	12	470
Pukapuka	773	11.2	548	9.0	-3	770
Rakahanga	363	5.3	311	5.1		364
Total	6,894		6,068		100	6,994

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

15.2 Other agency support targeting the Pa Enea

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

Assistance to the Pa Enea is not a mandated requirement for financial reporting, so survey methods are necessary to determine estimated levels of support. The table below summarises the estimated

assistance given by each agency to the Pa Enua. As this is the second occasion that agencies have been asked for the information, some agencies were not able to respond in time to be included. It is likely the figures presented are underestimates, as only those resources wholly dedicated to the Pa Enua or delivered on-island were included.

Table 15.3 Estimated Agency Expenditure in the Pa Enua (\$000)

Agency	2014-15 Budget Estimate			
	Operational	Personnel	Trading Revenue	Capital
Ministry of Health	246	1,580	10	725
Ministry of Education	374	3,419	0	38
Infrastructure Cook Islands	0	0	0	1,815
Official Development Assistance ¹	585	297	0	41,130
Cook Island Police Service	10	314	35	0
Internal Affairs	18	323	0	0
National Environment Service	76	118	1	20
Office of the Prime Minister ²	0	132	0	1,268
Total	1,309	6,183	46	44,995

Program	Operational	Personnel	Trading Revenue	Capital
Social Welfare	5,458	0	0	0
Scholarships / Other Education	211	0	0	0
Island Government Capacity Building	68	0	0	0
Tekaaroa school - Aitutaki	23	213	0	0
Total	5,759	213	0	0

¹ Official Development Assistance (ODA) is delivered through numerous agencies, both local and foreign. Some ODA may be captured in agency efforts and visa-versa. Notably, ODA estimates above include Cook Islands Government contributions to co-financed projects and capital expenditure funded by loans.

² Office of the Prime Minister support includes Government expenditure on the Northern Renewable Energy Project. The rest of the costs for the Northern Renewable Energy Project and SRIC program is covered in ODA.

Note: This table is not an exhaustive list of agency support.

Ministry of Education

As a Cook Islands agency, The Ministry of Education is the single largest contributor to operational funding in the Pa Enua. The Ministry of Education anticipates expenditure of \$0.374 million for operational costs in the Pa Enua during 2014/15. Of this amount \$3.42 million will be for personnel costs and \$0.038 million on capital. Costs for operations include text books, stationery, property, teacher salaries, corporate services and other expenses. The Ministry is also responsible for scholarship and support payments for students from the Pa Enua studying in Rarotonga, and funding Tekaaroa school in Aitutaki (in addition to all local schools except on Palmerston).

Ministry of Health

The Ministry of Health estimates expenditure of \$0.246 million in operational costs, \$1.58 million for personnel and \$0.725 million for capital expenditure in 2014/15. This funding goes towards funding the hospitals and clinics on each island in the Pa Enua.

Infrastructure Cook Islands (ICI)

ICI projects expenditure levels of around \$1.8 million in capital during 2014/15. This investment will be mainly dedicated towards transport infrastructure such as runway repairs and harbor construction, as well as water infrastructure. Some infrastructure spending delivered by ICI and others is combined with the ODA estimates.

Official Development Assistance (ODA)

ODA includes numerous support programs for the Pa Enua, but is dominated by capital investments, particularly those related to the Pa Enua renewable energy program. Total ODA, including some Cook Islands capital expenditure, is estimated at \$41.1 million for 2014/15. While the ODA figure presented here includes concessional loans from the ADB and China, this figure excludes a \$12.6 million loan from the ADB for renewable energy in the Southern Group and Rarotonga as this money has not yet been apportioned between the Southern Islands and Rarotonga.

Police

Police estimates estimate expenditure levels of \$0.324 million in the Pa Enua during 2014/2015, with \$0.314 million allocated to personnel, which include the salaries for each of the officers stationed on each island in the Pa Enua.

Ministry of Internal Affairs

The Ministry of Internal Affairs has welfare officers located in the Pa Enua at an estimated cost of \$0.323 million during 2014/15, and an operational cost of \$0.018 million.

Also administered by the Ministry of Internal Affairs are payments of welfare benefits. The 2013 Cook Islands Tax Review significantly increased welfare payments (particularly pensions). From 1 March, the annual cost of social welfare payments to the Pa Enua increased by around \$0.882 million. Total welfare payments to the Pa Enua in 2014/15 are estimated to be \$5.344 million. Full details of the breakdown between the various islands and categories can be found below. The amounts presented do not include the welfare benefits received by beneficiaries on Palmerston, as their welfare benefits are included in the Rarotonga appropriation for welfare benefits and paid into beneficiaries accounts held with the Rarotonga branch of the Bank of the Cook Islands.

Table 15.4 Estimated Social Welfare Payments in the Pa Enua for 2014/15 (\$000)

	Aitutaki	Mangaia	Atiu	Mauke	Mitiaro	Pukapuka	Penrhyn	Manihiki	Rakahanga	Total
Old Age Pension 60+	702	354	258	156	108	126	30	78	54	1,866
Old Age Pension 70+	653	330	300	233	128	173	98	45	53	2,010
Newborn Allowance	47	5	6	1	1	12	3	4	1	80
Child	347	92	74	26	32	130	59	44	15	819
Infirm	69	34	28	12	8	26	4	6	4	190
Destitute	8	0	8	6	-	6	2	2	0	32
C/giver	32	24	10	26	20	12	4	4	6	137
Maternity Leave	22	0	0	0	0	0	0	0	0	22
Christmas Bonus	35	12	10	6	4	12	5	4	2	90
Funeral Allowance	19	5	5	5	2	2	2	2	2	46
Power Subsidy	13	16	7	8	2	3	1	4	1	54
	1,946	871	705	478	304	500	208	193	137	5,344

National Environment Service (NES)

NES estimates expenditure of \$0.118 million on environment officers in the Pa Enua during 2014/15, operational expenditures of \$0.076 million and capital expenditures of \$0.02 million.

Office of the Prime Minister (OPM)

OPM has a number of resources dedicated solely to the Pa Enua for governance and capacity building, but is also responsible for the renewable energy projects in the Pa Enua. Reflecting this, OPM estimates it will spend \$0.132 million on personnel relating to the Pa Enua, as well as \$1.268 million in capital relating mainly energy projects.

Table 15.5 Estimated agency spending in the Pa Enua by island for 2014/15

Island	2014-15 Budget Estimate						Agency total (\$000)
	Operational (\$000)	Personnel	Trading Revenue	Capital	ODA	Social Welfare	
Aitutaki	220	2,062	11	359	1,170	1,976	5,776
Atiu	57	676	-	308	949	710	2,699
Mangaia	70	875	-	184	783	887	2,800
Manihiki	50	313	-	1,040	6,418	205	8,025
Mauke	41	384	-	209	1,133	490	2,257
Mitiaro	32	224	35	12	816	316	1,365
Palmerston	12	51	-	22	3,117	-	3,202
Penrhyn	46	313	-	83	4,028	219	4,689
Pukapuka/Nassau	95	761	-	666	7,773	516	9,812
Rakahanga	25	155	-	253	2,745	139	3,317
General support	377	286	-	728	13,082	-	14,472
Total Pa Enua	1,026	6,098	46	13,165	32,712	5,458	58,413

As shown in Table 15.5, a total of \$58.4 million is estimated to be spent in the Pa Enua during 2014/15 by central government agencies and development partners. Excluding social welfare payments, agencies have estimated that they will spend \$53.0 million.

The combination of the resources budgeted for Island Governments in 2014/15 and agencies operating in the Pa Enua is presented in Table 15.6 below.

Table 15.6 Total Central Government Spending in the Pa Enea

Island	Appropriation transferred from Central Government	Government Agency expenditure	Welfare transfers	ODA	Total current public spending
Aitutaki	1,856	2,631	1,976	1,170	7,139
Atiu	985	1,041	710	949	3,546
Mangaia	1,238	1,130	887	783	3,833
Manihiki	745	1,403	205	6,418	8,678
Mauke	804	634	490	1,133	2,980
Mitiaro	535	233	316	816	1,844
Palmerston	335	85	0	3,117	3,495
Penrhyn	522	442	219	4,028	5,159
Pukapuka/Nassau	910	1,522	516	7,773	10,581
Rakahanga	416	433	139	2,745	3,680
General support	0	10,690	0	3,782	14,472
Total Pa Enea	8,346	20,244	5,458	32,712	66,760

Note: The welfare benefit payments received by beneficiaries in Palmerston is not reflected in this table as these are paid to beneficiaries accounts at the BCI branch in Rarotonga. Also note that trading revenue is not shown here as that revenue is generated on-island, and hence not transferred from the central budget.

Overall, Table 15.6 shows that central government funding to Island Governments makes up a relatively small proportion of the total \$66.8 million budget allocated to the Pa Enea, and that Government Agencies are actually the main vehicle for supporting Pa Enea communities outside of ODA. The central budget also accounts for slightly more than half of the total resources dedicated to the Pa Enea, with the majority of the Cook Islands' aid Budget making up the remainder (although this includes loans).

Notably, the ODA figure presented above includes around \$19.5 million for renewable energy projects in the Northern Group, and around \$15.5 million for renewable energy in the Southern Group. Once the renewable energy projects are completed in the Pa Enea, the depreciation costs will be borne by the central Government, increasing the 'locally funded' proportion of those expenses. Debt servicing costs will also increase due to those components of the project that are covered by concessional loans.

The level of investment by the Government in the Pa Enea is significant by any measure, representing the importance of the Pa Enea to the Cook Islands Government.

15.3 The Economics of the Pa Enea

The islands of the Cook Islands are spread across 2 million square kilometres of ocean, making the economic integration of the Pa Enea with Rarotonga and global markets a challenge requiring novel solutions, substantial levels of subsidisation, or both. By Pacific standards, Rarotonga is a small and remote market, with the islands of the Pa Enea being even smaller and even more remote. Over the past 40 years, the economic prospects of the Pa Enea have been further eroded by continued depopulation.

This does not mean that economic development is impossible – it simply means that development in the Pa Enea face challenges that need to be acknowledged, and are separate from those faced in

Rarotonga. Indeed, there are examples of successful businesses and initiatives in the Pa Enua that have significantly benefitted their local communities, as well as activities that have capitalised on the booming tourist growth in Rarotonga (such as parrotfish from Palmerston or on-travel to Aitutaki).

The general challenges of transport, poor local infrastructure and poor access to labour, are almost universal, but this section attempts to summarise any recent economic developments unique to each particular island. Reliable data makes full analysis difficult, but highlights the need for economic reporting in the Pa Enua as a general issue.

15.3.1 Aitutaki

Aitutaki is probably the only Outer Island with a sizeable tourism sector outside of Rarotonga. Total arrivals (which includes both tourists and locals) were 27,750 in 2013, an 846 (3.1 per cent) increase compared to 2012. This increase was in contrast to the 1.0 per cent fall in national tourist arrivals over the same period, suggesting that Aitutaki was able to capture more of the tourist market coming out of Rarotonga. Occupancy data from local accommodators would provide further information in this regard, particularly in relation to 2014 arrivals and length of stay.

Government initiatives to encourage local development include the provision of support to the Aitutaki Growers Association (AGA). The AGA, which also operates the island market (unlike the Punanga Nui market in Rarotonga, which is operated by Government), is expected to receive support via a revolving fund facility to bulk purchase fertilizers and seedling mixes. The AGA then on-sells agricultural inputs to the local farmers so that they are able to effectively engage in opportunities to supply the growing local market.

Aitutaki has not yet fully recovered from the 2013 drought, and water management remains a key issue. 6000L tanks are currently being installed in 309 residences for drinking water purposes. Approximately 100 additional residences also require this support to allow for full coverage of the island. Additionally, 6 x 25kL tanks and 2 x 16kL will be installed in the eight community centers to provide additional potable water storage capacity. The Vaimaru gallery has just recently come online, providing brackish water for cleaning and sanitation purposes to the communities in Reureu, Nikaupara and Aratea.

The new island crusher has recently been commissioned and this has helped progress island development programs, especially in regards to construction and roads. The crusher also forms part of the Island Government's trading revenue efforts.

15.3.2 Atiu

Tourism is a small but potentially transformative industry for Atiu, but Atiu is a distant second to Aitutaki in terms of total arrivals. In 2013, total arrivals were 2,554 roughly the same number that arrived in 2012. Difficulties in maintaining the local airstrip may have disrupted arrivals in 2013/14, but emergency repairs avoided shutting down the runway completely (as happened in Pukapuka).

The dominant industry remains local agriculture, comprising mainly of taro, although water supply issues and disease negatively affected crops in 2013/14.

Water was also an issue for Atiu in 2013, with drought conditions requiring emergency intervention. A program for installing 147 x 6000L water tanks for all residents on the island aims to bring 12,000L of water holding capacity to each household. A program has also been initiated to install a centrally located 500kL water tank to act as filling station for the communities in times of drought and low rainfall. A number of 20kL community water tanks have also been recently built around community buildings to improve potable water storage on the island.

15.3.3 Mangaia

Local economic development activities are mainly based around the local production and sales of cooked food, vegetables, and taro, which were seriously affected by the long drought in 2013. A number of small scale home gardening projects have also been approved for the island and are expected to contribute to the weekly sales at the island's local market by the end of the year.

The island has also benefited from development partner assistance via coolers and an ice making machine for the local fishing club. While fishing catch fluctuates between months, most of the catch never reaches storage facilities as it is sold on the wharf or presold to waiting customers. There are plans for the local fishing club and school to teach school children about fishing from an early age.

The island's harbor has just received an \$800,000 upgrade to improve the harbor structurally, and improve island community resilience to climate change risks.

There is potential for agriculture with increased interest in growing pineapple and vanilla for export. Increasing the planting of other crops like cassava, tarua, and kumara for the Rarotonga market is a possibility.

The geographical uniqueness of Mangaia relative to the rest of the Pa Enua suggests that there is potential to improve tourism development activities. The soon-to-be completed 4-star villa accommodation could encourage new arrivals to the island, with flow on benefits for employment and other potential tourism services. The total arrivals (including locals) to Mangaia in 2013 were recorded at 2,036 and the bulk of these visitors were Government workers and consultants. Mangaia would benefit from a greater level of local investment and more constant reporting of economic data (such as tourism arrivals or agricultural output) to contribute to the effectiveness of the locally driven Mangaia Development Plan.

15.3.4 Manihiki

Pearl development continued to be the leading local economic development activity for the island, although fishing for local consumption is also a major pastime. There are a number of government and development partner initiatives in the pearl industry, but it is unclear how long these programs will take to give significant returns. A summary of the pearl industry can be found in the economic chapter of the Budget.

The island has also benefitted from a boat repairing program funded by development partners. Its two harbours (at Tauhunu and Tukao) will be completed this financial year.

Water security remains a challenge for Manihiki and water conservation is required to ensure supply, particularly given the El Nino predictions for less rainfall for the North in coming years. Contractors working on the local harbours provided assistance through using a well for concrete mixing and use by local households for washing and sanitation purposes.

Like other islands in the Northern Group, the renewable energy project will add significantly to the financial sustainability of the Island Government in relation to energy production.

15.3.5 Mauke

The Island Government had a fiscal (budgetary) crisis in 2013/14 due to the unsustainable operation of the local energy system and outstanding debts from previous years. Energy tariffs had been set well below sustainable levels for a number of years and, prior to September 2013, not all customers were metered (although meters have now been installed). This resulted in a substantial shortfall in the Island Government budget with outstanding debts requiring repayment as well as operation funding for the current year running short. A recent review of its tariff brought some relief, but came much too late to avert a fiscal crisis. The sustainability of energy production remains a prominent issue.

Despite the availability of ground water supply for irrigation purposes, the 2013 drought affected the production of vegetables earmarked for the Prime Foods supermarket. In an effort to promote local economic development in the agriculture sector, the island is gearing to receive a cooler to store local vegetables for the Rarotonga market. This should take advantage of the available spaces on flights departing from the island. The draft agricultural plan for the island holds some promise for future development, but faces significant hurdles in terms of governance, labour, financing and local management expertise.

The taro leaf problem reported in 2013 has now been brought under control.

The recently constructed harbor at Taunganui is expected to further improve cargo handling and shipping services on the island.

15.3.6 Mitiaro

Mitiaro recently received support for the propagation of maire seedlings to improve product supply for the Hawaii market. This initiative will require further support in terms of technical assistance to ensure the program is successful and able to contribute to revenue generating objectives. Further work on increasing small scale maire plantations in the makatea areas surrounding the villages is expected to commence this year. Opportunities also exist to expand the supply of maire for formal occasions in Rarotonga.

The new harbour at Omutu has been completed and has improved local fishing operations.

15.3.7 Palmerston

The energy system on the island suffered a minor setback when the 40 year old Lister HR3 genset recently broke down. This was replaced by a new Cummins set which is expected to meet the island's energy demand until the new photovoltaic (solar) system comes into operation in 2014/15. Reliable energy is critical for Palmerston's parrot fish export program. In 2013, the island sent to Rarotonga approximately 7 tonnes of parrot fish. Exports in 2014 indicate that this level of export will be replicated. Opportunities exist for local fishermen to form collective bargaining groups with consumers in Rarotonga. There are concerns with the sustainability of the parrotfish and robust management is required to ensure its viability into the future.

The island was provided with additional 27 x 6,000L water tanks for each household in early 2014. This increases the total residential potable water storage system from the current 6,000L to 12,000L per occupied household.

Yacht arrivals declined to 40 in 2013/14 compared to between 80 and 100 in previous years. Formalising Palmerston as a port of entry may help boost arrival numbers, but issues around safe moorings, local capacity to host large numbers of people, and loss of local arts and crafts, present barriers for further income generation from this activity. Niche tourism also presents some opportunities.

15.3.8 Penrhyn

Diving and harvesting natural pearls or pipi on Penrhyn is becoming the main source of local income, often involving whole family units. There are currently, two overseas buyers involved in the industry and working directly with the community. The economic returns from harvesting pipi have resulted in a decline in the production of woven handicrafts. There is concern over current harvesting practices and the future sustainability of the pipi may be under threat.

Fishing is generally reserved for family consumption, with little excess for sale or export to Rarotonga. While shellfish like paua or clams present opportunities for the islanders, the harvesting of it is locally regulated to ensure sustainability and thus restricting revenue from this resource to specific times of the year.

15.3.9 Pukapuka and Nassau

A combination of inadequate maintenance and a lack of scheduled air services resulted in the Pukapuka runway being rendered unsafe in 2013. The government has recently spent \$375,000 to transport machinery, labour and materials to Pukapuka to get the airport upgraded and safe.

Economic activity is low with food production for local consumption being the mainstay. An initiative is currently in the pipeline to look at providing a small fishing boat and outboard for the people of Nassau. At present, they only have access to one boat that belongs to the Ministry of Marine Resources; the same boat would also be used for loading and unloading cargo.

Like the rest of the islands in the north, both Nassau and Pukapuka are preparing the groundwork for the installation of renewable energy facilities on the island. These islands will feel the greatest

impact of having 24 hour electricity supply, given that Pukapuka currently does not have a centralized and reticulated power supply.

15.3.10 Rakahanga

Rakahanga was another island that faced significant issues around its energy management and general administration of financial accounts. The energy tariff on Rakahanga has been well below the standard subsidised level for many years, with other areas of the Island Government's budget diverted into supplying cheaper energy. Central government has had to provide emergency relief funds from its Contingency Reserves (\$20,000 in December 2013 and \$29,000 in August 2014) to Rakahanga for the purchase of fuel. The renewable energy project, scheduled to start construction before the end of 2014, will provide some relief, but will still face issues if replacement costs are not carefully managed.

The island's five village communities recently received one outboard motor each, which together with the recent shipment of freezers, should assist in fishing activities. After some pilot activities, the island is continuing dried fish production to generate extra revenue for the island's residents. The Island has also recently benefited from a development partner funded program designed to repair boats on Rakahanga and Manihiki.

Handicraft production is being encouraged by the Island Government, with most being sold in nearby Manihiki.

16 OFFICIAL DEVELOPMENT ASSISTANCE (ODA) BUDGET 2012/13 - 2015/16

16.1 Introduction

The Cook Islands Official Development Assistance (ODA) Policy 2011 adopts an approach where the national Budget includes all known sources of development finance planned for use in the Cook Islands. This is intended to improve the ability of people to comprehend and coordinate forward plans, and expected outcomes and contributes to the greater accountability of organisations utilising ODA.

While certain documents are referenced in the details of certain sections, there are many reports available to the public on activities. This is either posted on the Ministry of Finance Development Coordination Division web pages, implementing agency web sites or can be requested by contacting the Division. Accountability for the use of ODA is most effective when the intended beneficiaries are aware of the details and agencies involved. Information available often includes design documents, progress reports, completion reports and evaluations.

The ODA Policy will undergo a revision at the end of 2014 to incorporate relevant recommendations from the Peer Review of our financial systems and other key aspects of the Cairns Compact by regional counterparts and development partners.¹² Recommendations for improving development effectiveness include the following:

Government to create space for meaningful policy dialogue on a three to five year strategy to move away from project based aid to long term development financing through one budget support mechanism.

- Government to consider a full review of its ODA programmes to determine the bottlenecks in deliver to the outer islands.
- Development partners including regional organizations to provide necessary timely and complete information to government on level of funding and technical support and account for results.
- Development partners to set targets with government on greater use of joint missions, analysis, and moving towards budget support as the main form of support.
- Development partners where requested by government should devote more attention to supporting government to address structural opportunities.

The estimates of ODA incorporate the information available to MFEM as at end August 2014. Actual spend estimates are intended to represent total costs, these being costs paid in the Cook Islands (including provisions for committed contracts) plus spending on programmes by third parties such as the New Zealand Government, development banks and regional organisations. Previously only costs paid through Cook Island Government systems were recorded. This means that the historical ODA spend reported has to some extent been underrepresented. Procedures are being established to obtain quarterly information on development partner spend on the Cook Islands behalf to improve the accuracy of ODA spend. Implementation of this standardised process began in 2014.

The New Zealand/Australia forward aid programme represents about 50 per cent of ODA and 2014/15 is the last year of the three-year New Zealand budget appropriation cycle. In addition there are elections in New Zealand in September and a series of evaluations due. Due to these uncertainties, budgets estimates beyond 2014/15 funded by NZ/Australia are yet to be confirmed

¹² See MFEM website for full report and list of recommendations: <http://www.mfem.gov.ck/peer-review>

including as Education Sector support, Tourism and the Cook Islands Technical Assistance Facility. It is however expected that the level of support provided to the Cook Islands over the next three year cycle will be similar to past appropriations. Additionally, due to delays in negotiating the budget support agreement and implementing scaling up sanitation upgrades, funding from the European Development Fund 10th cycle has been rescheduled.

Also worth noting is that NZ/A \$925,000 allocation for Gender support is situated within the Social Impact Fund budget, and therefore support for the Gender sector is not immediately viewable in the ODA schedule.

Improving transparency of assistance from regional organisations

A CASE STUDY - THE SECRETARIAT OF THE PACIFIC COMMUNITY (SPC)

“SPC’s regional programmes include such initiatives as the Pacific gene bank (CePact), tuna fisheries development and deep-sea minerals research, and appear in the SPC Regional Report. In general, member countries recognise SPC’s value in the high quality of the technical assistance provided across country sector areas and in the portfolio of regional work, rather than SPC’s occasional role as a conduit of donor funds to countries. When it works well, SPC’s technical assistance to countries leverages government and donor impact and has, through efforts such as programme design assistance, helped to increase the quantity of donor funding available to a country. SPC’s direct financial inputs are only a small part of the picture. However, SPC recognises that some countries would like a sense of the cost of SPC’s work relevant to them; for Cook Islands in 2013, this is estimated at NZD 5,989,033”

Excerpt from the Secretariat of the Pacific Community’s 2013 Annual Report
‘Working with the Cook Islands’. To view the report, go to:

<http://www.mfem.gov.ck/development-partners/secretariat-of-the-pacific-community>

Donors are called to support both regional and bilateral assistance flows, however these funds come from the same source. It is therefore important for national and international organisations to improve cooperation in order to avoid unhealthy competition for limited resources. While the value of the above assistance is not yet fully reported in this budget, the Cook Islands supports increased reporting to the national level by regional and global development partners in order to better understand the cost and assess the value of services provided.

Over time this should contribute to better informed country delegations, clarity over issues best addressed through regional approaches, efficient divisions of labour and increased accountability to stakeholders at the national level. Greater cooperation between national and international agents, especially for middle

16.2 Variances

Expenditure for 2013/14 was approximately \$33 million representing a conversion ratio of 54 percent.¹³ However, this is a significant improvement from the ODA conversion ratio of 37 percent in 2012/13. The variances between the budget and estimated spend is due to:

- A lack of information on program planning and spending managed by regional and global partners on behalf of the Cook Islands;
- Draw down delays with grant funds from the People's Republic of China for outer islands heavy machinery, agriculture and pearl farming equipment which are now scheduled to be delivered in 2014/15;
- Change of implementation plans for the \$4.5 million Japan Pacific Environment Community Funds for Renewable Energy;
- Shift in timing of the additional contribution from New Zealand of 7.5 million for Water Sector support (Te Mato Vai). This will now be paid over in forward years and does not reduce the total NZ/AUS contribution of \$15m;
- ODA Spend by Executive Order Due to suspension of the supplementary budget process in 2014, the following programs were either approved for overspend by executive order or relate to timing differences between multi-year projects. The budget figures recorded under the 2013/14 Budget are those originally approved by Parliament.

Table 16.1 ODA variance by project

Activity	Development partner	Budget FY 13/14	Estimated spend at Oct	Variance	Comments
Improve Infrastructure National Infrastructure Investment plan	ADB	0	162,300	162,300	Budget covered by exiting approval under MFEM ADB TA
Tourism sector support	NZ/A	3,000,000	3,472,000	472,000	Difference from 2012/13 budget due to timing of milestone contractor payments on destination development infrastructure projects.
Renewable Energy	NZ/A	6,280,000	11,339,886	5,059,886	Spend estimated at May of \$13,797,902 has been revised up to \$6,020,000

¹³ The ODA conversion ratio is the percentage of ODA converted to spending out of the total planned expenditure (contracted or pledged by the development partner at the time of the annual budget process). This calculation is based on the initial 2013/14 budget not including subsequent revisions. The closer this indicator is to 100%, the better the quality of the partnership between recipient countries and development partners is.

Activity	Development partner	Budget FY 13/14	Estimated spend at Oct	Variance	Comments
					additional spend approved by executive order
Promoting Energy Efficiency in the Pacific	ADB	409,347	507,241	97,894	Regional project, additional costs this financial year due to timing in differences in contractual payments.
Education budget support	NZ/A	2,657,000	3,270,000	613,000	NZ assistance has been split between two grant contracts. This budget line is now the main support mechanism. This spend over budget is covered by under spend on the Education sector partnership budget.
Aid effectiveness	NZ/A	62,000	150,000	88,000	Budget revision proposed increase to support crown accounting catch up and national implementing entity application to the United Nations Adaptation Fund. Spending aligned to ODA implementation plan.
National Implementing Entity accreditation process	EU	0	43,000	43,000	New project approved by executive order \$62,000.
HIV new funding	Global Fund	0	20,349	20,349	New project approved by

Activity	Development partner	Budget FY 13/14	Estimated spend at Oct	Variance	Comments
model					executive order \$42,000.
Social welfare review	ADB	390,000	612,624	222,624	Timing difference in spend projections over three years. Overall expenditure is within budget. Project in closure mode.
Cook Islands Water shortage response	NZ/A	0	110,000	110,000	New project approved by NZ from funds held by MFEM from CRRP support received 2006-2012. Approved by executive order.
Mangaia Harbour	Australia	610,000	714,273	104,273	Timing difference from 2012/13 final contractor payments. Project closed.
Pacific Adaptation Strategy PASAP	Australia	0	193,694	193,694	Timing difference from 2012/13 final contractor payments. Project closed for coastal assessment of Rarotonga. Approved additional 89,000 by executive order.
European Union Technical Cooperation Fund	EU	80,000	96,702	16,702	Fund closed as EU assistance now being provided by direct budget support to Treasury. Approval for final EU officer salary payments requested from EU delegation.

Balance of Funds on Hand 31/08/14

This represents the total value of bank trust account balances that are held by the Division for various partners.

- NZ dollar accounts \$3,862,203
- US dollar accounts USD \$60,514 @0.847 \$ 71,445

Table 16.2 ODA allocation by National Sustainable Development Goal

NSDP Goal	Sector	Budget 2014/15
Goal 1: A vibrant Cook Islands economy	Economic Development	4,488,300
Goal 2: Infrastructure for economic growth, sustainable livelihoods and resilience	Infrastructure	24,845,000
Goal 3: Energy security	Energy	13,146,000
Goal 4: Opportunity for all people who reside in the Cook Islands	Social Development	6,629,650
Goal 5: Resilient and sustainable communities	Resilience	4,457,000
Goal 6: Environment for living	Ecological Sustainability	839,700
Goal 7: Good governance	Governance	2,461,500
Goal 8: A safe, just, secure and stable society	Law and Order	6,826,000
Total		63,693,150

Chart 16.1 ODA Actual Spend by Development Partner 2013-14 (%)

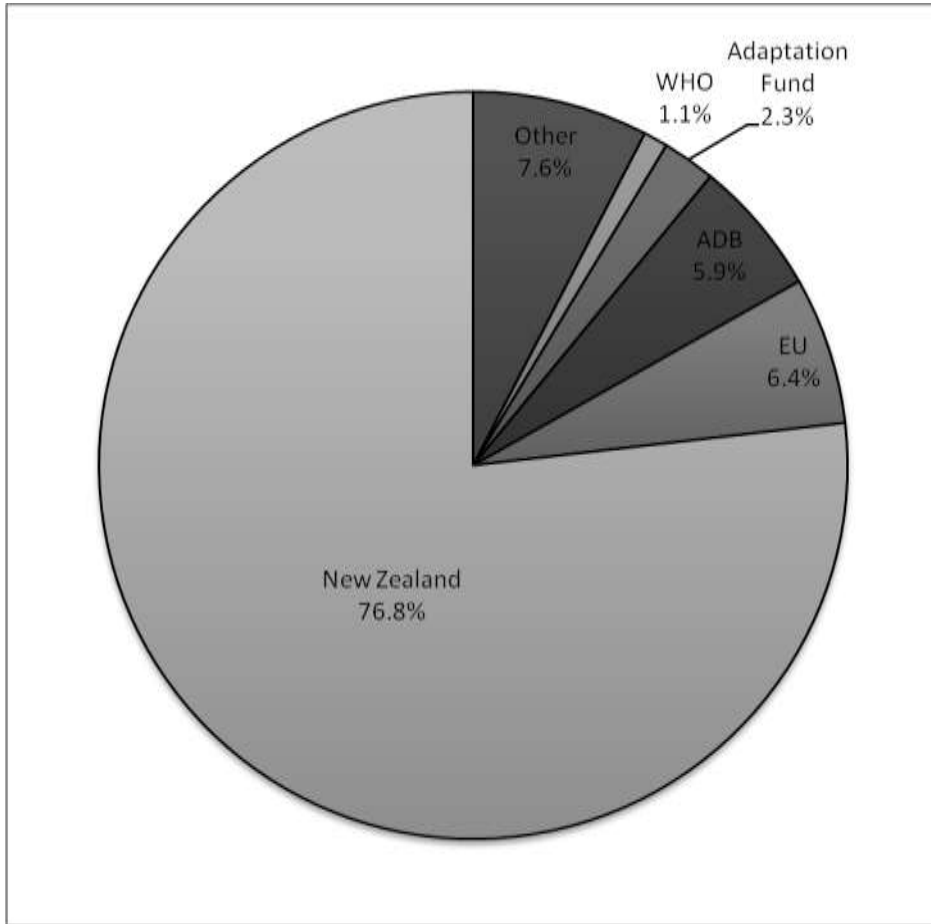


Chart 16.2 ODA Budget by Development Partner 2014-15 (%)

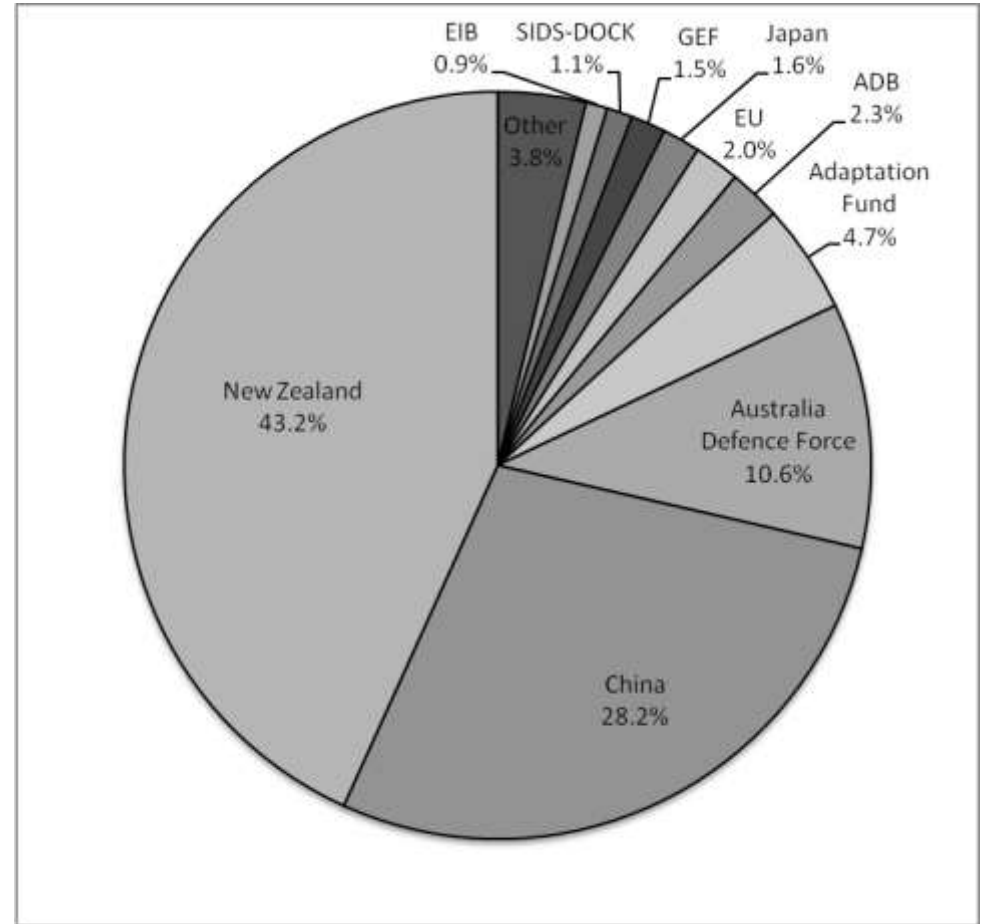


Table 16.3 ODA Budget by Development Partner 2014-2017 (\$)

Development Partner	ODA Budget		
	2014-15	2015-16	2016-17
Adaptation Fund	3,013,000	1,045,000	375,000
ADB	1,444,500	500,000	300,000
Australia	149,150	123,050	0
Australia Defence Force	6,760,000	0	0
China	17,952,000	5,000,000	2,700,000
Commonwealth Secretariat	83,000	73,000	0
EIB	600,000	0	0
EU	1,255,000	6,240,000	7,490,000
FAO	115,000	115,000	115,000
FFA	230,000	230,000	0
GEF	954,100	2,911,600	2,772,000
Global Fund	93,000	80,000	80,000
India	150,000	150,000	150,000
Japan	1,045,000	3,572,000	0
Korea	236,000	0	0
Marama Global	30,000	0	0
Multilateral Fund	85,600	0	0
New Zealand Aid	27,537,500	14,086,600	10,040,000
SIDS-DOCK	708,000	0	0
SOPAC	0	0	0
SPC	115,800	60,000	60,000
SPC/FAO	14,500	14,500	0
SPREP	127,000	0	0
Turkey	60,000	0	0
Underwater Mining Institute	0	0	0
UNDP	242,000	0	0
UNEP	33,000	0	0
UNESCO	85,000	85,000	85,000
UNFPA	194,000	76,000	0
WHO	311,000	247,400	247,400
WPFC	70,000	70,000	0
Total	63,693,150	34,679,150	24,414,400

Table 16.4 Cook Islands ODA by Sector 2014-15 (\$)

Sector	Budget 2014/15
Agriculture	202,300
Climate Change	4,457,000
Community Services	1,297,950
Culture	236,000
Economic Development	1,020,000
Education	3,472,500
Energy	13,146,000
Environment	839,700
Gender	242,000
Health	1,221,200
Infrastructure	22,880,000
Law and Order	6,961,000
Marine Resources	1,116,000
Public Administration	2,176,500
Social Welfare	100,000
Tourism	2,150,000
Water and Sanitation	2,175,000
TOTAL	63,693,150

Chart 16.3 Cook Islands ODA Budget by Agency 2014-15

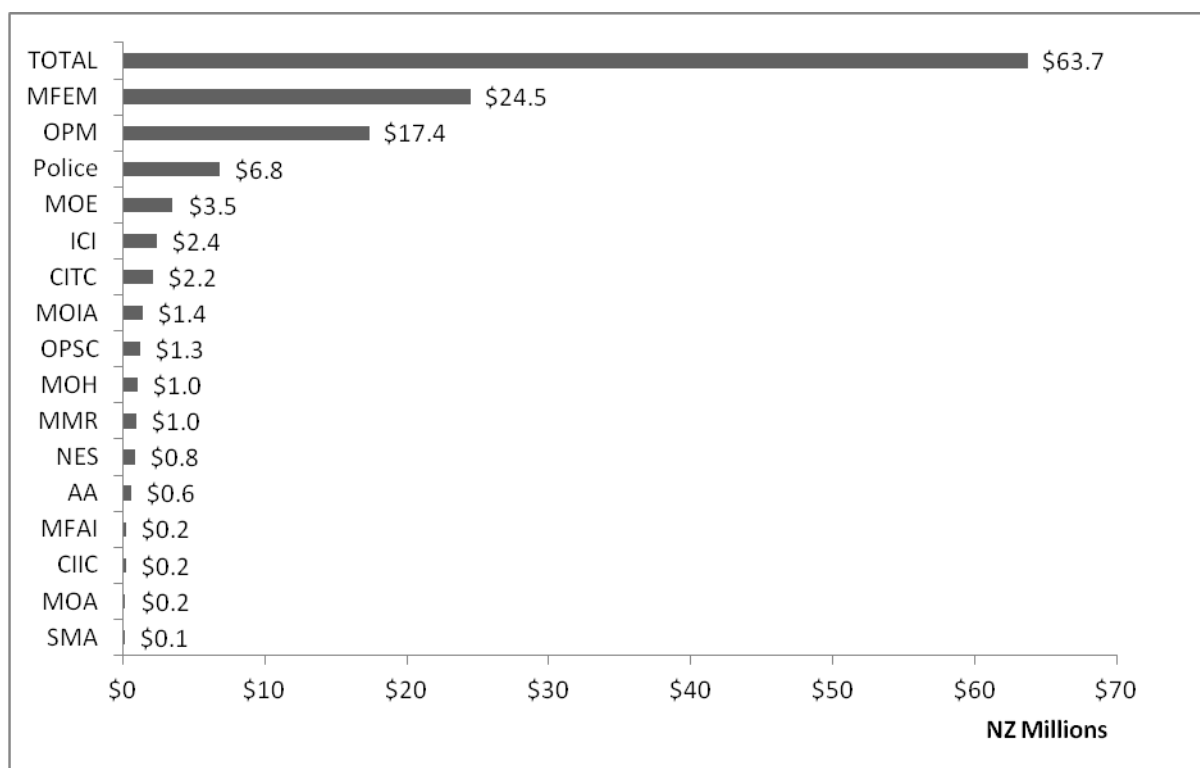


Table 16.5 Cook Islands ODA Detail by Agency 2014-2017

Agency	Development Partner	Budget 2013/14	Spend 2013/14	Budget 2014/15	Budget 2015/16	Budget 2016/17	Total (3yr Forecast)
Airport Authority		0	0	600,000	0	0	600,000
Improving Pacific Air Safety TA	European Investment Bank	0	0	600,000	0	0	600,000
Cook Islands Investment Corporation		200,000	234,395	233,500	0	0	233,500
ADB Asset Management Technical Assistance	Asian Development Bank	200,000	72,365	150,000	0	0	150,000
Improve infrastructure service delivery technical assistance (CI-NIIP)	Asian Development Bank	0	162,030	83,500	0	0	83,500
Cook Islands Tourism Corporation		3,000,000	3,472,000	2,150,000	0	0	2,150,000
Tourism Sector Support		3,000,000	3,472,000	2,150,000	0	0	2,150,000
Ministry of Agriculture		581,500	145,000	202,300	179,500	165,000	546,800
Agricultural Census and Statistics, Food and Ornamental Crops	FAO	223,200	0	0	0	0	0
Crop Enhancement Technical Cooperation	FAO	236,000	115,000	115,000	115,000	115,000	345,000
Water-logging Project	SPC	30,000	30,000	38,500	0	0	38,500
Taro Revitalisation program	SPC	9,300	0	9,300	0	0	9,300
Plant Genetic Resources Benefit Sharing	SPC/FAO	0	0	14,500	14,500	0	29,000
Biocontrol of Invasive Weeds	New Zealand	0	0	25,000	50,000	50,000	125,000
Forestry Assessment programme	FAO	83,000	0	0	0	0	0
Ministry of Education		3,355,000	3,382,401	3,532,500	3,355,000	3,355,000	10,242,500
Computers for Health/Education	Turkey	0	0	60,000	0	0	60,000
Education Budget Support	New Zealand	2,657,000	3,270,000	3,375,000	3,270,000	3,270,000	9,915,000
Education Sector Partnership	New Zealand	613,000	26,000	12,500	0	0	12,500
Participation Program	UNESCO	85,000	86,401	85,000	85,000	85,000	255,000
Ministry of Finance and Economic Management		13,251,000	4,441,107	24,493,000	15,854,000	7,795,000	48,142,000
China grants in kind	China	0	270,480	17,952,000	5,000,000	2,700,000	25,652,000
Public Sector Reform TA Support	Asian Development Bank	900,000	0	600,000	500,000	300,000	1,400,000
EU TCF	European Union	80,000	96,702	0	0	0	0
General Budget Support	European Union	1,600,000	1,600,000	0	2,400,000	1,600,000	4,000,000

Agency	Development Partner	Budget 2013/14	Spend 2013/14	Budget 2014/15	Budget 2015/16	Budget 2016/17	Total (3yr Forecast)
India Grant Fund	India	150,000	150,000	150,000	150,000	150,000	450,000
Automated Border Management System	New Zealand	135,000	0	135,000	135,000	0	270,000
Aid Effectiveness	New Zealand	62,000	150,000	150,000	150,000	150,000	450,000
Te Mato Vai	New Zealand	7,500,000	1,063,000	4,118,000	7,343,000	2,895,000	14,356,000
TRAC Funds	UNDP	242,000	0	242,000	0	0	242,000
Pearl Industry Revitalisation	New Zealand	2,237,000	970,000	870,000	0	0	870,000
NIE Accreditation Process	European Union	0	43,000	49,000	100,000	0	149,000
NIE Accreditation Process (AMC, Anti-Corruption Committee)	UNEP	0	0	33,000	0	0	33,000
Strengthening Reproductive Health	UNFPA	345,000	97,925	194,000	76,000	0	270,000
Ministry of Foreign Affairs and Immigration		141,000	121,000	236,000	0	0	236,000
Korea Cars	Korea	121,000	121,000	0	0	0	0
Korea Cultural Grant	Korea	0	0	236,000	0	0	236,000
PRC Grant	China	20,000	0	0	0	0	0
Ministry of Health		1,211,200	786,035	1,027,200	858,400	847,400	2,733,000
Strengthening the management, prevention of TB in CK	Global Fund	78,000	18,760	32,000	40,000	40,000	112,000
Management and Prevention of HIV	Global Fund	96,000	0	0	0	0	0
HIV-New Funding Model	Global Fund	0	20,349	61,000	40,000	40,000	141,000
Health Specialist Visits Programme	New Zealand	500,000	390,000	562,000	500,000	500,000	1,562,000
SPC Small Grants	SPC	20,000	0	20,000	20,000	20,000	60,000
Human Resources Development (Fellowships)	WHO	271,200	135,600	148,000	176,700	176,700	501,400
Technical Cooperation Programme	WHO	246,000	199,570	163,000	70,700	70,700	304,400
Strengthening Reproductive Health	WHO	0	15,000	0	0	0	0
Trauma Training	Australia	0	6,756	11,200	11,000	0	22,200
Nursing School Training and Development	Marama Global	0	0	30,000	0	0	30,000
Ministry of Internal Affairs		1,291,530	1,099,494	1,397,950	672,050	0	2,070,000
Social welfare review, protection of the vulnerable	Asian Development Bank	390,000	612,624	100,000	0	0	100,000
Disability Inclusive Development	Australia	136,530	90	137,950	112,050	0	250,000
Social Impact Fund (NGO and community initiatives scheme)	New Zealand	765,000	449,000	1,160,000	560,000	0	1,720,000
12th Triennial Conf of Pacific Women	Australia	0	37,780	0	0	0	0

Agency	Development Partner	Budget 2013/14	Spend 2013/14	Budget 2014/15	Budget 2015/16	Budget 2016/17	Total (3yr Forecast)
Infrastructure Cook Islands		6,042,000	1,890,924	2,409,000	2,025,000	3,175,000	7,609,000
Mangaia Harbour Climate Adaptation	Australia	610,000	714,273	0	0	0	0
Pacific Adaptation to CC (PACC+) Cook Is	Global Environment Facility	737,000	151,339	0	0	0	0
Mauke and Mitiaro Harbours	New Zealand	260,000	6,480	234,000	0	0	234,000
Northern Water Improvement program - Household supply	New Zealand	630,000	203,671	0	0	0	0
Waste Management and Sanitation improvement program (WMI)	New Zealand	2,955,000	750,000	2,175,000	2,025,000	3,175,000	7,375,000
Integrated Water Resources Management (IWRM)	SOPAC	200,000	65,161	0	0	0	0
Northern water community water tank, carry forward from 2011	New Zealand	650,000	0	0	0	0	0
Ministry of Marine Resources		362,000	0	985,000	940,000	0	1,925,000
Pago Pago MCS Operations	Forum Fisheries Agency	0	0	50,000	50,000	0	100,000
Pago Pago MCS Operations	WPFC	0	0	70,000	70,000	0	140,000
Fisheries Project Development Fund	Forum Fisheries Agency	362,000	0	180,000	180,000	0	360,000
Fisheries Policy Support	European Union	0	0	640,000	640,000	0	1,280,000
IT Upgrade	Japan Trust Fund	0	0	45,000	0	0	45,000
National Environment Services		614,000	230,790	839,700	2,711,600	2,572,000	6,123,300
Prevention, control and management of invasive alien species	Global Environment Facility	162,000	98,850	151,800	85,600	72,000	309,400
GEF Small Grants Programme	Global Environment Facility	0	0	300,000	300,000	300,000	900,000
Conservation Management of Island Biodiversity	Global Environment Facility	225,000	110,104	142,300	126,000	0	268,300
UNCCD Data Reporting Project	Global Environment Facility	57,000	0	60,000	0	0	60,000

Agency	Development Partner	Budget 2013/14	Spend 2013/14	Budget 2014/15	Budget 2015/16	Budget 2016/17	Total (3yr Forecast)
Ridge to Reef	Global Environment Facility	100,000	0	100,000	2,200,000	2,200,000	4,500,000
Monitoring of Ozone Depletion Substance	Multilateral Fund	70,000	18,760	85,600	0	0	85,600
State of Environment Report	UNEP	0	3,076	0	0	0	0
Office of the Prime Minister		13,790,347	16,391,693	17,369,000	7,917,000	6,465,000	31,751,000
National Disaster Trust Fund	New Zealand	0	0	329,000	0	0	329,000
Renewable Energy Grant (Southern Group)	European Union	0	0	0	2,890,000	5,680,000	8,570,000
Renewable Energy TA (Feasibility)	Asian Development Bank	570,000	596,500	0	0	0	0
Pacific Adaptation Strategy Assistance Program (PASAP)	Australia	0	193,694	0	0	0	0
SPC EU GCCA PSIS Projects	European Union	465,000	374,008	356,000	0	0	356,000
National Adaptation to CC (3rd Nat Com and 3-4 Nat Rept)	Global Environment Facility	60,000	0	200,000	200,000	200,000	600,000
Renewable Energy program support	New Zealand	6,280,000	13,797,902	10,800,000	0	0	10,800,000
PV Mini grids	Japan (PEC)	3,390,000	49,348	1,000,000	3,572,000	0	4,572,000
Energy Transformation (Palmerston)	SIDS-DOCK	2,330,000	0	708,000	0	0	708,000
Power sector study, EIA, verifications (PIGGAREP)	SPREP	77,000	0	127,000	0	0	127,000
Strengthening Resilience of Island Communities -Current				100,000	100,000	100,000	300,000
Strengthening Resilience of Island Communities	UN Adaptation Fund		763,000	2,913,000	945,000	275,000	4,133,000
Atiu Generator Renewable Energy	New Zealand	209,000	0	0	0	0	0
Rarotonga Land Use	SPC	0	0	0	0	0	0
Cook Islands Water Shortage Response	New Zealand	0	110,000	115,000	0	0	115,000
Northern Water Project Phase 2	EU-German Development Cooperation	0	0	210,000	210,000	210,000	630,000
Promoting Energy Efficiency in the Pacific	Asian Development Bank	409,347	507,241	511,000	0	0	511,000
CI Police Services		720,000	120,000	6,826,000	53,600	0	6,879,600

Agency	Development Partner	Budget 2013/14	Spend 2013/14	Budget 2014/15	Budget 2015/16	Budget 2016/17	Total (3yr Forecast)
Partnership for Pacific Policing	New Zealand	600,000	0	66,000	53,600	0	119,600
Te Kukupa TA, operations	Australia	120,000	120,000	6,760,000	0	0	6,760,000
	Defence Force						
Office of the Public Service Commissioner		1,000,000	844,580	1,261,000	0	0	1,261,000
CI Technical Assistance Facility	New Zealand	1,000,000	844,580	1,261,000	0	0	1,261,000
Seabed Minerals Authority		95,000	50,626	131,000	113,000	40,000	284,000
Minerals and Natural Resources TA	Commonwealth Secretariat	95,000	30,689	83,000	73,000	0	156,000
Deep Sea Minerals Project	SPC	0	3,610	48,000	40,000	40,000	128,000
Training	New Zealand	0	8,000	0	0	0	0
Technical Assistance	Underwater Mining Institute	0	8,327	0	0	0	0
Total		45,654,577	33,210,045	63,693,150	34,679,150	24,414,400	122,786,700

16.3 ODA Activity Detail

This should be read in conjunction with the capital plan (budget book three) as detail of ODA funded infrastructure projects are not repeated in this chapter. Recurrent amounts refer to funds used for ongoing operations (e.g. salaries, office costs and maintenance). Grants refer to amounts paid to third party organisations or individuals through contestable processes. Where a previously appropriated activity has been delayed, forward budgets are revised to reflect the latest expenditure plans.

The aid effectiveness implementation plan 2013¹⁴ acknowledges the need for improved cooperation across government agencies and between government and national partners to reduce delays in employing available ODA resources. Plans are anticipated to help the government identify system changes to reduce unnecessary administrative effort, foster cooperative action and incentivise activities that further agreed priority public goals. This work revolves around closer partner cooperation and improved planning and tools.

Closer partner cooperation:

- The Te Mato Vai partnership for the Rarotonga water upgrade between the Cook Islands, People's Republic of China and New Zealand.
- Review of arrangements and development of a strategy to improve the effectiveness of grants pledged by the People's Republic of China. Establishing relations between MFEM and the China Development Bank.
- Deepening cooperative approaches between New Zealand/Australia and the European Union in the energy, water and sanitation sectors.
- Cook Islands working with the European Union Global Climate Change Alliance, Asian Development Bank (ADB), Pacific Finance Ministers and Frankfurt Business School of Management to improve direct access to Climate Change financing.
- Renewable Energy cooperation for 2015 and 2020 Roadmap goals of 50 per cent and 100 per cent Renewable between Cook Island Government, New Zealand, Asian Development Bank, European Union, Japan and the United Nations.
- Mapping the activities underway and in planning in the environment sector in order to better inform future partnerships to improve the speed and focus of Global Environment and Adaptation Fund assistance.

Improved planning and tools:

- New activity management system under development proposed to be called Te Tarai Vaka¹⁵ which will meet standards necessary to be accredited for direct access to global funds. This is being piloted by the Development Coordination Division (MFEM) before being made available to the wider government in 2015.
- The ten year capital plan which highlights national programs for climate adaptation and renewable energy plans. Working with ADB to build capacity of the Cook Island Investment Corporation and wider government to improve asset management systems and implement National Infrastructure Investment Plan.

¹⁴ <http://www.mfem.gov.ck/development>

¹⁵ Translated as 'crafting the canoe'. This metaphor attempts to capture the stages of developing an activity in an inclusive manner, valuing local knowledge and learning, advancing with the care and persistence needed to address complex problems underlying development issues.

- Reshaping the annual Development Partners Meeting around building stronger and new relationships that orient partner funding towards Cook Islands programs rather than project level interventions that duplicate national systems.
- Application to achieve National Implementing Entity status with the United Nations Adaptation/Green Funds which will channel climate change funding to national budget process.
- Increasing use of funding arrangements based on milestones rather than transaction level monitoring for activities under the New Zealand and Australian aid program for example Education, Tourism, Water, Sanitation and Health.
- Continuing the Public Financial Management improvements to build capacity of the Parliamentary oversight committee, anti-corruption committee, government procurement and financial accountability systems. A second Public Expenditure and Financial Accountability assessment will be completed by the Pacific Financial Technical Assistance Centre.

Further details on key activities follow below, and in the capital initiatives budget.

16.4 Airport Authority

Table 16.6 Improving Pacific Air Safety TA (European Investment Bank)

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	600,000	0	600,000	0	0
Total	600,000	0	600,000	0	0

The objective is to provide the Cook Islands Airport Authority (CIAA) with feasible strategies and recommendations to enable informed decisions for upgrading the airports. The operation is structured into several components which are being closely coordination with other development partners.

The components are: (i) Rarotonga Airport Runway and Nav aids Study; (ii) Rarotonga Airport Terminal Upgrade Stage 2 Study; (iii) Feasibility Study into the use of renewable energy for the electricity requirements of the Cook Islands Airport Authority; (iv) Cook Islands Airport Authority Strategic Plan and Rarotonga Airport Business Plan.

16.5 Cook Islands Investment Corporation

Table 16.7 ADB Asset Management Technical Assistance

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	222,365	72,365	150,000	0	0
Total	222,365	72,365	150,000	0	0

This Asian Development Bank technical assistance has been utilized by Cook Islands Investment Corporation to improve financial and operational management of assets nationally across government and State Owned Enterprises.

Implementation and training for the new Asset Management System (AssetFinder) is currently underway.

Table 16.8 Cook Islands National Infrastructure Investment Plan

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	245,530	162,030	83,500	0	0
Total	245,530	162,030	83,500	0	0

The Cook Islands National Infrastructure Investment Plan has been widely consulted and will be utilized to inform the budget process for Infrastructure investment planning including climate change factors. It provides a summary of Infrastructure Investments over the next five to ten year period to be reviewed annually for the budget process.

16.6 Cook Islands Tourism Corporation

Table 16.9 Tourism Sector Support

	Total cost	2013/14	2014/15	2015/16	2016/17
Capital	1,287,000	787,000	500,000	0	0
Recurrent	5,153,000	2,685,000	1,650,000	0	0
Total	6,440,000	3,472,000	2,150,000	0	0

The Tourism sector is widely recognised as the key driver of the Cook Islands' economy. This New Zealand and Australia harmonised program sector support is aligned with Government's investments to deliver the Destination Development and Destination Marketing strategy. Capital activities are separately listed in the capital plan, recurrent expenses are marketing related and managed through the corporations marketing strategy. The expected results of the programme include:

- activities from the events development strategy, cuisine development strategy, research and planning, training and education, tourism infrastructure development (see capital works budget), environmental management, niche market development; and tourism enterprise development;
- continued focused development of Aitutaki and Atiu as destinations on their own;
- Mangaia, Mitiaro, and Mauke are developed and enhanced as viable secondary destinations;
- support tourism development for the Northern Group Islands; in the sailing, yachting, cruising, cruise expeditions; and blue water cruising markets.
- maintain and increase market presence and awareness in key source markets underpinning the combined airline access and marketing strategy;
- market the Cook Islands destination effectively in key markets particularly in co-operative campaigns, trade and consumer shows, familiarization visits and public relations; and
- Increase economic activity in the Cook Islands through increased visitor numbers, dispersed length of stay and yield.

Recurrent funds support the Tourism Authorities Marketing Strategy and the capital plan provides further information on this programme. The Grant Funding Arrangement for this programme ends June 2015 and a revised programme may be negotiated with New Zealand.

16.7 Ministry of Agriculture

Table 16.10 Assistance to Enhance Crop Production and Improve Soil Resources Management for Sustainable Livelihoods

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	345,000	115,000	115,000	115,000	0
Total	345,000	115,000	115,000	115,000	0

This Food and Agriculture Organization project is designed to enhance the sustainable production and supply of food crops on the local and overseas markets to achieve sustainable production through addressing certain main factors including; increasing the availability of high quality propagated planting materials through the public nurseries; making available planting materials of under-utilised species; introducing, propagating, and distributing new species and varieties; evaluating varieties under our climatic and soil conditions; and manipulation planting schedule and/or inflorescence and fruit development phases. The project duration is three years.

Table 16.11 Water-logging Project

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	68,500	30,000	38,500	0	0
Total	68,500	30,000	38,500	0	0

Funding for this project is administered through the Secretariat of the Pacific Community and will explore different methods of planting with both cassava and sweet potato to assess the impact these methods might have on reducing the effect of water-logging. The project is planned over two years and objectives are to:

- establish a protocol for screening crops for tolerance to water-logging in the field and in the screen-house;
- determine the optimum indicators for determining water-logging symptoms and therefore tolerance to water-logging;
- identify any traditional crops/varieties with tolerance to water-logging, make these available for their climate-ready collection;
- screen selected climate-ready accessions for tolerance to water-logging and make the information available for inclusion database;
- provide sufficient information so that a publication on screening for water-logging can be prepared; and
- record any observed tolerance to high temperature shown by the crops/varieties during the course of these trials.

16.8 Ministry of Education

Table 16.12 Education Budget Support

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent and capital expenses	9,525,000	3,270,000	3,375,000	3,270,000	3,270,000
Total	9,525,000	3,270,000	3,375,000	3,270,000	3,270,000

The education sector budget support assists the Cook Islands Government to implement the Cook Islands Education Master Plan 2008-2023. The plan establishes the over-arching goal of the sector and intended long-term outcomes. The Cook Islands Ministry of Education statement of Intent 2013-2017 sets out the medium-term outcomes and the Ministry's annual business plan which provides outputs and indicative costs for a three-year work programme.

The current agreement ends in June 2015 but it is assumed that this stream of funding will continue after this date at the same rate. Negotiations will be taking place later in 2014.

Table 16.13 Categories of Costed Outputs for the term of the Arrangement.

Output to be produced	Start date	End date	Total indicative cost of Outputs	Indicative Budget by Year		
				Year 1	Year 2	Year 3
				1Jul2012-30Jun2013	1Jul2013-30Jun2014	1Jul2014-30Jun2015
Taku Ipukarea Kia Rangatira Learning and Teaching	1-Jul-12	30-Jun-15	492,000	147,000	170,000	175,000
Learning and Community	1-Jul-12	30-Jun-15	4,595,000	1,375,000	1,560,000	1,660,000
Human Resources and Infrastructure Support	1-Jul-12	30-Jun-15	585,400	105,400	240,000	240,000
			3,852,600	1,252,600	1,300,000	1,300,000
MAXIMUM FUNDING			9,525,000	2,880,000	3,270,000	3,375,000

Table 16.14 Education Sector Partnership Arrangement

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	14,803,666	26,000	12,500	0	0
Total	14,803,666	26,000	12,500	0	0

The Education Sector Partnership Arrangement initially signed in 2008 is coming to an end in 2014/15. Funded through the New Zealand and Australia harmonised programme that originally included primary, secondary and tertiary activities, short term training awards and school refurbishments. This was superseded by a new Grant Funding Arrangement signed In July 2012 – Education Budget Support. This arrangement funds scholarships and training awards until March 2015.

Table 16.15 Information Technology – Computers for Health and Education from Turkey (Via CIIC)

	Total cost	2013/14	2014/15	2015/16	2016/17
Capital expenses	60,000	0	60,000	0	0
Total	60,000	0	60,000	0	0

As this is the first time the Cook Islands has received support from Turkey this first grant is proposed to procure computers already identified by the Health and Education Ministries operations and maintenance plans managed by CIIC. The Turkish embassy in Wellington will procure these assets and ongoing discussions will define the shape of the program going forward.

Table 16.16 United Nations Educational Scientific Cultural Organisation (UNESCO) - Participation Programme

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	341,401	86,401	85,000	85,000	85,000
Total	341,401	86,401	85,000	85,000	85,000

As the focal point for UNESCO, the Ministry of Education, appointed as the National Commission, undertakes facilitation and submission and monitoring of projects under the Participation Programme. The fund covers all islands throughout the Cook Islands and the scope covers culture, environment, science and education. Most years the Cook Islands gets approved two to three projects which relate to these categories, however last year saw a higher than usual acceptance rate of proposals.

The proposals for 2014/15 include:

- Maroro-Flying Fish Spawning in Mitiaro
- Learning by Doing - To encourage school-age youth to engage in extra-curricular environmental activities that will stimulate positive initiatives and attitudes to protect the marine environment
- Networks – Leadership and Development for girls, women and youth through sport.

16.9 Ministry of Finance and Economic Management

Table 16.17 China Grant Fund

	Total cost	2013/14	2014/15	2015/16	2016/17
Capital	23,562,480	270,480	15,592,000	5,000,000	2,700,000
Recurrent expenses	2,360,000	0	2,360,000	0	0
Total	25,922,480	270,480	17,952,000	5,000,000	2,700,000

In August 2013 Ministry of Education received furniture and office equipment.

In 2014 the Cook Islands Government commenced the first review of the three year strategy and revised process for the use of remaining and future grant funding. Since 2002 and estimated RMB 83 million (~NZ 15.8 million) has been spent on projects funded by The balance of China grants remaining is estimated between NZD 16 and 26 million as at September 2014. This amount remains to be verified and the Ministry is working with the China Development Bank to reconcile expenses paid and agreed the final balance remaining.

The remaining grant funds have been aligned to the Cook Islands Government's three year plan.

Table 16.18 Breakdown of China Grant funding

PRF Grand Fund	Executing Agency	FY expected	Estimated Cost (NZD)
Confirmed projects by the Cook Islands Government			
Pearl farming equipment	MMR	2014/15	1,914,000
Outer Island heavy machinery	ICI	2014/15	6,378,000
Agriculture equipment	MOA	2014/15	1,500,000
Chinese building repairs	CIIC	2014/15	800,000
Apii Nikao school rebuild	CIIC	2015/16	10,000,000

Cook Islands 50th anniversary contribution	MFEM	2015/16	2,360,000
Total proposed projects			22,953,771
Atiu Airport projected in Capital Plan	CIIC	2016/17	2,700,000

Concept Notes for both the Pearl Farming Equipment and Outer Island Heavy Machinery have been approved and Letters of Exchange have been signed. The procurement of goods is handled by the Chinese Ministry of Commerce and delivery of goods is anticipated by end of 2014.

A Concept Note for Agricultural Equipment was submitted in April 2014. Although the concept note was accepted, several of the items identified in the concept note are no longer available by the Chinese manufacturers. The list of goods is currently being reviewed by the Ministry of Agriculture, and once a revised finalised list is compiled, it will be re-submitted.

Concepts notes for the Chinese building repairs, Apii Nikao school rebuild are in the process of being finalised to be submitted for consideration to be funded using the balance of China grant funds. A request for contributions towards the 50th Anniversary celebrations next year is also being processed. The balance of funds will be allocated using the new process which includes recommendations for capital projects approved by the Infrastructure Committee.

Table 16.19 Public Sector Efficiency

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	1,400,000	0	600,000	500,000	300,000
Total	1,400,000	0	600,000	500,000	300,000

The Asian Development Bank (ADB) Country Operations Business Plan provides 1 million per three year cycle for technical assistance. The operational priorities of ADB's Pacific Approach 2010-2014 include improving the supply and delivery of urban services and strengthening the government's core functions to improve public sector effectiveness. This is also a priority of Te Kaveinga Nui, the Cook Islands current National Sustainable Development Plan.

Following on from the functional review of the Cook Islands public sector in 2011, technical assistance was provided in 2013/14 to:

- provide a draft National Infrastructure Investment Plan (NIIP) to guide 10 year Infrastructure budgeting;
- support to the telecommunications regulatory framework changes;
- developing capacity for welfare cost modeling to enable comparison of different welfare policy options (MFEM/INTAFF);
- State owned enterprises improvement recommendations drafted;
- Completion of a Macroeconomic Report.

The USD 1 million will be allocated across the Technical Assistance (TA) requirements agreed as part of ADB Country Operations Business plan 2015-2017 including:

- building sustainable capacity for public sector management focusing on improving public service delivery;
- escalating the efficiency of the information and communications (ICT) sector to promote private sector development;
- Supporting the establishment of a Cook Islands water utility authority.

Table 16.20 General Budget Support- European Development Fund

	Total cost	2013/14	2014/15	2015/16	2016/14
Recurrent and Capital expenses	6,011,450	1,600,000	0	2,400,000	1,600,000
Total	6,011,450	1,600,000	0	2,400,000	1,600,000

The European Union provides its bilateral assistance via the European Development Fund (EDF) currently at the end of its tenth cycle (EDF 10 - EUR 5 million). Cycle 11 (EDF 11) continues with an incentivized budget support approach where the Cook Islands will allocate funds using national systems over years 2014 to 2020. Tranche one of the EDF 10 budget was received in 2013/14, however, due to a delay in implementation by one year, no funds will be received in 2014/15. The final EDF 10 tranche will be allocated in 2015/16, and tranche one of EDF 11 in 2016/17. Performance is measured using indicators such as macroeconomic benchmarks and % of all onsite wastewater treatment and disposal systems upgraded and compliant with relevant international standards by 2020 (Target 80%, baseline: 5% in 2014. Source: Water and Sanitation Department).

Table 16.21 India Grant Fund

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent and Capital expenses	600,000	150,000	150,000	150,000	150,000
Total	600,000	150,000	150,000	150,000	150,000

Since 2006, the Indian Government has granted the Cook Islands USD 100, 000 annually for Socio-Economic Sustainable Development community based projects. In 2009 this was increased to USD 125, 000 annually. A further fifteen (\$460,000) projects were approved for funding in the 2012/2013 Financial Year. Thirteen of these projects are completed. For the 2013/2014 funding round ten projects were approved but we're still waiting for funding from the development partner.

Reports and updates on activities are available online on the Ministry website: http://www.mfem.gov.ck/index.php?option=com_contentandview=articleandid=180andItemid=89

Table 16.22 Aid Effectiveness

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent	600,000	150,000	150,000	150,000	150,000
Total	600,000	150,000	150,000	150,000	150,000

The Aid Effectiveness budget is drawn from interest earned on development partner trust accounts and is used to support the implementation of the Official Development Assistance Policy by the Development Coordination Division. The program currently contributes to an annual Development Partners Meeting, development of an Activity Management Cycle, provides surge capacity for Crown accounts to catch up and standardise Crown financial statements, provides training and set up of project financial management software and finally fosters South-South cooperation such as peer learning activities between small island developing states.

Table 16.23 Sanitation Upgrade Program – New Zealand and Australia

	Total cost	2013/14	2014/15	2015/16	2016/17
Capital expenses	7,375,000	750,000	2,175,000	2,025,000	3,175,000
Program Total	10,000,000	750,000	2,175,000	2,025,000	3,175,000

Improving sanitation is a priority recognized by the Cook Islands Government in its National Sustainable Development Plan (2011–2015), and in the Cook Islands and New Zealand Joint Commitment for Development. Sustainable sanitation solutions are essential to ensuring adequate protection for public health, the environment and the tourism sector. Following the completion of the Muri pilot upgrade, the Sanitation Upgrade Programme aims to scale up improved sanitation to all of Rarotonga and Aitutaki from 2014–2018 with a total budget of NZD 10 million. There have been significant delays in this scale up process however final planning is now underway with panel tenders for the supply of compliant systems in the market in September 2014. A sector working group is being established to foster public private and civil society interests to come together with development partners to review progress and identify improvements. For more information go to <http://www.watsan.gov.ck>. The Cook Islands government is also committed to co-funding this activity by funding dedicated staff across agencies, public building upgrades and contributions to household grants.

Table 16.24 United Nations Development Programme TRAC Funding

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	242,000	0	242,000	0	0
Total	242,000	0	242,000	0	0

The United Nations Development Programme has offered the Cook Islands assistance from a fund called Targeted Resource Allocation from the Core (TRAC). This can be allocated towards family law bill implementation, gender development and any of the six key outcomes identified by the Cook Islands and formalised in the United National Development Assistance Framework. The funding is intended to lever additional funds rather than directly fund activities.

Table 16.25 Pearl Revitalisation Program – New Zealand/Australia

	Total cost	2013/14	2014/15	2015/16	2016/17
Grants	1,777,000	970,000	870,000	0	0
Total	1,777,000	970,000	870,000	0	0

Under the Grant Funding Agreement signed with New Zealand in July 2013, the Pearl Revitalisation Programme focuses on the following four outputs:

1. Procurement and shipment of pearl farming materials and equipment
2. Write-off of 80% of existing loans under former NZ-funded loan scheme
3. Write-off of 80% of existing loans under CIPA ‘emergency float loan’ scheme
4. Approved activities associated with Manihiki lagoon clean-up and achievement of Activity outcomes

Achievements and remaining activities based on the project’s six-monthly report from 30 June 2014 are as follows:

1. To date seven of the eight contracts for the pearl equipment have been completed and delivered to Manihiki.

2. In the previous agreement the Pearl Production Credit Scheme (PPCS) was established to disburse business loans specifically to pearl farmers. The Cook Islands Pearl Authority (CIPA) was the lead agency and engaged the Bank of Cook Islands (BCI) to administer the credit scheme. Under the new agreement, signed July 2013, where the farmer had been assessed as being eligible under the criteria detailed in the agreement up to eighty percent (80%) of the original balance of the loan could be written off. The remaining twenty percent (20%) of the original balance was recovered by the Ministry of Finance and Economic Management from the farmer. This has been completed.
3. In April 2011, the Pearl Authority advanced approximately \$120,000 to eleven farmers in the form of loans for emergency floats. Under the new arrangement it was detailed that the pearl authority collect repayment of the twenty percent (20%) farmer contribution at which point repayment of the remaining eighty percent (80%) will be granted via Ministry of Finance and Economic Management on a loan by loan basis.
4. An Environmental Impact assessment tender is currently being prepared for the Lagoon Clean up activity.

Table 16.26 National Implementing Entity Accreditation process – UNEP

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	33,000	0	33,000	0	0
Total	33,000	0	33,000	0	0

This funding from the United Nations Environment Program (UNEP) has been allocated to capacity building within the National Implementing Entity (NIE) program of work. It is to progress work on implementation of the Activity Management Cycle and the Anti-Corruption Committee components of the accreditation application to the United Nations Green Climate Fund.

http://www.mfem.gov.ck/index.php?option=com_contentandview=articleand id=180and Itemid=89

Table 16.27 United Nations Population Fund (UNFPA) Strengthening Reproductive Health

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	367,925	97,925	194,000	76,000	0
Total	367,925	97,925	194,000	76,000	0

This initiative aims to strengthen national capacity in delivering sexual and reproductive health services and improve the data available to inform decision-making and policy formation through provision of technical assistance. This is a new grant agreement aligned with the 2013-2017 United Nations Development Assistance Framework for the Cook Islands, with MFEM administering the program as the Implementing Partner with UNFPA. A total of \$309,000 USD is being provided between January 2014 and December 2015 involving the following partners: Ministry of Health, Ministry of Internal Affairs, National Statistics Office, Office of the Prime Minister, the Ministry of Education and the Cook Islands Family Welfare Association.

Assistance focuses on four outcome areas:

- Strengthened national capacity to deliver high-quality family planning and sexual and reproductive health services, information, commodities and community-based intervention for family resource management

- Strengthened national capacity of health-care providers to address gender-based violence through the provision of high-quality health services, including in humanitarian settings.
- Strengthened national capacity to deliver high-quality sexual and reproductive health services, information, including family planning and services to prevent HIV and STIs, for young people.
- Strengthened national capacity for increased availability, analysis and utilization of data for informed decision-making and policy formulation on population dynamics, youth, gender equality, and sexual and reproductive health, including family planning.

The partnership emphasizes an innovative work plan to finalise the report of the Family Health and Safety Study and disseminate the findings to targeted groups, in addition to providing technical assistance for statistical analysis on population dynamics.

16.10 Ministry of Foreign Affairs and Immigration

Table 16.28 Korea Cultural Grant

	Total cost	2013/14	2014/15	2015/16	2016/17
Capital expenses	236,000	0	236,000	0	0
Total	236,000	0	236,000	0	0

This grant arrangement is undergoing finalisation with the Republic of Korea to secure USD 200,000 for new audio visual equipment to support cultural projects for the Cook Islands 50th Anniversary of Self-Government Celebrations in 2014/15.

16.11 Ministry of Health

Table 16.29 Health Specialists Visits

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	2,041,000	390,000	562,000	500,000	500,000
Total	2,041,000	390,000	562,000	500,000	500,000

Funded from New Zealand and Australia the Health Specialist Visits programme brings specialist health services to patients onshore to both Rarotonga and some pa enua. It also benefits local health and medical officers through peer-to-peer learning and training. The specialists, who visit predominantly from New Zealand, provide a critical and necessary service otherwise only available overseas. Visits are based upon the immediate national medical needs in consideration of specialists' availability. The Grant Fund Arrangement end date is June 2015, and the programme is currently under evaluation to inform the development of a new GFA.

An indicator of this programme success is a reduction of patient referrals to New Zealand by 0.5% per year until 2013/14. Number of patients referred to New Zealand by years is as follows:

Table 16.30 Number of medical referrals

Year	Number
2008/09	31
2009/10	69
2010/11	40
2011/12	36
2012/13	42
2013/14	51

For more program details see <http://www.mfem.gov.ck/programmes>

Table 16.31 Small Grants Prevention and Control of Non Communicable Diseases

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	60,000	0	20,000	20,000	20,000
Total	60,000	0	20,000	20,000	20,000

The small grants scheme is a contestable fund managed by the Secretariat of the Pacific Community (SPC) to combat Non-Communicable Diseases (NCDs) which include Hypertension and Diabetes and associated risk factors in the Pacific region.

The purpose is to improve the health of their populations by a focus on NCD prevention and control at the community level. Funding has been confirmed to June 2016. The small grants funded with support from the Australian and the New Zealand government.

Table 16.32 World Health Organisation Technical Cooperation

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	503,970	199,570	163,000	70,700	70,700
Total	503,970	199,570	163,000	70,700	70,700

The World Health Organisation technical cooperation operates from the country office in Apia, Samoa and focuses on human resources development (fellowships), non communicable diseases, health promotion, and nutrition and tobacco control. This project is supported through the implementation of the strategic objectives of the National Cook Islands Health Strategy (2012 – 2016) and the organisation.

16.12 Ministry of Internal Affairs

Table 16.33 Social welfare review, protection of the vulnerable

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	712,630	612,624	100,000	0	0
Total	712,630	612,624	100,000	0	0

This grant of USD 0.9 million is financed by the Japan Fund for Poverty Reduction (JFPR) for the Government of Cook Islands and is administered by the Asian Development Bank.

Delayed by nearly a year from the original implementation schedule, the Ministry of Internal Affairs has signed contracts with five non government organizations for delivery of pilot home care and nursing services for the elderly and people with disabilities, which is a major component of the project. These are Mangaia Disabilities, Atiu Disabilities, Te Vaerua (Rarotonga) and Te Atua O Te Ra (Mauke) Disabilities and Aitutaki Disability Centre.

Additionally, support has been given to provide expertise on legislative drafting, quantitative analysis and monitoring and evaluation. Contracts have now ended and the project is in completion phase. For more information go to: www.adb.org.

Table 16.34 Disability Inclusive Development

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	250,000	90.00	137,950	112,050	0
Total	250,000	90.00	137,950	112,050	0

The Cook Islands is regarded as a regional leader on disability-inclusive development in the Pacific. It was one of the first Pacific Island countries to ratify the Convention on the Rights of Persons with Disabilities (CRPD) in May 2009 and was the first Pacific Island country to submit its report to the Committee on the Rights of Persons with Disabilities (November 2011). The Government of Australia's support will assist the Cook Islands to implement responsibilities under the convention and to monitor and report on progress.

The Disability Inclusive Development project commenced in May 2014 and funding ends June 2016. This supports the following activities:

- consultations for the new National Disability Action Plan and development of key policies, programs and legislative review;
- additional human resource (a Program, Research and Communications Officer) to work on the implementation of the Convention on the Rights of Persons with Disabilities;
- reconfigure the web-enabled disability database to facilitate access to stakeholders and to assist policy makers to develop policies and plans at the national level; and
- fund consultations and technical assistance toward establishment of an Early Identification and Intervention Model.

Table 16.35 Social Impact Fund

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	2,725,000	449,000	1,160,000	560,000	0
Total	2,725,000	449,000	1,160,000	560,000	0

Funded by the Cook Islands, New Zealand and Australia, the fund provides grants for community projects for income generating initiatives that focus on organisational strengthening, community development and awareness. The Ministry of Internal Affairs manages the fund using an approach that aims to foster coordination with wider government and other development partner resources and to facilitate alignment of funding for Non Government Organisations and community services with national policy inclusive of gender issues.

The agreement was varied in August 2013 to include an additional \$925,000 from Australia's Pacific Women Shaping Pacific Development Initiative. The funding is to focus on two key components of the Cook Islands National Policy on Gender Equality and Women's Empowerment 2011-2016. These are to strengthen the capacity of ministries, government agencies, island councils and non government agencies to;

- Help women access and benefit from new economic opportunities, and;
- To protect victims of domestic violence by developing legal frameworks, law enforcement responses and services for victims, and by mobilising communities to intervene to protect victims.

The Grant Funding Agreement concludes in June 2016

16.13 Infrastructure Cook Islands

The majority of assistance to ICI is provided through capital spending. Please refer to the Capital Initiatives Plan in Budget Book 3.

16.14 National Environment Service

Table 16.36 Prevention, control and management of invasive alien species

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	382,600	98,850	151,800	85,600	72,000
Total	382,600	98,850	151,800	85,600	72,000

A regional funding initiative provided to assist the National Environment Service and partner government agencies to improve the management and control of pests, weeds and other invasive species. This project was initiated in 2012 and is funded by the Global Environment Facility and managed by South Pacific Regional Environment Program through the United Nations Environmental Programme. It is expected to finish in 2016.

Activities are located in Rarotonga, Mangaia, Mitiaro and Mauke. The long-term goal of the project is to conserve ecosystems, species and genetic diversity in the Cook Islands.

Reports from NES can be found at <http://www.environment.gov.ck/>

Table 16.37 Island biodiversity programme

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	413,300	110,104	142,300	126,000	0
Total	413,300	110,104	142,300	126,000	0

This project is a regional multi-country project for the protection and conservation of biodiversity. Current activities in Rarotonga, Mangaia, Mitiaro and Mauke contribute to the conservation of ecosystems, species and genetic diversity in the Cook Islands. This Initiative is funded by the Global Environment Fund through the implementing agency South Pacific Regional Environmental Programme.

The application of the Ecosystem Approach in the Pacific is very limited and is assumed to be a critical gap. This regional project aims to assist Pacific Island countries to develop and disseminate case studies on the successful applications of the Ecosystem Approach. The work is framed by the United National Convention for Biological Diversity and targets local governments as a key partner.

The project has four outcomes, including:

- conservation and restoration of priority species and ecosystems at risk in the Cook Islands, as identified in the Island Biodiversity Programme of Work;
- sustainable use of island biodiversity through improved systems and processes including resource assessment and monitoring, legislation, capacity and awareness;
- monitoring, evaluation and reporting;
- technical support and training by executing agency; and
- project management and training.

Reports from NES can be found at <http://www.environment.gov.ck/>

Table 16.38 United Nations Convention to Combat Desertification Data Reporting Project

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	60,000	0	60,000	0	0
Total	60,000	0	60,000	0	0

This project funded by the Global Environment Facility supports the implementation of the Convention's Ten Year Strategy. The Cook Islands chose to access this funding in partnership with United Nations Environment Programme (UNEP) who provide training and help-desk services and templates and reporting guidelines, and an on-line reporting facility through the Performance Review and Assessment of Implementation System (PRAIS) portal www.unccd-prais.com.

The goal of this project is to strengthen national systems for monitoring and evaluation of land and other natural resources to support the preparation of national reports using the PRAIS for the next two reporting cycles ending 2014/15.

Table 16.39 Protecting biodiversity and enhancing ecosystem functions through "Ridge to Reef" approach in the Cook Islands

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	4,920,000	0	100,000	2,200,000	2,200,000
Total	49,020,000	0	100,000	2,200,000	2,200,000

This new regional programme is funded by Global Environment Fund and administered by the United Nations Development Programme on behalf of the Cook Islands. The three year programme involves the Ministry of Marine Resources, Ministry of Agriculture, Infrastructure and Tourism. The goals of this initiative include:

- improving the conservation and management of biodiversity, to increase resilience to the impacts of climate change;
- strengthening and build resilience in the fisheries sector, ensuring a higher resilience to the impacts of climate; and
- promoting agricultural Livelihood resilience and food security, and resilience to the impacts of climate change.

3.1.1.1 Talking past each other

The Cooks Islands and the Global Environment Fund case study

A 2014 internal review of Global Environment Fund (GEF) activities in the Cook Islands found that projects have been significantly delayed. The GEF 5 project – Ridge to Reef - is still being designed despite the four year funding round ending in June 2014, partly attributed to a regional approach which required Pacific countries to develop proposals together.

Currently, the project planning process is lead by international consultants and not closely linked with national resource allocation processes, including 10 year infrastructure plans, sector plans for water, climate change, sanitation, fisheries and agriculture. This has contributed to delays and more consultations. The combined result is an unnecessarily long and complex process.

The GEF 6 round has an allocation of approximately USD 4.5 million with a funding window of June 2014 – June 2018, and Mitigation has been added as an eligible goal. To avoid more delays the National Sustainable Development Commission recently approved the Asian Development Bank to act as project administrator and to load this funding into the existing Southern Cook Islands renewable electricity conversion program, a multi partner project financed by a blend of loans and grants.

Table 16.40 Ozone Depleting Substances

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	85,600	18,760	85,600	0	0
Total	85,600	18,760	85,600	0	0

This project which monitors the importation and use of Ozone Depleting Substances (ODS) in the country with the ultimate goal of eventually phasing out all ODS use. Import information is collected and filed with United Nations Environment Program who oversees the overall usage and transboundary movement of ODS. This project is expected to finish at the end of 2014

Expected results or outputs to be achieved include:

- capacity of National Ozone Unit based in the National Environment Service – the Advisory and Compliance Division and other national stakeholders will be strengthened to effectively implement the Montreal Protocol;
- ensure phase out of ODS according to national regulation and within the control limits of the Montreal Protocol;
- Hydro chlorofluorocarbons phase-out management plan to be submitted to the Executive Committee meeting; and
- effective communication and awareness activities to educate consumers to convert to ozone-friendly products.

Table 16.41 Global Environment Facility – Small Grants Programme

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	900,000	0	300,000	300,000	300,000
Total	900,000	0	300,000	300,000	300,000

The Global Environment Facility is a partnership for international cooperation where 183 countries work together with international institutions, civil society organisations and the private sector, to address global environmental issues.

For more information: www.mfem.gov.ck

16.15 Office of the Prime Minister (OPM)

Table 16.42 Renewable Energy – European Union (via Asian Development Bank)

	Total cost	2013/14	2014/15	2015/16	2016/17
Capital expenses	8,570,000	0	0	2,890,000	5,680,000
Total	8,570,000	0	0	2,890,000	5,680,000

Table 16.43 Renewable Energy – Japan, Pacific Environment Community Fund

	Total cost	2013/14	2014/15	2015/16	2016/17
Capital expenses	4,621,348	49,348	1,000,000	3,572,000	0
Total	4,621,348	49,348	1,000,000	3,572,000	0

As part of the Renewable Energy Roadmap a grant of EUR 5.3 million has been pledged to the Cook Islands from the European Union. This is alongside \$4,621,348 from Japan will be administered by

the Asian Development Bank to complete the transformation of electricity generation from diesel to solar power for the Southern Cook Islands and projects on Rarotonga.

Table 16.44 Global Climate Change Alliance: Pacific Small Islands States regional project

	Total cost	2013/14	2014/15	2015/16	2015/16
Recurrent expenses	572,925	216,925	356,000	0	0
Capital	157,083	157,083	0	0	0
Total	730,008	374,008	356,000	0	0

This regional project is implemented by the Secretariat of the Pacific Community and funded by the European Union. It is a three year project which aims to promote long-term strategies and approaches to adaptation and improve coordination for aid delivery to address climate change.

The project has three activity streams:

1. **Environmental Monitoring to Enhance Community Livelihoods and Build Resilience to Climate Change** for Penrhyn, Manihiki, Rakahanga and Pukapuka. The project seeks to benefit pearl farmers, artisanal and small scale commercial fisheries and will fund a marine biologist based in Manihiki, monitoring buoy and marine resources laboratory upgrade. This activity stream is managed by MMR.
2. Completion of application for **National Implementing Entity** status with the UN Adaptation Fund to reduce reliance on regional organisations to administer climate change funding. The Ministry of Finance is planning for further engagement with the Green Climate Fund (GCF) to explore direct access options.
3. A **National Coordinator** based within Climate Change Cook Islands, in the Office of the Prime Minister

Table 16.45 Strengthening the Resilience of our Islands and Communities to Climate Change (SRIC)

	Total cost	2013/14	2014/15	2015/16	2016/17
Capital	4,896,000	763,000	2,913,000	945,000	275,000
Recurrent expenses	300,000	0	100,000	100,000	100,000
Total	5,196,000	763,000	3,013,000	1,045,000	375,000

Strengthening the Resilience of our Islands and Communities to Climate Change is funded by the United Nation Adaptation Fund, which commenced in 2012. The objective of this programme is to strengthen the ability of the Pa Enea communities and the public service to enable them to make informed decisions and manage climate change driven pressures (including extreme events) in a proactive, integrated and strategic manner. The programme supports the Cook Islands at the National, Sector, and Pa Enea levels through the implementation of the Cook Island's Joint National Action Plan for Disaster Risk Management and Climate Change Adaptation.

Table 16.46 National Report to the United Nations Framework Convention on Climate Change

	Total cost	2013/14	2014/15	2015/16	2016/17
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Recurrent expenses	600,000	0	200,000	200,000	0
Total	600,000	0	200,000	200,000	0

This project is funded by the Global Environment Facility through the 'United Nations Environment Programme Umbrella Programme for National Communication to the Climate Change Convention'. It is a global programme to assist twelve countries, including the Cook Islands to prepare our third National Communication Report.

The project will provide the Cook Islands with the resources to fulfil its commitments pursuant to Articles 4.1 and 12 of the convention.

Table 16.47 Renewable Energy Programme Support – New Zealand

	Total cost	2013/14	2014/15	2015/16	2016/17
Capital	24,000,000	13,748,000	10,250,000	0	0
Recurrent expenses	600,000	50,000	550,000	0	0
Total	24,600,000	13,798,000	10,800,000	0	0

The goal of the Renewable Energy Programme Support is to establish a solid foundation for renewable energy sector development and operations in the Cook Islands. In February 2014, this funding agreement was revised and split into two, one managed by Ministry of Foreign Affairs and Trade New Zealand and the other managed by Cook Islands Office of the Prime Minister.

The Cook Islands now manages the Enabling Environmental for Energy Sector Development (\$600,000) and will deliver activities to support the establishment of an enabling environment conducive to long term physical and financial stability of renewable energy infrastructure assets. New Zealand funding (\$24,000,000) will be used for the construction of renewable energy infrastructure on Rarotonga and islands of the Northern Group and involves the installation of the following renewable energy generation infrastructure:

- one utility-scale photovoltaic(PV) array for the Airport on Rarotonga;
- eight PV/diesel hybrid mini-grid systems (each comprising PV arrays, framing, inverters, batteries, cabling, and other balance of system components), a powerhouse and distribution networks and metering, as necessary and as described in the Technical Specifications (CAT Projects Ltd, 2013) distributed among the following islands and atolls of the Northern Group: Pukapuka, Nassau, Manihiki (installations at Tukao and Tauhunu), Rakahanga, Penrhyn (installations at Te Tautua and Omoka) and Palmerston.

Table 16.48 Northern Water Project (Phase 2)

	Total cost	2013/14	2014/15	2015/16	2016/17
Capital expenses	630,000	0	210,000	210,000	210,000
Total	630,000	0	210,000	210,000	210,000

Funding has finally been secured for the Northern Water Project (Phase 2) which will improve Rain Water Harvesting and storage by repairing and restoring community water tanks on Pukapuka, Nassau, Penrhyn, Manihiki and Rakahanga. This will provide an additional 2,497,000 litres of water to the communities and improve water security for the northern islands. In doing so, this will enhance the resilience of these islands to natural disasters and strengthen disaster management capabilities aimed at increasing capacity for rainwater harvesting and storage.

The project is funded by the European Union and channeled through the “Adapting to Climate Change and Sustainable Energy” programme which is administered by the German Development Cooperation agency, GIZ.

Table 16.49 Promoting Energy Efficiency in the Pacific – Phase 2 (PEEP) ADB TA 7798

	Total cost	2013/14	2014/15	2015/16	2016/17
Capital	480,000	246,000	234,000	0	0
Recurrent expenses	538,241	261,241	277,000	0	0
Total	1,018,241	507,241	511,000	0	0

This regional project for five Countries – the Cook Islands, Papua New Guinea, Samoa, Tonga and Vanuatu - promotes energy efficiency up to early 2015. Approved in 2008, the first phase was completed in May 2011 and identified a pipeline of specific energy efficiency projects to be co-financed by the ADB, the Global Environmental Facility and other sources.

The second phase was about implementing energy efficiency measures including:

- an energy use database now available on: www.ee-pacific.net
- fridge/freezer replacement programme
- national energy policies with implementable energy efficiency targets are finalised;
- training has been completed for local participants;
- large scale implementation of energy efficiency projects in residential, commercial and government sectors and public lighting in various stages of implementation (detailed below);
- Energy Efficiency guidelines available for use;
- Building code recommendations;
- information dissemination and public awareness for all stakeholders;

The following energy efficiency programs are in different stages of implementation and will be completed this financial year:

- Airport lighting, Punanga Nui Night Market Lighting, Public Sector energy efficiency measures, Ports Authority marina and wharf lighting, Private Sector Energy Efficiency - Edgewater Hotel.

16.16 Cook Island Police Service

Table 16.50 Partnership for Pacific Policing

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	119,600	0	66,000	53,600	0
Total	119,000	0	66,000	53,600	0

This funding is part of a regional Police programme managed by New Zealand. The programmes key objectives are to:

- build capacity within CI Police to deliver effective policing services while increasing trust and confidence within Cook Islands communities;
- strengthen governance at all levels within CI Police and build ownership of the community policing philosophy;

- implement sustainable management and policing practices that will contribute to a safe and secure Cook Islands in the medium to long term; and
- develop capability for CI Police to deliver effective policing services to all Cook Islanders including the outer islands, as well as provide the technical and infrastructure support where required.

The 2013/14 budget projection of \$600,000 was based on the regional program estimate.

Table 16.51 Pacific Patrol Boat Project Te Kukupa

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	6,880,000	120,000	6,760,000	0	0
Total	6,880,000	120,000	6,760,000	0	0

Australia provides this assistance through the Australian Defence Force to the Cook Islands through continued investment in a Pacific Patrol Boat Project. Normal support is for operations and project costs and is currently an ongoing project. The plan for 2014/15 is for the vessel to undergo the refit and there are also discussions underway regarding the continuation of the programme including eventual replacement of the vessel.

16.17 Office of the Public Service Commissioner

Table 16.52 Cook Islands Technical Assistance Fund (CITAF)

	Total cost	2013/14	2014/15	2015/16	2017/18
Recurrent expenses	2,970,000	845,000	1,261,000	0	0
Total	2,970,000	845,000	1,261,000	0	0

This programme is funded by New Zealand for technical assistance and building of better public institution capability. This contestable public sector fund supports specialist and technical expertise not available within existing Government resources. Since CITAF's launch in 2011/12 the Facility Coordinating Committee has approved 37 projects worth over \$2.8 million with an overall estimated spend up to June 2014 of \$1.5 million.

The outcomes anticipated are improved efficiencies, service delivery quality and skill transfer. In January 2013 a mid-term review was conducted to determine how well the fund was meeting its short term and long term outcomes and outputs. The review concluded that the fund is able to demonstrate its relevance to government priorities and to a lesser extent human resource needs. Greater attention is needed to improve governance and manage outputs and outcomes; however the fund is likely to deliver sustainable results beyond 30 June 2015. The review recommended that the fund be continued beyond the 2015 end date to address the ongoing capability issues in the Cook Islands Public Service. To ensure the ongoing success of the fund, changes to the governance and management of the fund were recommended in order to maximise the effectiveness, sustainability and the relevance of the fund. Transition planning is in progress to develop a new Grant Funding Arrangement.

The following table presents beneficiaries of CITAF funding, projects and total funding approved over the years:

Table 14.50- CITAF activities funded.

Ministry	Project	Total Fund
Ministry of Education	5 Year Strategy for Tertiary Continuing and Community Education	165,000
Cook Islands Audit Office	Government Financial Statements Catch-Up Project	34,440
Cook Islands Audit Office	Audit Government Financial Statements Catch-Up	163,600
Financial Services Development Authority	Financial Services Legislative Drafting 2012	116,000
Multiple Ministries – Finance Health Crown Law.	Salary Top-Ups over multiple years	676,645.00
Cook Islands Investment Corporation	Conversion to International Financial Reporting Standards (IFRS)	56,500
Ministry of Health	NCD Specialist	157,500
Cook Islands Investment Corporation	Working Group for establishment of Solid Waste Management financing	40,000
Office of the Public Service Commissioner	Capability Analysis of public sector	50,000
Ministry of Education	Completion of HRD 2010/11, 2011/12 Statutory Accounts	6,000
Ministry of Transport	Aviation Meteorological Service	40,000
Ministry of Internal Affairs	Cook Islands Employment Bill Drafting Service	14,400
Ministry of Internal Affairs	Dangerous Goods Installation Inspections on Triad Pacific Petroleum Ltd	54,880
Ministry of Finance and Economic Management	CI's Government Annual Accounts Catch-Up	47,110
Ministry of Finance and Economic Management	Review of Underwrite for Sydney and LA to Rarotonga	39,500
Ministry of Health	Health Clinical Audit	15,098
Ministry of Education	Review of Curriculum Framework	70,575
Ministry of Health	Review Clinical Nursing Standards	13,779
Office of the Prime Minister	ICT Consultation	30,556
Office of the Public Service Commissioner	Public Sector Strengthening	178,000
Office of the Public Service Commissioner	Human Resources Management Information System (HRMIS) - Technical Assistance Element	152,392
Ministry of Internal Affairs	Follow-Up Audit of Dangerous Goods Installation	22,400

Ministry	Project	Total Fund
Ministry of Internal Affairs	Strengthening Consumer Services	12,942
Ministry of Internal Affairs	Aged Care Facility Scoping Study	13,450
Ministry of Marine Resources	ISO Laboratory Certification	137,100
Office of the Prime Minister	Strengthening Policy and Planning in the Public Service	95,000
Cook Islands Seabed and Minerals Authority	Seabed Minerals Legislative Review and International Tender Process	283,013
Cook Islands Investment Corporation	Blasting Refresher Course	22,000
Office of the Public Service Commissioner	CITAF Management and Mid Term Review	180,000
TOTAL APPROVED FUNDING		2,887,879
TOTAL FUNDS AVAILABLE		2,970,000

16.18 Seabed Minerals Authority

Table 16.53 Minerals and Natural Resources Support – Commonwealth Secretariat

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	251,000	30,689	83,000	73,000	0
Total	251,000	30,689	83,000	73,000	0

This funding is provided by the Commonwealth Secretariat Technical Cooperation Facility to support the Seabed Minerals Advisor’s position in the Ministry of Marine Resources including salary and operational services (estimated in kind) such as:

- advisory services provided in kind; and
- support for Cook Islands application for an extended continental shelf.

Table 16.54 Deep Sea Minerals Project – Secretariat of the Pacific Community

	Total cost	2013/14	2014/15	2015/16	2016/17
Recurrent expenses	154,434	3,610	48,000	40,000	40,000
Total	154,434	3,610	48,000	40,000	40,000

This funding supports attendance at deep sea minerals workshops and conferences, and advisory board administration in addition to other work.

STATEMENT OF FISCAL RESPONSIBILITY
Operating Revenue and Expenditure Statement for the year ended 30 June 2014
All Values (\$'000)

	2013/14	2014/15	2015/16	2016/17	2017/18	
	Actual	Budget	Estimate	Projected	Projected	Variance
Operating Revenue						
Taxation Revenue	97,174	103,095	104,815	103,225	105,104	3,443
Other Crown Revenue	9,207	9,943	8,569	8,579	8,579	851
Trading Revenue	6,357	5,518	5,518	5,518	5,518	65
Interest on Loans to Subsidiaries	707	684	666	684	658	349
Dividends	2,484	2,115	2,096	2,096	2,096	-446
Interest on Balances	2,098	1,848	1,885	1,885	1,885	36
Total Operating Revenue	118,027	123,203	123,549	121,987	123,840	4,297
Operating Expenditure						
Ministry Outputs	63,805	65,003	65,149	65,145	65,161	1,411
<i>Personnel</i>	43,997	46,287	46,400	46,396	46,393	1,248
<i>Operating</i>	16,814	14,984	14,989	14,993	14,997	318
<i>Depreciation</i>	2,994	3,732	3,759	3,756	3,772	-155
POBOC	41,792	45,456	45,943	45,429	44,667	2,227
Airport Authority	2,048	2,048	2,048	2,048	2,048	50
Bank of the Cook Islands	146	181	181	181	181	0
Ports Authority - Infrastructure	0	0	0	0	0	-1,110
Te Aponga Uira	249	350	350	350	350	0
Debt Servicing Interest	1,441	2,137	2,048	1,986	1,848	708
Asset Management (CIIC)	1,800	1,800	1,800	1,800	1,800	0
Crown Infrastructure Depreciation	2,156	2,920	2,920	2,920	2,920	-2,149
Transfer to Emergency Response Trust Fund	0	100	0			100
Depreciation Contingency Fund	0	3,100	3,100	5,100	5,100	3,100
Disaster/ Contingency Operating Expenses	309	100	100	100	100	0
Total Operating Expenses	113,745	123,195	123,639	125,060	124,175	5,747
Fiscal Operating Surplus/(Shortfall)	4,282	9	-90	-3,072	-335	2,213

STATEMENT OF FISCAL RESPONSIBILITY
Financing and Applications Statement for the year ended 30 June 2014
All Values (\$'000)

	2013/14 Actuals	2013/14 Budget Estimates	2014/15 Budget	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast	Variance
Reductions in Net Borrowings							
Loan Disbursements	(16,503)	(6,946)	(9,679)	(14,515)	(3,245)	0	(2,733)
Loan Repayments	3,157	2,995	1,908	2,823	3,182	4,740	(1,087)
Loan Repayments by Subsidiaries	0	1,286	1,380	1,468	1,735	1,938	94
	(13,346)	(2,665)	(6,392)	(10,223)	1,672	6,678	(3,727)
Capital Expenditures							0
Ministries and Outer Islands (Including CIIC Capital)	11,403	9,371	23,873	24,046	8,473	3,775	14,502
<i>Infrastructure Capital Investment in SOEs</i>							0
Airport Authority	0	150	0	0	0	0	(150)
Contingency	0	50	50	50	50	50	0
	11,403	9,571	23,923	24,096	8,523	3,825	14,352
Foreign Aid							0
Receipts	(33,210)	(59,363)	(63,693)	(34,679)	(24,414)	(24,414)	(4,330)
Expenditure	33,210	59,363	63,693	34,679	24,414	24,414	4,330
	0	0	0	0	0	0	0
Other Committed Considerations							
Expenditure of ADB Loan	8,152	0	3,245	6,490	3,245	0	3,245
Expenditure of China Loans	8,351	6,946	6,452	6,240	2,979	0	(494)
Increase in Reserve Trust Fund	498	498	515	524	516	526	17
ADB Share Capital	23	27	27	0	0	0	0
Disaster Response Fund	121	0	100	0	0	0	100
	17,145	7,471	10,339	13,254	6,740	526	2,868
Total Non-Operating balance	15,201	14,377	27,871	27,127	16,936	11,029	13,494

To be Funded by

Operating Surplus	4,282	47	9	(90)	(3,072)	(335)	(4,235)
Depreciation	5,150	8,956	9,752	9,780	11,776	11,364	3,806
Unencumbered Cash Reserves	0	0	8,372	3,425	3,245	0	0
Loan Reserve Financing	1,335	1,335	6,233	6,304	4,987	0	0
Economic Recovery Support Program	0	0	3,505	7,708	0	0	0
Transfer to Emergency Response Trust Fund	0	0	0	0	0	0	0
Drawdown from Government Reserves	4,435	4,039	0	0	0	0	(396)
Total Funding Items	15,202	14,377	27,871	27,127	16,936	11,029	(825)
Net Surplus/Shortfall	0	0	0	0	0	0	0

Schedule 1 (b)

Ministry and Outer Islands Budget compared to Actuals for 2013/14

Ministry	Personnel		Operating		Depreciation		Gross Operating	Trading Revenue		Net Operating
	Budget	Actual	Budget	Actual	Budget	Actual	Appropriation	Budget	Actual	Appropriation
Agriculture	822,654	780,848	87,643	67,657	5,035	5,681	915,331	140,535	80,321	774,796
Audit (PERCA)	894,440	715,338	104,180	169,862	26,678	14,268	1,025,298	178,700	234,504	846,598
Crown Law	493,054	500,301	146,100	150,173	5,983	5,886	645,137	0	0	645,137
Cultural Development	496,095	473,814	254,288	255,376	96,655	38,617	847,038	175,000	149,037	672,038
Business Trade and Investment Board	414,486	418,019	266,574	275,100	21,661	14,428	702,721	102,250	15,931	600,471
Education	9,617,626	9,721,793	1,003,065	1,157,430	340,864	386,954	10,961,555	0	0	10,961,555
Environment	789,683	777,508	170,724	191,371	30,381	9,500	990,788	35,000	23,064	955,788
Finance and Economic Management	2,590,359	2,831,796	600,657	622,141	122,992	76,126	3,314,008	503,500	762,463	2,810,508
Financial Services Development Authority	235,200	208,040	178,906	175,035	7,788	9,867	421,894	0	0	421,894
Foreign Affairs	1,096,596	923,408	601,151	812,722	77,726	71,765	1,775,473	8,000	13,894	1,767,473
Head Of State	185,168	175,548	34,080	75,999	15,057	14,266	234,305	0	0	234,305
Health	8,207,307	8,313,786	1,756,330	1,840,814	811,764	472,943	10,775,401	400,000	557,049	10,375,401
Infrastructure Cook Islands	1,508,670	1,574,047	264,351	333,044	233,013	164,641	2,006,034	245,626	323,865	1,760,408
Internal Affairs	945,109	936,612	118,085	131,057	21,264	13,987	1,084,457	6,000	9,600	1,078,457
Justice	1,465,290	1,510,020	406,686	520,121	104,647	108,094	1,976,623	467,765	571,879	1,508,858
Marine Resources	1,095,833	1,074,485	303,125	276,517	57,318	34,484	1,456,276	15,000	5,797	1,441,276
Ombudsman	210,382	197,586	53,840	65,048	5,822	5,822	270,044	0	0	270,044
Parliamentary Services	472,676	471,159	83,611	85,909	24,579	24,579	580,866	8,419	6,224	572,447
Pearl Authority	208,493	208,261	236,688	186,906	21,230	21,915	466,411	0	0	466,411
Police	2,910,739	2,767,859	458,663	464,380	218,622	127,097	3,588,024	69,360	60,204	3,518,664
Prime Minister's Office	936,638	168,727	197,849	944,048	36,069	19,463	1,170,556	0	0	1,170,556
Public Service Commission	395,992	297,549	55,447	110,897	49,298	4,298	500,737	0	0	500,737
Tourism Corporation	1,426,893	1,395,091	2,708,553	2,970,988	16,000	10,743	4,151,446	0	253,106	4,151,446
Transport	489,465	407,715	138,964	199,815	39,047	28,587	667,476	36,000	35,873	631,476
Total Ministries	37,908,846	36,849,310	10,229,559	12,082,410	2,389,493	1,684,011	50,527,897	2,391,155	3,102,811	48,136,742
Capital Funds Committee- Administered by MFEM	0		0		45,000		45,000	0		45,000
Ministerial Support										
Prime Minister	303,509	319,706	110,773	104,737	11,100	8,669	839,664	0	0	839,664
Deputy Prime Minister	132,000	9,205	85,372	9,205	5,628	11,162	440,374	0	0	440,374
Minister Mark Brown	187,455	175,320	81,613	85,450	6,802	6,802	544,938	0	0	544,938
Minister Kiriau Turepu	124,907	98,991	56,931	42,069	11,162	2,592	374,839	0	0	374,839
Minister Nandi Glassie	102,585	84,327	78,415	92,004	12,000	10,345	374,000	0	0	374,000
Minister Mona Ioane	69,500	46,610	118,000	96,375	5,500	653	380,501	0	0	380,501
Leader Of Opposition	150,000	147,014	48,200	46,203	6,800	458	403,200	0	0	403,200
Total Ministerial Support Offices	1,069,956	881,173	579,305	476,044	103,992	40,681	3,402,515	0	0	3,402,515

Ministry	Personnel		Operating		Depreciation		Gross Operating Appropriation	Trading Revenue		Net Operating Appropriation
	Budget	Actual	Budget	Actual	Budget	Actual		Budget	Actual	
Outer Islands										
Aitutaki	1,025,156	991,126	390,204	469,775	157,848	143,884	1,573,208	48,250	94,385	1,524,958
Aitutaki Power Supply	265,170	250,946	1,597,374	1,714,138	348,789	226,558	2,211,333	1,900,943	1,945,144	310,390
Atiu	655,361	667,996	394,881	382,960	138,561	126,752	1,188,803	224,318	221,455	964,485
Mangaia	774,614	784,658	533,655	603,302	204,700	192,205	1,512,969	301,000	323,560	1,211,969
Manihiki	601,488	543,711	171,863	193,673	92,199	125,210	865,550	136,300	129,518	729,250
Mauke	616,392	630,842	204,110	319,595	80,877	80,836	901,378	113,853	171,926	787,525
Mitiaro	463,392	463,591	64,937	58,787	55,200	38,893	583,529	58,899	69,373	524,630
Palmerston	243,218	250,613	63,801	63,357	42,000	48,197	349,019	20,599	25,905	328,420
Penrhyn	342,480	413,907	199,639	154,850	52,407	135,629	594,526	83,904	114,332	510,622
Pukapuka-Nassau	700,426	742,442	146,126	126,099	140,552	108,755	987,105	73,695	62,896	913,410
Rakahanga	372,084	371,244	90,716	77,283	52,605	37,829	515,405	99,336	82,233	416,069
Outer Islands Capital Fund-Administered by MFEM	0	0	0	0	27,500		27,500	0		27,500
Total Outer Islands	6,059,782	6,111,076	3,857,305		1,393,237	1,264,749	11,310,325	3,061,097	3,240,728	8,249,228
Gross Total	43,968,628	42,960,386	14,086,864	12,082,410	3,782,730	2,948,760	61,838,222	5,452,252	6,343,539	56,385,970

Schedule 1 (b)
Comparative Analysis of Ministry Appropriations

Ministry	Budget Estimates 2013/14			Budget Estimates 2014/15			Gross Operating Variance	
	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Amount	Per cent
Agriculture	915,331	140,535	774,796	902,330	90,535	811,795	(13,001)	-1.7%
Audit (PERCA)	1,025,298	178,700	846,598	1,008,298	178,700	829,598	(17,000)	-2.0%
Crown Law	645,137	0	645,137	645,137	0	645,137	0	0.0%
Cultural Development	847,038	175,000	672,038	838,038	175,000	663,038	(9,000)	-1.3%
Business Trade and Investment Board	702,721	102,250	600,471	655,060	23,380	631,680	(47,661)	-7.9%
Education	10,961,555	0	10,961,555	11,073,255	0	11,073,255	111,700	1.0%
Environment	990,788	35,000	955,788	980,788	35,000	945,788	(10,000)	-1.0%
Finance and Economic Management	3,314,008	503,500	2,810,508	3,325,828	503,500	2,822,328	11,821	0.4%
Financial Services Development Authority	421,894	0	421,894	419,973	0	419,973	(1,921)	-0.5%
Foreign Affairs	1,775,473	8,000	1,767,473	1,770,473	20,000	1,750,473	(5,000)	-0.3%
Head Of State	234,305	0	234,305	232,305	0	232,305	(2,000)	-0.9%
Health	10,775,401	400,000	10,375,401	10,618,425	400,000	10,218,425	(156,976)	-1.5%
Infrastructure Cook Islands	2,006,034	245,626	1,760,408	2,002,034	245,626	1,756,408	(4,000)	-0.2%
Internal Affairs	1,084,457	6,000	1,078,457	1,077,457	6,000	1,071,457	(7,000)	-0.6%
Justice	1,976,623	467,765	1,508,858	1,914,279	500,000	1,414,279	(62,344)	-4.1%
Marine Resources	1,456,276	15,000	1,441,276	1,456,276	15,000	1,441,276	0	0.0%
Ombudsman	270,044	0	270,044	268,044	0	268,044	(2,000)	-0.7%
Parliamentary Services	580,866	8,419	572,447	571,866	8,419	563,447	(9,000)	-1.6%
Pearl Authority	466,411	0	466,411	464,097	0	464,097	(2,314)	-0.5%
Police	3,588,024	69,360	3,518,664	3,554,024	69,360	3,484,664	(34,000)	-1.0%
Prime Minister's Office	1,170,556	0	1,170,556	1,149,556	0	1,149,556	(21,000)	-1.8%
Public Service Commission	500,737	0	500,737	1,653,902	0	1,653,902	1,153,165	230.3%
Tourism Corporation	4,151,446	0	4,151,446	4,347,446	200,000	4,147,446	196,000	4.7%
Transport	667,476	36,000	631,476	658,476	36,000	622,476	(9,000)	-1.4%
Cook Islands Investment Corporation	0	0	0	0	0	0	0	0.0%
Cook Islands Seabed Minerals Authority	0	0	0	340,000	0	340,000	340,000	0.0%
Total Ministries	50,527,897	2,391,155	48,136,742	51,927,365	2,506,520	49,420,845	1,399,468	2.9%
Capital Funds Committee- Administered by MFEM	45,000	0	45,000	45,000	0	45,000	0	0.0%
Ministerial Support								
Prime Minister	425,382	0	425,382	422,382	0	422,382	(3,000)	-0.7%
Deputy Prime Minister	223,000	0	223,000	221,000	0	221,000	(2,000)	-0.9%
Minister Mark Brown	275,870	0	275,870	274,870	0	274,870	(1,000)	-0.4%
Minister Kiriau Turepu	193,000	0	193,000	191,000	0	191,000	(2,000)	-1.0%
Minister Nandi Glassie	193,000	0	193,000	192,000	0	192,000	(1,000)	-0.5%

Ministry	Budget Estimates 2013/14			Budget Estimates 2014/15			Gross Operating Variance		
	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Amount	Per cent	
Minister Mona Ioane	193,000	0	193,000	192,000	0	192,000	(1,000)	-0.5%	
Leader Of Opposition	205,000	0	205,000	202,000	0	202,000	(3,000)	-1.5%	
Total Ministerial Support Offices	1,753,252	0	1,753,252	1,740,252	0	1,740,252	(13,000)	-0.7%	
Outer Islands									
Aitutaki	1,573,208	48,250	1,524,958	1,555,277	48,250	1,507,027	-	17,931	-1.2%
Aitutaki Power Supply	2,211,333	1,900,943	310,390	2,211,333	1,900,943	310,390	-	-	0.0%
Atiu	1,188,803	224,318	964,485	1,209,302	224,318	984,984	20,499	2.1%	
Mangaia	1,512,969	301,000	1,211,969	1,538,812	301,000	1,237,812	25,844	2.1%	
Manihiki	865,550	136,300	729,250	880,930	136,300	744,630	15,379	2.1%	
Mauke	901,378	113,853	787,525	918,104	113,853	804,251	16,726	2.1%	
Mitiaro	583,529	58,899	524,630	593,798	58,899	534,899	10,270	2.0%	
Palmerston	349,019	20,599	328,420	358,630	20,599	338,031	9,611	2.9%	
Penrhyn	594,526	83,904	510,622	606,062	83,904	522,158	11,536	2.3%	
Pukapuka-Nassau	987,105	73,695	913,410	983,939	73,695	910,244	-	3,165	-0.3%
Rakahanga	515,405	99,336	416,069	450,709	49,336	401,373	-	64,696	-15.5%
Outer Islands Capital Fund-Administered by MFEM	27,500	0	27,500	27,500	0	27,500	0	0	0.0%
Total Outer Islands	11,310,325	3,061,097	8,249,228	11,334,397	3,011,097	8,323,300	24,072	0.3%	
Gross Total	63,591,474	5,452,252	58,139,222	65,002,014	5,517,617	59,484,397	1,410,540	2.5%	

Schedule 2
Benefits and Other Unrequited Expenses

Category of Benefit	Budget Estimate	Budget Estimate	Variance	Per cent
	2013/14	2014/15		
Welfare Payments	13,583,800	16,541,348	2,957,548	22%
Parliamentary Superannuation	180,000	180,000	0	0%
Total Benefits and Other Unrequited Expenses	13,763,800	16,721,348	2,957,548	21%

Schedule 3
Borrowing Expenses and Debt Repayment

	Budget Estimate	Budget Estimate	Variance	Per cent
	2013/14	2014/15		
Gross Debt Servicing (see Schedule 10)	5,710,000	5,424,736	-285,264	-5%
Total Borrowing Expenses and Debt Repayment	5,710,000	5,424,736	- 285,264	-5%

Schedule 4
Other Expenses

Category of Expense	Budget Estimates	Budget Estimate	Variance	Per cent
	2013/14	2014/15		
Airport Authority	2,047,997	2,047,997	0	0%
Bank of the Cook Islands	181,000	181,000	0	0%
Te Aponga Uira	350,000	350,000	0	0%
Asset Management	1,800,000	1,800,000	0	0%
Contingency Funds - Capital Expenditure	50,000	50,000	0	0%
Contingency Funds - Operating	100,000	100,000	0	0%
Crown Infrastructure Depreciation	5,069,598	2,920,397	-2,149,201	-42%
Expenditure of ADB Loan	0	3,245,000	3,245,000	-
Expenditure of Chinese Loans	6,946,000	6,452,000	-494,000	-7%
Official development assistance	59,363,162	63,693,150	4,329,988	7%
ADB Share Capital	26,600	26,600	0	0%
Transfer to Emergency Response Trust Fund	0	100,000	100,000	-
Transfer to Reserve Trust Fund	498,263	515,476	17,213	3%
Depreciation Contingency Fund	0	3,100,000	3,100,000	-
Debt Servicing Interest	1,429,000	2,137,300	708,300	50%
Total Other Expenses	77,861,620	86,718,920	8,857,300	11%

Summary

Category of Payment	Budget Estimates	Budget Estimate	Variance	Per cent
	2013/14	2014/15		
Schedule 1 - Ministry Outputs (Gross), POBOCs and Capital Expenditure	101,894,147	115,518,061	13,623,914	13%
Schedule 2 - Benefits and Other Unrequited Expenses	13,763,800	16,721,348	2,957,548	21%
Schedule 3 - Borrowing Expenses and Debt repayment	5,710,000	5,424,736	(285,264)	-5%
Schedule 4 - Other Expenses	77,861,620	86,718,920	8,857,300	11%
TOTAL APPROPRIATION	199,229,567	224,383,065	25,153,499	41%

Schedule 5
Analysis of Ministry's by Output

	Budget Estimate 2013/14			Budget Estimate 2014/15			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
AGRICULTURE							
Administration	101,971	0	101,971	109,371	0	109,371	7,400
Crop Research and Development	351,601	50,000	301,601	339,575	30,000	309,575	-12,026
Bio-Security Management	330,889	89,000	241,889	304,829	59,535	245,294	-26,060
Policy and Projects	70,877	0	70,877	88,955	0	88,955	18,078
Livestock Development	59,993	1,535	58,458	59,600	1,000	58,600	-393
	915,331	140,535	774,796	902,330	90,535	811,795	-13,001
AUDIT (PERCA)							
Crown Audit	159,302	30,000	129,302	155,052	30,000	125,052	-4,250
Ministries, Crown Agencies and SOE Audits	498,462	143,700	354,762	494,212	143,700	350,512	-4,250
Special Reviews and Investigations	330,719	5,000	325,719	326,469	5,000	321,469	-4,250
Corporate Services	36,815	0	36,815	32,565	0	32,565	-4,250
	1,025,298	178,700	846,598	1,008,298	178,700	829,598	-17,000
CROWN LAW							
Legal Advisory	315,818	0	315,818	315,818	0	315,818	0
Litigation	200,112	0	200,112	200,112	0	200,112	0
Legislative Drafting	129,207	0	129,207	129,207	0	129,207	0
	645,137	0	645,137	645,137	0	645,137	0
CULTURAL DEVELOPMENT							
Corporate Services	121,452	6,000	115,452	118,452	6,000	112,452	-3,000
Cultural National Identity	321,638	158,000	163,638	318,638	6,000	312,638	-3,000
Cultural Heritage	277,963	6,000	271,963	274,963	158,000	116,963	-3,000
Public Records and National Bibliography	125,985	5,000	120,985	125,985	5,000	120,985	0
	847,038	175,000	672,038	838,038	175,000	663,038	-9,000
BUSINESS TRADE and INVESTMENT BOARD							
Business Support	186,628	100,000	86,628	149,315	0	149,315	-37,313
Maximising Trade Opportunities	111,629	2,250	109,379	104,315	12,500	91,815	-7,314
Foreign Direct Investment (FDI) Participation	96,878	0	96,878	113,315	0	113,315	16,437

	Budget Estimate 2013/14			Budget Estimate 2014/15			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
Regulation and Compliance	45,665	0	45,665	81,101	0	81,101	35,437
Finance and Administration Support	261,921	0	261,921	207,014	10,880	196,134	-54,907
	702,720	102,250	600,470	655,060	23,380	631,680	-47,660
EDUCATION							
Taku Ipukarea Kia Rangatira	278,162	0	278,162	385,556	0	385,556	107,394
Learning and Teaching	800,677	0	800,677	501,460	0	501,460	-299,217
Learning and the Community	411,574	0	411,574	418,864	0	418,864	7,290
Infrastructure and Support	9,183,970	0	9,183,970	9,542,172	0	9,542,172	358,202
Corporate Services	287,172	0	287,172	225,203	0	225,203	-61,969
	10,961,555	0	10,961,555	11,073,255	0	11,073,255	111,700
ENVIRONMENT (TU'ANGA TAPOROPORO)							
Advisory and Compliance	376,003	25,000	351,003	353,248	25,000	328,248	-22,755
Island Futures	281,744	10,000	271,744	284,317	10,000	274,317	2,573
Corporate Services	333,041	0	333,041	343,222	0	343,222	10,181
	990,788	35,000	955,788	980,787	35,000	945,787	-10,001
FINANCE AND ECONOMIC MANAGEMENT							
Fiscal Advice	106,959	0	106,959	186,220		186,220	79,261
Fiscal and Economic Management	849,674	3,500	846,174	849,874	3,500	846,374	200
Taxation	1,485,983	500,000	985,983	1,482,679	500,000	982,679	-3,304
Statistics	294,733	0	294,733	282,783	0	282,783	-11,950
Development Coordination	291,214	0	291,214	262,866	0	262,866	-28,348
Corporate Services	285,445	0	285,445	261,406	0	261,406	-24,039
	3,314,008	503,500	2,810,508	3,325,828	503,500	2,822,328	11,820
FOREIGN AFFAIRS AND IMMIGRATION							
Enhancing Cook Islands relations with New Zealand and the Pacific	124,244	0	124,244	95,724	0	95,724	-28,520
Promoting Cook Islands interests in the Broader International community	124,427	0	124,427	130,463	0	130,463	6,036
Promoting Cook Island regional and International	77,744	0	77,744	51,779	0	51,779	-25,965

	Budget Estimate 2013/14			Budget Estimate 2014/15			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
trade Policy Interests							
Enhance Participation in Global Institutions	140,865	0	140,865	131,440	0	131,440	-9,425
Responsible and Effective Management of Immigration Service	209,511	0	209,511	292,945	0	292,945	83,434
Administration, Protocol and Overseas Representation	1,098,682	8,000	1,090,682	1,068,122	20,000	1,048,122	-30,560
	1,775,473	8,000	1,767,473	1,770,473	20,000	1,750,473	-5,000
HEAD OF STATE							
Administrative Support	234,305	0	234,305	232,305	0	232,305	-2,000
	234,305	0	234,305	232,305	0	232,305	-2,000
HEALTH							
Community Health Services	1,818,881	90,000	1,728,881	1,627,797	90,000	1,537,797	-191,084
Hospital Health Services	8,303,656	310,000	7,993,656	8,234,923	310,000	7,924,923	-68,733
Funding and Planning	652,864	0	652,864	755,706	0	755,706	102,842
	10,775,401	400,000	10,375,401	10,618,426	400,000	10,218,426	-156,975
INFRASTRUCTURE and PLANNING							
Policy and Programmes	461,676	10,000	451,676	416,726	0	416,726	-44,950
Regulatory Services	139,589	50,000	89,589	150,179	39,800	110,379	10,590
Civil Works	1,013,141	185,626	827,515	414,468	55,000	359,468	-598,673
Funding and Planning	391,628		391,628	340,767	8,000	332,767	-50,861
WATSAN	679,894		679,894	679,894	142,826	537,068	-0
	2,006,034	245,626	1,760,408	2,002,034	245,626	1,756,408	-4,000
INTERNAL AFFAIRS							
Welfare Payments	286,996		286,996	282,689	0	282,689	-4,307
Social Policy	259,925	0	259,925	260,505	0	260,505	580
Labour and Employment	111,149	6,000	105,149	111,294	6,000	105,294	145
Consumer	69,897	0	69,897	70,042	0	70,042	145
Civil	124,147	0	124,147	124,292	0	124,292	145
Censorship	64,103	0	64,103	64,249	0	64,249	146
Corporate Services	168,240	0	168,240	164,386	0	164,386	-3,854
	1,084,457	6,000	1,078,457	1,077,457	6,000	1,071,457	-7,000

	Budget Estimate 2013/14			Budget Estimate 2014/15			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
JUSTICE							
Court and Tribunal Services	469,197	110,000	359,197	471,520	130,235	341,285	2,323
Land Administration	338,925	142,730	196,195	321,012	122,730	198,282	-17,913
Registry Services	221,847	151,335	70,512	203,435	151,335	52,100	-18,412
Prison Services	510,151	63,700	446,451	514,739	95,700	419,039	4,588
Probation Services	215,912	0	215,912	198,400		198,400	-17,512
Corporate and ICT Services	220,591	0	220,591	205,173		205,173	-15,418
	1,976,623	467,765	1,508,858	1,914,279	500,000	1,414,279	-62,344
MARINE RESOURCES							
Offshore Fisheries	335,782	0	335,782	335,782	0	335,782	0
Pearl Industry Support	268,783	5,000	263,783	268,783	5,000	263,783	0
Inshore Fisheries and Aquaculture	390,862	10,000	380,862	390,862	10,000	380,862	0
Policy and Legal Services	99,604	0	99,604	99,604	0	99,604	0
Corporate Services	361,245	0	361,245	361,245	0	361,245	0
	1,456,276	15,000	1,441,276	1,456,276	15,000	1,441,276	0
OMBUDSMAN							
Receipt and effective investigation of complaints received or instigated by Ombudsman under the Ombudsman Act 1984	80,431	0	80,431	80,032	0	80,032	-399
Receipt and effective investigation of complaints recieved by the Ombudsman under the Official Information Act 2008	67,219	0	67,219	66,819	0	66,819	-400
Receipt and effective investigation of complaints received under the Disability Act 2008	40,798	0	40,798	40,397	0	40,397	-401
Education and Awareness of the Investigative Regime of the Ombudsman	40,798	0	40,798	40,397	0	40,397	-401
Establishment of Human Rights Division	40,798	0	40,798	40,399	0	40,399	-399
	270,044	0	270,044	268,044	0	268,044	-2,000
PARLIAMENTARY SERVICES							
Services to Parliament (Civil list, Legislative Service PLPG and HOA and Koutu Nui)	314,750	0	314,750	319,186	8,419	310,767	4,436

	Budget Estimate 2013/14			Budget Estimate 2014/15			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
Finance and Corporate Services	266,116	8,419	257,697	252,680	0	252,680	-13,436
Services to House of Ariki	0	0	0	0	0	0	0
	580,866	8,419	572,447	571,866	8,419	563,447	-9,000
PEARL AUTHORITY							
Farm Support	0	0	0			0	0
Pearl Standards and Quality Control	0	0	0		0	0	0
Marketing Strategy	105,000	0	105,000	105,000	0	105,000	0
Industry Reform and Development	135,790	0	135,790	134,290	0	134,290	-1,500
Management and Support Services	225,621	0	225,621	224,807	0	224,807	-814
	466,411	0	466,411	464,097	0	464,097	-2,314
POLICE							
Crime Prevention and Policing operations	2,651,911	69,360	2,582,551	2,640,578	69,360	2,571,218	-11,333
Maritime Policing	476,089	0	476,089	464,756	0	464,756	-11,333
Enabling and Support Services	460,023	0	460,023	448,690	0	448,690	-11,333
	3,588,023	69,360	3,518,663	3,554,024	69,360	3,484,664	-33,999
PRIME MINISTER'S OFFICE							
Central Policy and Planning Office	200,374	0	200,374	161,149	0	161,149	-39,225
Cabinet Services and Government Representative	125,588	0	125,588	124,695	0	124,695	-893
Renewable Energy Development Division	111,755	0	111,755	105,491	0	105,491	-6,264
Corporate Services	182,238	0	182,238	196,734	0	196,734	14,496
Information and Communication Technology	135,156	0	135,156	137,788	0	137,788	2,632
Emergency Management Cook Islands	98,354	0	98,354	103,456	0	103,456	5,102
Climate Change Cook Islands	107,595	0	107,595	102,615	0	102,615	-4,980
Outer Islands Local Government	209,496	0	209,496	217,628	0	217,628	8,132
	1,170,556	0	1,170,556	1,149,556	0	1,149,556	-21,000
PUBLIC SERVICE COMMISSION							
Good Governance	189,245	0	189,245	196,305	0	196,305	7,060
Human Resources	65,637	0	65,637	151,600	0	151,600	85,963
Performance Management	163,733	0	163,733	1,187,256	0	1,187,256	1,023,523
Corporate Services	82,122	0	82,122	118,741	0	118,741	36,619

	Budget Estimate 2013/14			Budget Estimate 2014/15			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
	500,737	0	500,737	1,653,902	0	1,653,902	1,153,165
TOURISM CORPORATION							
Head Office	1,671,909	0	1,671,909	1,242,073	0	1,242,073	-429,836
Destination Market	2,151,180	0	2,151,180	2,785,512	200,000	2,585,512	634,332
Destination Development	328,357	0	328,357	319,861	0	319,861	-8,496
	4,151,446	0	4,151,446	4,347,446	200,000	4,147,446	196,000
TRANSPORT							
Civil Aviation	84,552	0	84,552	82,302	0	82,302	-2,250
Maritime Transport	115,426	0	115,426	113,176	0	113,176	-2,250
Meteorological Service	328,019	36,000	292,019	325,769	36,000	289,769	-2,250
Finance and Administration	139,479	0	139,479	137,229	0	137,229	-2,250
	667,476	36,000	631,476	658,476	36,000	622,476	-9,000
FINANCIAL SERVICES DEVELOPMENT AUTHORITY							
Develop Cook islands financial Service Industry	421,894	0	421,894	419,973	0	419,973	-1,921
	421,894	0	421,894	419,973	0	419,973	-1,921
COOK ISLANDS SEABED MINERALS AUTHORITY							
Effective Seabed Minerals sector	0	0	0	340,000	0	340,000	340,000
	0	0	0	340,000	0	340,000	340,000
OUTER ISLANDS							
Aitutaki							
Infrastructure	977,565	0	977,565	949,373	43,250	906,123	-28,192
Waste Facility	125,265	43,250	82,015	124,582	3,000	121,582	-683
Finance and Administration	241,374	3,000	238,374	237,999	0	237,999	-3,375
Island Council	87,394	0	87,394	89,263	0	89,263	1,869
Women, Youth, Sport, Culture	59,175	0	59,175	54,011	0	54,011	-5,164
Agriculture	82,435	2,000	80,435	100,050	2,000	98,050	17,615
	1,573,208	48,250	1,524,958	1,555,278	48,250	1,507,028	-17,930
Aitutaki Power Supply							
Electricity Supply	2,211,333	1,900,943	310,390	2,211,333	1,900,943	310,390	0

	Budget Estimate 2013/14			Budget Estimate 2014/15			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
	2,211,333	1,900,943	310,390	2,211,333	1,900,943	310,390	0
Atiu							
Agriculture	131,816	8,602	123,214	130,250	8,602	121,648	-1,566
Infrastructure	459,511	9,600	449,911	460,702	9,600	451,102	1,191
Energy	372,032	182,016	190,016	396,413	182,016	214,397	24,381
Corporate	157,617	1,100	156,517	157,746	1,100	156,646	129
Island Council	67,827	23,000	44,827	64,190	23,000	41,190	-3,637
	1,188,803	224,318	964,485	1,209,301	224,318	984,983	20,498
Mangaia							
Agriculture	179,836	3,000	176,836	143,330	3,000	140,330	-36,506
Tourism and Community Development	45,715	1,000	44,715	42,826	1,000	41,826	-2,889
Infrastructure Amenities	508,687	25,000	483,687	471,856	25,000	446,856	-36,831
Public Utilities	542,250	270,000	272,250	641,505	270,000	371,505	99,255
Finance and Administration	155,280	500	154,780	164,242	500	163,742	8,962
Island Council	81,201	1,500	79,701	75,054	1,500	73,554	-6,147
	1,512,969	301,000	1,211,969	1,538,813	301,000	1,237,813	25,844
Manihiki							
Gender, Youth and Sports	14,518	1,500	13,018	14,018	0	14,018	-500
Infrastructure	294,359	10,000	284,359	318,257	10,500	307,757	23,898
Energy	297,418	111,600	185,818	304,163	111,600	192,563	6,745
Finance and Administration	153,449	6,200	147,249	137,482	7,200	130,282	-15,967
Island Council	77,297	5,000	72,297	78,501	5,000	73,501	1,204
Agriculture	28,509	2,000	26,509	28,509	2,000	26,509	0
	865,550	136,300	729,250	880,930	136,300	744,630	15,380
Mauke							
Infrastructure	294,555	3,500	291,055	324,436	10,000	314,436	29,881
Energy	248,562	101,300	147,262	289,483	89,000	200,483	40,921
Water	85,922	500	85,422	90,907	3,800	87,107	4,985
Finance and Administration	124,837	3,500	121,337	54,074	1,053	53,021	-70,763

	Budget Estimate 2013/14			Budget Estimate 2014/15			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
Agriculture	73,771	4,000	69,771	159,203	10,000	149,203	85,432
Gender and Development	14,673		14,673		0	0	-14,673
Island Council	59,058	1,053	58,005	0	0	0	-59,058
	901,378	113,853	787,525	918,104	113,853	804,251	16,726
Mitiaro							
Island Administration	114,127	100	114,027	124,723	350	124,373	10,596
Island Council	57,643	100	57,543	53,875	200	53,675	-3,768
Social and Economic Growth	21,300	0	21,300	10,640	300	10,340	-10,660
Infrastructure	258,703	3,850	254,853	272,150	9,050	263,100	13,447
Energy	97,016	54,699	42,317	94,224	48,599	45,625	-2,792
Agriculture	34,740	150	34,590	38,187	400	37,787	3,447
	583,529	58,899	524,630	593,799	58,899	534,900	10,270
Palmerston							
Island Administration	89,810	1,500	88,310	92,241	20,599	71,642	2,431
Agriculture	12,494		12,494	12,193	0	12,193	-301
Education	95,352		95,352	111,944	0	111,944	16,592
Energy	57,951	17,999	39,952	52,061	0	52,061	-5,890
Infrastructure	53,412	300	53,112	51,391	0	51,391	-2,021
Island Council	40,000	800	39,200	38,800	0	38,800	-1,200
	349,019	20,599	328,420	358,630	20,599	338,031	9,611
Penrhyn							
Gender, Youth and Sport	14,200	0	14,200	26,488	0	26,488	12,288
Infrastructure	127,077	10,000	117,077	132,077	10,000	122,077	5,000
Energy	227,319	73,904	153,415	211,567	73,904	137,663	-15,752
Island Administration and Island Council	200,480	0	200,480	205,480	0	205,480	5,000
Agriculture	25,450	0	25,450	30,450	0	30,450	5,000
	594,526	83,904	510,622	606,062	83,904	522,158	11,536
Pukapuka and Nassau							
Infrastructure	501,923	13,085	488,838	143,032	2,800	140,232	-358,891
Energy	107,221	18,510	88,711	103,430	22,369	81,061	-3,791
Island Administration	168,066	15,000	153,066	124,893	16,000	108,893	-43,173

	Budget Estimate 2013/14			Budget Estimate 2014/15			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
Island Council	130,570	25,100	105,470	505,351	13,086	492,265	374,781
Women, Culture, Youth and Sport	27,351	1,000	26,351	107,233	19,440	87,793	79,882
Agriculture	51,974	1,000	50,974	0	0	0	-51,974
	987,105	73,695	913,410	983,939	73,695	910,244	-3,166
Rakahanga							
Agriculture	31,267	1,500	29,767	14,150	1,000	13,150	-17,117
Marine	114,085	66,884	47,201	106,650	22,000	84,650	-7,435
Beautification	45,432	1,000	44,432	38,402	500	37,902	-7,030
Infrastructure	121,342	3,000	118,342	81,867	2,600	79,267	-39,475
Energy	73,976	20,000	53,976	60,566	15,000	45,566	-13,410
Island Administration	76,415	1,500	74,915	102,529	2,400	100,129	26,114
Island Council	52,888	5,452	47,436	46,545	5,836	40,709	-6,343
	515,405	99,336	416,069	450,709	49,336	401,373	-64,696
MINISTERIAL SUPPORT							
Prime Minister	425,382	0	425,382	422,382	0	422,382	-3,000
Deputy Prime Minister	223,000	0	223,000	221,000	0	221,000	-2,000
Minister Mark Brown	275,870	0	275,870	274,870	0	274,870	-1,000
Minister Kiriau Turepu	193,000	0	193,000	191,000	0	191,000	-2,000
Minister Nandi Glassie	193,000	0	193,000	192,000	0	192,000	-1,000
Minister Teina Bishop	193,000	0	193,000	192,000	0	192,000	-1,000
Leader of the Opposition	205,000	0	205,000	202,000	0	202,000	-3,000
	1,708,252	0	1,708,252	1,695,252	0	1,695,252	-13,000
OTHER FUNDING - ADMINISTERED BY MFEM							
Capital distribution fund - depreciation only	45,000	0	45,000	45,000	0	45,000	0
Outer Islands small capital fund - depreciation only	27,500	0	27,500	27,500	0	27,500	0
	72,500	0	72,500	72,500	0	72,500	0
TOTAL APPROPRIATIONS	63,591,474	5,452,252	58,139,222	65,002,017	5,517,617	59,484,400	1,410,543

Schedule 6
Capital Schedule

MINISTRY	2013/14	2014/15	2015/16	2016/17	2017/18	5-Year
	Estimate	Budget	Budget	Budget	Budget	Total
	Spend	Estimate	Estimate	Estimate	Estimate	
EDUCATION	199,000	155,000	198,000	198,000	110,000	860,000
Fund to be Prioritised by Education	110,000	110,000	110,000	110,000	110,000	550,000
Furniture and replacement of computers (fire damage)	89,000	0	0	0	0	89,000
ICT upgrades (computers and laptops)	0	45,000	88,000	88,000	0	221,000
FOREIGN AFFAIRS	36,000	0	0	0	0	36,000
Auckland Consulate Office Fitout (Manukau)	36,000	0	0	0	0	36,000
HEALTH	424,000	810,000	275,000	275,000	275,000	2,059,000
Fund to be Prioritised by Health for Technical Equipment	274,000	275,000	275,000	275,000	275,000	1,374,000
Ambulance	36,000	0	0	0	0	36,000
Gastroscope Machine	114,000	0	0	0	0	114,000
ICT (laptops and equipment) upgrades	0	150,000	0	0	0	150,000
Cobas e411 Immuno Assay Analyser	0	85,000	0	0	0	85,000
Laparoscope Machine	0	200,000	0	0	0	200,000
New Hospital Pharmacy Warehouse fit-out	0	100,000	0	0	0	100,000
INFRASTRUCTURE COOK ISLANDS	5,407,000	8,818,500	9,913,500	3,530,000	2,680,000	30,349,000
Bridges and Drainage	418,000	1,550,000	532,000	0	0	2,500,000
Road Network Maintenance	37,000	430,000	430,000	430,000	430,000	1,757,000
Water Network Maintenance	280,000	500,000	500,000	500,000	500,000	2,280,000
Manihiki Harbours	2,140,000	800,000	100,000	0	0	3,040,000
Vaimaru Water Upgrade	220,000	56,000	0	0	0	276,000
Rakahanga Harbour Improvement (feasibility)	0	60,000	0	0	0	60,000
Mitiaro Water Pump (solar)	26,000	0	0	0	0	26,000

MINISTRY	2013/14 Estimate Spend	2014/15 Budget Estimate	2015/16 Budget Estimate	2016/17 Budget Estimate	2017/18 Budget Estimate	5-Year Total
Penryhn-Feasibility Coastal Protection	20,000	0	0	0	0	20,000
Tereora/Tepuka Enviro-Flow	35,000	3,000	0	0	0	38,000
Pukapuka Bobcat	2,000	80,000	0	0	0	82,000
Mangaia Water and Roads	0	180,000	0	0	0	180,000
Mangaia Excavator	75,000	0	0	0	0	75,000
Mauke Manea Games	85,000	53,000	0	0	0	138,000
Turangi Clean Up Project	60,000	0	0	0	0	60,000
Emergency Mission - Pukapuka Airport Repairs	382,000	0	0	0	0	382,000
Emergency Mission - Mitiaro Salvage Excavator and Airport repairs	97,000	0	0	0	0	97,000
Emergency Mission - Atiu Repairs and Upgrade	69,000	0	0	0	0	69,000
ICI upgrades	28,000	0	0	0	0	28,000
Education building completion	110,000	0	0	0	0	110,000
Manihiki Barge Outboard Motors	12,000	0	0	0	0	12,000
Complete Climate Adaptation of Mangaia Harbour	94,000	0	0	0	0	94,000
Emergency Mission - Manihiki Generator reinstatement and servicing	89,000	0	0	0	0	89,000
Development of Punanga Nui Coastal Area - ADB ERSP	11,000	40,000	0	0	0	51,000
Project City Stage 1 - ADB ERSP	311,000	0	0	0	0	311,000
Project City Stage 2 - ADB ERSP	489,000	100,000	0	0	0	589,000
Project City Stage 3 - ADB ERSP	317,000	2,341,500	2,341,500	0	0	5,000,000
Atiu Airport Runway Stabilisation	0	300,000	700,000	0	0	1,000,000
Atiu Crusher		500,000				500,000
National Incinerator Feasibility Study	0	0	150,000	0	0	150,000
Portable Incinerator	0	85,000	0	0	0	85,000
Muri Road Widening (including Aroko)	0	0	435,000	0	0	435,000
Rutaki Foreshore Rock Revetment	0	0	1,250,000	1,250,000	0	2,500,000
Sanitation Upgrade Programme	0	1,575,000	3,475,000	1,350,000	1,750,000	8,150,000
Mitiaro Airport Upgrade	0	115,000	0	0	0	115,000
Manihiki Lagoon Dredging	0	50,000	0	0	0	50,000

MINISTRY	2013/14 Estimate Spend	2014/15 Budget Estimate	2015/16 Budget Estimate	2016/17 Budget Estimate	2017/18 Budget Estimate	5-Year Total
AITUTAKI ISLAND COUNCIL	102,000	246,000	0	0	0	348,000
Fuel Storage Facility	0	200,000	0	0	0	200,000
Water Pumps (Vaipeka, Tautu, Vaipae)	19,000	33,000	0	0	0	52,000
Mini Transformers	83,000	13,000	0	0	0	96,000
POLICE	6,000	154,000	0	0	0	160,000
Life Rafts	6,000	0	0	0	0	6,000
Te Kukupa Refit	0	95,000	0	0	0	95,000
Search and Rescue Boat	0	59,000	0	0	0	59,000
OFFICE OF THE PRIME MINISTER	275,000	2,203,000	250,000	250,000	250,000	3,228,000
Rakahanga generator control panels, powerhouse	0	95,000	0	0	0	95,000
Atiu Power Distribution	41,000	405,000	0	0	0	446,000
Renewable Management Project Management and Support	109,000	250,000	250,000	250,000	250,000	1,109,000
Nassau New Generator Set and Powerline Upgrade	0	32,000	0	0	0	32,000
Palmerston New Generator Set and Powerline Upgrade	0	22,000	0	0	0	22,000
Penrhyn New Generator Set and Powerline Upgrade	0	56,000	0	0	0	56,000
Pukapuka New Generator Set and Powerline Upgrade	0	46,000	0	0	0	46,000
Rakahanga New Generator Set and Powerline Upgrade	0	95,000	0	0	0	95,000
Manihiki and Penrhyn Electrical Distribution and Meters	0	222,000	0	0	0	222,000
Northern Group Wiring Upgrades and Certification	0	700,000	0	0	0	700,000
Community Capital Development Fund	125,000	0	0	0	0	125,000
Mitiaro Generator, Powerhouse Relocation	0	280,000	0	0	0	280,000
COOK ISLANDS INVESTMENT CORPORATION	1,875,000	2,741,000	1,700,000	0	0	6,316,000
National Education Renewal Programme	479,000	0	0	0	0	479,000
National Health Renewal Program	702,000	0	500,000	0	0	1,202,000

MINISTRY	2013/14 Estimate Spend	2014/15 Budget Estimate	2015/16 Budget Estimate	2016/17 Budget Estimate	2017/18 Budget Estimate	5-Year Total
Renovations Cook Islands High Commission (Wellington)	9,000	44,000	0	0	0	53,000
Pukapuka Cyclone Centre	65,000	0	0	0	0	65,000
Nassau Machinery Shelter	77,000	0	0	0	0	77,000
Mauke Cargo Shed Improvements	42,000	0	0	0	0	42,000
Mitiaro Machinery/Cargo Shed Improvements	58,000	0	0	0	0	58,000
Pa Enea Renewable Energy Projects-Land Acquisition	262,000	900,000	1,000,000	0	0	2,162,000
Orongo Development Master Plan (Ports Authority)	181,000	250,000	0	0	0	431,000
Mangaia School Bus	0	80,000	0	0	0	80,000
Asset Management Information System	0	253,000	0	0	0	253,000
Apii Nikao design, demolition, asbestos removal, and construction supervision	0	1,214,000	200,000	0	0	1,414,000
MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT	2,039,000	6,294,000	13,291,000	3,760,000	0	25,384,000
Government IT Network	115,000	200,000	50,000	0	0	365,000
CIGov Procurement Website - ADB ERSP	0	150,000	0	0	0	150,000
Rarotonga Watertank Subsidy - ADB ERSP	1,902,000	873,000	0	0	0	2,775,000
RMS Web Lodgement System	22,000	275,000	0	0	0	297,000
China Grant Heavy Machinery and Pearl Equipment Freight, Training and Inspections	0	500,000	500,000	0	0	1,000,000
Te Mato Vai - Rarotonga Water Upgrade	0	4,296,000	12,741,000	3,760,000	0	20,797,000
INTERNAL AFFAIRS	0	50,000	50,000	50,000	50,000	200,000
Vaka Maintenance Capital Projects	0	50,000	50,000	50,000	50,000	200,000
MINISTRY TOTAL	10,363,000	21,471,500	25,677,500	8,063,000	3,365,000	68,940,000
CAPITAL FUNDS ADMINISTERED BY MFEM	288,000	310,000	310,000	310,000	310,000	1,528,000
Capital Distribution Fund	197,000	200,000	200,000	200,000	200,000	997,000
Outer Islands Small Capital Fund	91,000	110,000	110,000	110,000	110,000	531,000
GRAND TOTAL	10,651,000	21,781,500	25,987,500	8,373,000	3,675,000	70,468,000

Schedule 7

Revenue on Behalf of Crown (ROBOC)

	2013/14 Actual	2014/15 Budget Estimate	2015/16 Budget Estimate	2016/17 Budget Estimate	2017/18 Budget Estimate	Variance
Taxation Revenue						
VAT	41,361,179	49,972,300	50,457,771	49,219,693	49,970,917	8,611,121
		20,663,976	21,321,145	20,665,298		-
Income tax	22,837,319				21,063,243	2,173,342
Company tax	11,660,942	12,308,829	12,443,836	12,099,533	12,308,445	647,888
Import levies	11,506,115	12,418,651	12,638,651	13,068,651	13,368,651	912,537
		0	0	0		-
Withholding tax	1,479,447				0	1,479,447
Departure tax	7,620,950	7,731,366	7,953,175	8,171,729	8,392,676	110,416
Total	96,465,950	103,095,122	104,814,578	103,224,904	105,103,932	6,629,172
Other Crown Revenue						
Financial Services Development Authority	302,536	276,296	276,296	276,296	276,296	-26,240
Immigration Fees	662,550	587,221	583,512	583,512	583,512	-75,328
IMO Subscription - Maritime Cook Islands	66,384	63,461	63,461	63,461	63,461	-2,923
Court Services	49,750	50,000	50,000	50,000	50,000	250
Instant Fines	35,267	65,000	65,000	65,000	65,000	29,733
Fishing Licences	1,854,996	2,440,000	2,440,000	2,440,000	2,440,000	585,004
						-
Fisheries Catch Revenue	2,877,401	1,700,000	1,700,000	1,700,000	1,700,000	1,177,401
Fisheries - US Treaties	770,671	780,000	780,000	780,000	780,000	9,329
Fishing Fines	0	1,225,000	0	0	0	1,225,000
Research Fee	1,271	1,000	1,000	1,000	1,000	-271
Permits	16,041	55,816	55,816	55,816	55,816	39,776
Banana Court - dividend	10,000	10,000	10,000	10,000	10,000	0
Bank of the Cook Islands - dividend	429,001	557,053	557,053	557,053	557,053	128,052
Ports Authority - dividend	0	0	0	0	0	0

	2013/14 Actual	2014/15 Budget Estimate	2015/16 Budget Estimate	2016/17 Budget Estimate	2017/18 Budget Estimate	Variance
Punganga Nui Market - dividend	0	0	0	0	0	0
Te Aponga Uira - dividend	875,000	337,800	319,190	319,190	319,190	-537,200
Extraordinary SOE Dividends	20,416	60,000	60,000	60,000	60,000	39,584
Telecom Cook Islands - dividend	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000	0
Numismatics	273,537	500,000	500,000	500,000	500,000	226,463
Drivers Licences	450,602	350,000	280,000	280,000	280,000	-100,602
Motor Vehicle Registration	826,521	775,000	775,000	775,000	775,000	-51,521
Interest on balances	2,097,641	1,848,000	1,885,000	1,885,000	1,885,000	-249,641
Interest on loans to subsidiaries	706,722	684,357	666,308	684,162	657,545	-22,365
Foreign Investment Fees	29,982	20,149	20,654	20,654	20,654	-9,833
Upper Air Management Agreement	459,807	497,996	510,446	510,446	510,446	38,189
Shipping Registration	56,250	130,000	140,000	150,000	150,000	73,750
International Shipping Licence	10,000	15,000	15,000	15,000	15,000	5,000
Liquor Licensing	30,542	26,000	26,000	26,000	26,000	-4,542
Tattslotto Grants	142,165	143,000	150,000	150,000	150,000	835
Censorship Fees	5,965	12,000	12,000	12,000	12,000	6,035
Circulating Currency - Coins	263,838	205,000	100,000	100,000	100,000	-58,838
Employer Liabilities	13,623	20,000	20,000	20,000	20,000	6,377
Motor Vehicle Dealers	7,245	5,000	5,000	5,000	5,000	-2,245
Justice Unclaimed Rental Monies	0	0	0	0	0	0
Total Other	14,495,723	14,590,149	13,216,736	13,244,590	13,217,973	94,426
Total Crown Receipts	110,961,673	117,685,271	118,031,314	116,469,494	118,321,905	6,723,598

Schedule 8

Payments on Behalf of Crown (POBOC)

Administering Ministry	POBOC	Actual	Budget	Budget	Budget	Budget	Variance
		2013/14	Estimates 2014/15	Estimates 2015/16	Estimates 2016/17	Estimates 2017/18	
Compensation of Employees							
Cook Islands Investment Corporation	Infrastructure Committee	71,376	75,000	75,000	75,000	75,000	3,624
Finance and Economic Management	Parliamentary Superannuation	177,690	180,000	180,000	180,000	180,000	2,310
Finance and Economic Management	National Heritage Trust	82,081	82,241	82,241	82,241	82,241	160
Audit	PERC Salaries and Administration Costs	32,699	42,500	42,500	42,500	42,500	9,801
Internal Affairs	Price Tribunal	29,353	30,000	30,000	30,000	30,000	647
Justice	Judges Allowances	175,558	177,000	177,000	177,000	177,000	1,442
Parliamentary Services	Civil List - Personnel	1,820,581	1,844,630	1,794,630	1,794,630	1,794,630	24,049
Parliamentary Services	House of Ariki	169,821	176,341	176,341	176,341	176,341	6,520
Public Service Commission	HOM's Salary	1,125,533	0	0	0	0	-1,125,533
Transport	Director of Civil Aviation	55,960	56,000	56,000	56,000	56,000	40
		3,740,651	2,663,712	2,613,712	2,613,712	2,613,712	-1,076,940
Use of Goods and Services							
Audit	Audit Fees	95,600	95,600	95,600	95,600	95,600	0
Crown Law	Operation Eagle Defendants	29,999	0	0	0	0	-29,999
Cultural Development	Te Maeva Nui Constitution Celebrations	195,000	722,500	722,500	722,500	722,500	527,500
Education	Tertiary Training Institutions	759,854	759,855	759,855	759,855	759,855	0
Finance and Economic Management	Audit of Crown Accounts	30,000	30,000	30,000	30,000	30,000	0
Finance and Economic Management	National Superannuation Fund	297,945	283,048	268,896	255,450	242,678	-14,897
Finance and Economic Management	Standard and Poors Subscription	38,541	40,000	40,000	40,000	40,000	1,459
Justice	General Elections, Petitions and By-Elections	120,221	50,000	0	0	0	-70,221
Head Of State	Domestic Hosting Entertainment	55,229	15,000	15,000	15,000	15,000	-40,229
Health	Pharmaceuticals	667,361	667,800	667,800	667,800	667,800	439
Infrastructure and Planning	Outer Islands Equipment Repairs of Unanticipated Breakdowns	99,838	100,000	100,000	100,000	100,000	162
Infrastructure and Planning	Waste Management	399,629	545,000	545,000	545,000	545,000	145,371
Internal Affairs	Lease extension	72,000	72,000	72,000	72,000	72,000	0
Internal Affairs	Vaka Maintenance	397,724	400,000	400,000	400,000	400,000	2,276
Parliamentary Services	Civil List - Operating Expenses	529,475	529,475	529,475	529,475	529,475	0

Administering Ministry	POBOC	Actual	Budget	Budget	Budget	Budget	Variance
		2013/14	Estimates 2014/15	Estimates 2015/16	Estimates 2016/17	Estimates 2017/18	
Parliamentary Services	PPAPD - FDOC Secretariat	34,545	35,000	35,000	35,000	35,000	455
Prime Minister's Office	Social Responsibility Fund	185,000	195,000	195,000	195,000	195,000	10,000
Prime Minister's Office	Self Government Golden Anniversary	0	250,000	250,000	0	0	250,000
Prime Minister's Office	Local Government Elections	0	35,000	0	0	0	35,000
Police	Search and Rescue	3,063	20,000	20,000	20,000	20,000	16,937
Police	Serious Crime Investigations	60,032	50,000	50,000	50,000	50,000	-10,032
Police	Te Kukupa - Fuel Contribution	139,801	140,000	140,000	140,000	140,000	199
Police	Te Kukupa Refit	0	0	0	0	0	0
	Marketing Resources - Tourism Growth Strategy	2,000,004	2,250,000	2,250,000	2,000,000	2,000,000	249,996
Tourism Corporation	Returned Services Association	5,000	5,000	5,000	5,000	5,000	0
Prime Minister's Office	Cook Islands Marine Park	40,000	40,000	40,000	40,000	40,000	0
Prime Minister's Office	Community Development Fund	0	100,000	100,000	100,000	100,000	100,000
	International Maritime Organisation - Maritime Cook Islands	0	63,461	63,461	63,461	63,461	63,461
Foreign Affairs		0	63,461	63,461	63,461	63,461	63,461
		6,255,862	7,493,739	7,394,587	6,881,141	6,868,369	1,237,877
	Subsidies						
	University of the South Pacific Contribution	180,268	285,000	285,000	285,000	285,000	104,732
Education							
Finance and Economic Management	Air New Zealand - Subsidies	11,102,202	12,350,000	12,600,000	12,600,000	12,600,000	1,247,798
Finance and Economic Management	Apex - Profit Guarantee	1,294,422	1,500,000	1,500,000	1,500,000	750,000	205,578
	FSC - subsidy to meet depreciation expenses	35,000	35,000	35,000	35,000	35,000	0
Finance and Economic Management							
Finance and Economic Management	Subsidy of audio/visual broadcasting in Pa Enea	39,728	45,000	45,000	45,000	45,000	5,272
		12,651,620	14,215,000	14,465,000	14,465,000	13,715,000	1,563,380
	Social Assistance						
Education	Government Funded Scholarships	261,506	280,000	280,000	280,000	280,000	18,494
Health	Patient Referrals	610,000	550,000	550,000	550,000	550,000	-60,000
Health	Nursing School	143,679	187,070	234,070	234,070	234,070	43,391
Health	NCD Fund	195,000	195,000	195,000	195,000	195,000	0
Health	Oxygen Plant	0	0	0	0	0	0
Internal Affairs	Welfare Payments	14,429,516	16,541,348	16,880,548	16,880,548	16,880,548	2,111,832
Justice	Legal Aid	475	40,000	40,000	40,000	40,000	39,525
		15,640,177	17,793,418	18,179,618	18,179,618	18,179,618	2,153,241

Administering Ministry	POBOC	Actual	Budget	Budget	Budget	Budget	Variance
		2013/14	Estimates 2014/15	Estimates 2015/16	Estimates 2016/17	Estimates 2017/18	
Other Expense							
Education	Private School Funding	1,982,635	1,982,627	1,982,627	1,982,627	1,982,627	-8
Finance and Economic Management	Pacific Catastrophe Risk Insurance	0	120,694	120,694	120,694	120,694	120,694
Foreign Affairs	International Subscriptions	533,385	545,705	545,705	545,705	545,705	12,320
Marine Resources	Establishment of Fisheries Development Facility	199,657	200,000	200,000	200,000	200,000	343
Cook Islands Seabed Minerals	Establishment of the Seabed Minerals Authority	340,000	0	0	0	0	-340,000
Internal Affairs	CISNOC Grant	198,000	220,000	220,000	220,000	220,000	22,000
Internal Affairs	CISNOC Support	100,000	0	0	0	0	-100,000
Internal Affairs	Hosting of the Oceania Championships	30,000	0	0	0	0	-30,000
Internal Affairs	NGO and Welfare Organisations	77,229	221,000	221,000	221,000	221,000	143,772
Internal Affairs	Gender Regional Triennial Meeting	30,000	0	0	0	0	-30,000
Police	Pacific Islands Chiefs of Police Conference (PICP)	65,493	0	0	0	0	-65,493
Education	Education Ministers Forum	19,989	0	0	0	0	-19,989
MOIP	SOPAC Conference 2013	50,753	0	0	0	0	-50,753
MOIP	PWWA Conference 2013	95,995	0	0	0	0	-95,995
		3,723,137	3,290,026	3,290,026	3,290,026	3,290,026	-433,110
Grand Total		42,011,447	45,455,895	45,942,943	45,429,497	44,666,725	3,444,448

Schedule 10
Debt Servicing Schedule

	Total Loans			On-Lent Loans			Net
	Principal	Interest	Gross	Principal	Interest	Gross	
Creditors							
France	570	18	589	570	18	589	0
Asian Development Bank	1,772	1,422	3,194	810	666	1,475	1,719
China	946	696	1,642	0		0	1,642
Total Debt Servicing	3,287	2,137	5,425	1,380	684	2,064	3,361

Schedule 10

Official Development Assistance (ODA) Schedule

Agency	Development Partner	Budget 2013/14	Spend 2013/14	Budget 2014/15	Budget 2015/16	Budget 2016/17	Total (3yr Forecast)
Airport Authority		0	0	600,000	0	0	600,000
Improving Pacific Air Safety TA	European Investment Bank	0	0	600,000	0	0	600,000
Cook Islands Investment Corporation		200,000	234,395	233,500	0	0	233,500
ADB Asset Management Technical Assistance	Asian Development Bank	200,000	72,365	150,000	0	0	150,000
Improve infrastructure service delivery technical assistance (CI-NIIP)	Asian Development Bank	0	162,030	83,500	0	0	83,500
Cook Islands Tourism Corporation		3,000,000	3,472,000	2,150,000	0	0	2,150,000
Tourism Sector Support		3,000,000	3,472,000	2,150,000	0	0	2,150,000
Ministry of Agriculture		581,500	145,000	202,300	179,500	165,000	546,800
Agricultural Census and Statistics, Food and Ornamental Crops	FAO	223,200	0	0	0	0	0
Crop Enhancement Technical Cooperation	FAO	236,000	115,000	115,000	115,000	115,000	345,000
Water-logging Project	SPC	30,000	30,000	38,500	0	0	38,500
Taro Revitalisation program	SPC	9,300	0	9,300	0	0	9,300
Plant Genetic Resources Benefit Sharing	SPC/FAO	0	0	14,500	14,500	0	29,000
Biocontrol of Invasive Weeds	New Zealand	0	0	25,000	50,000	50,000	125,000
Forestry Assessment programme	FAO	83,000	0	0	0	0	0
Ministry of Education		3,355,000	3,382,401	3,532,500	3,355,000	3,355,000	10,242,500
Computers for Health/Education	Turkey	0	0	60,000	0	0	60,000
Education Budget Support	New Zealand	2,657,000	3,270,000	3,375,000	3,270,000	3,270,000	9,915,000
Education Sector Partnership	New Zealand	613,000	26,000	12,500	0	0	12,500
Participation Program	UNESCO	85,000	86,401	85,000	85,000	85,000	255,000
Ministry of Finance and Economic Management		13,251,000	4,441,107	24,493,000	15,854,000	7,795,000	48,142,000
China grants in kind	China	0	270,480	17,952,000	5,000,000	2,700,000	25,652,000
Public Sector Reform TA Support	Asian Development Bank	900,000	0	600,000	500,000	300,000	1,400,000
EU TCF	European Union	80,000	96,702	0	0	0	0
General Budget Support	European Union	1,600,000	1,600,000	0	2,400,000	1,600,000	4,000,000
India Grant Fund	India	150,000	150,000	150,000	150,000	150,000	450,000

Agency	Development Partner	Budget 2013/14	Spend 2013/14	Budget 2014/15	Budget 2015/16	Budget 2016/17	Total (3yr Forecast)
Automated Border Management System	New Zealand	135,000	0	135,000	135,000	0	270,000
Aid Effectiveness	New Zealand	62,000	150,000	150,000	150,000	150,000	450,000
Te Mato Vai	New Zealand	7,500,000	1,063,000	4,118,000	7,343,000	2,895,000	14,356,000
TRAC Funds	UNDP	242,000	0	242,000	0	0	242,000
Pearl Industry Revitalisation	New Zealand	2,237,000	970,000	870,000	0	0	870,000
NIE Accreditation Process	European Union	0	43,000	49,000	100,000	0	149,000
NIE Accreditation Process (AMC, Anti-Corruption Committee)	UNEP	0	0	33,000	0	0	33,000
Strengthening Reproductive Health	UNFPA	345,000	97,925	194,000	76,000	0	270,000
Ministry of Foreign Affairs and Immigration		141,000	121,000	236,000	0	0	236,000
Korea Cars	Korea	121,000	121,000	0	0	0	0
Korea Cultural Grant	Korea	0	0	236,000	0	0	236,000
PRC Grant	China						0
		20,000					
Ministry of Health		1,211,200	786,035	1,027,200	858,400	847,400	2,733,000
Strengthening the management, prevention of TB in CK	Global Fund	78,000	18,760	32,000	40,000	40,000	112,000
Management and Prevention of HIV	Global Fund	96,000	0	0	0	0	0
HIV-New Funding Model	Global Fund	0	20,349	61,000	40,000	40,000	141,000
Health Specialist Visits Programme	New Zealand	500,000	390,000	562,000	500,000	500,000	1,562,000
SPC Small Grants	SPC	20,000	0	20,000	20,000	20,000	60,000
Human Resources Development (Fellowships)	WHO	271,200	135,600	148,000	176,700	176,700	501,400
Technical Cooperation Programme	WHO	246,000	199,570	163,000	70,700	70,700	304,400
Strengthening Reproductive Health	WHO	0	15,000	0	0	0	0
Trauma Training	Australia	0	6,756	11,200	11,000	0	22,200
Nursing School Training and Development	Marama Global	0	0	30,000	0	0	30,000
Ministry of Internal Affairs		1,291,530	1,099,494	1,397,950	672,050	0	2,070,000
Social welfare review, protection of the vulnerable	Asian Development Bank	390,000	612,624	100,000	0	0	100,000
Disability Inclusive Development	Australia	136,530	90	137,950	112,050	0	250,000
Social Impact Fund (NGO and community initiatives scheme)	New Zealand	765,000	449,000	1,160,000	560,000	0	1,720,000
12th Triennial Conf of Pacific Women	Australia	0	37,780	0	0	0	0
Infrastructure Cook Islands		6,042,000	1,890,924	2,409,000	2,025,000	3,175,000	7,609,000
Mangaia Harbour Climate Adaptation	Australia	610,000	714,273	0	0	0	0

Agency	Development Partner	Budget 2013/14	Spend 2013/14	Budget 2014/15	Budget 2015/16	Budget 2016/17	Total (3yr Forecast)
Pacific Adaptation to CC (PACC+) Cook Is	Global Environment Facility	737,000	151,339	0	0	0	0
Mauke and Mitiaro Harbours	New Zealand	260,000	6,480	234,000	0	0	234,000
Northern Water Improvement program - Household supply	New Zealand	630,000	203,671	0	0	0	0
Waste Management and Sanitation improvement program (WMI)	New Zealand	2,955,000	750,000	2,175,000	2,025,000	3,175,000	7,375,000
Integrated Water Resources Management (IWRM)	SOPAC	200,000	65,161	0	0	0	0
Northern water community water tank, carry forward from 2011	New Zealand	650,000	0	0	0	0	0
Ministry of Marine Resources		362,000	0	985,000	940,000	0	1,925,000
Pago Pago MCS Operations	Forum Fisheries Agency	0	0	50,000	50,000	0	100,000
Pago Pago MCS Operations	WPFC	0	0	70,000	70,000	0	140,000
Fisheries Project Development Fund	Forum Fisheries Agency	362,000	0	180,000	180,000	0	360,000
Fisheries Policy Support	European Union	0	0	640,000	640,000	0	1,280,000
IT Upgrade	Japan Trust Fund	0	0	45,000	0	0	45,000
National Environment Services		614,000	230,790	839,700	2,711,600	2,572,000	6,123,300
Prevention, control and management of invasive alien species	Global Environment Facility	162,000	98,850	151,800	85,600	72,000	309,400
GEF Small Grants Programme	Global Environment Facility	0	0	300,000	300,000	300,000	900,000
Conservation Management of Island Biodiversity	Global Environment Facility	225,000	110,104	142,300	126,000	0	268,300
UNCCD Data Reporting Project	Global Environment Facility	57,000	0	60,000	0	0	60,000
Ridge to Reef	Global Environment Facility	100,000	0	100,000	2,200,000	2,200,000	4,500,000
Monitoring of Ozone Depletion Substance	Multilateral Fund	70,000	18,760	85,600	0	0	85,600
State of Environment Report	UNEP	0	3,076	0	0	0	0
Office of the Prime Minister		13,790,347	16,391,693	17,369,000	7,917,000	6,465,000	31,751,000
National Disaster Trust Fund	New Zealand	0	0	329,000	0	0	329,000
Renewable Energy Grant (Southern Group)	European Union	0	0	0	2,890,000	5,680,000	8,570,000
Renewable Energy TA (Feasibility)	Asian Development	570,000	596,500	0	0	0	0

Agency	Development Partner	Budget 2013/14	Spend 2013/14	Budget 2014/15	Budget 2015/16	Budget 2016/17	Total (3yr Forecast)
Pacific Adaptation Strategy Assistance Program (PASAP)	Bank Australia	0	193,694	0	0	0	0
SPC EU GCCA PSIS Projects	European Union	465,000	374,008	356,000	0	0	356,000
National Adaptation to CC (3rd Nat Com and 3-4 Nat Rept)	Global Environment	60,000	0	200,000	200,000	200,000	600,000
Renewable Energy program support	Facility New Zealand	6,280,000	13,797,902	10,800,000	0	0	10,800,000
PV Mini grids	Japan (PEC)	3,390,000	49,348	1,000,000	3,572,000	0	4,572,000
Energy Transformation (Palmerston)	SIDS-DOCK	2,330,000	0	708,000	0	0	708,000
Power sector study, EIA, verifications (PIGGAREP)	SPREP	77,000	0	127,000	0	0	127,000
Strengthening Resilience of Island Communities - Current				100,000	100,000	100,000	300,000
Strengthening Resilience of Island Communities	UN Adaptation Fund		763,000	2,913,000	945,000	275,000	4,133,000
Atiu Generator Renewable Energy	New Zealand	209,000	0	0	0	0	0
Rarotonga Land Use	SPC	0	0	0	0	0	0
Cook Islands Water Shortage Response	New Zealand	0	110,000	115,000	0	0	115,000
Northern Water Project Phase 2	EU-German	0	0	210,000	210,000	210,000	630,000
Promoting Energy Efficiency in the Pacific	Development Cooperation Asian Development Bank	409,347	507,241	511,000	0	0	511,000
CI Police Services		720,000	120,000	6,826,000	53,600	0	6,879,600
Partnership for Pacific Policing	New Zealand	600,000	0	66,000	53,600	0	119,600
Te Kukupa TA, operations	Australia Defence Force	120,000	120,000	6,760,000	0	0	6,760,000
Office of the Public Service Commissioner		1,000,000	844,580	1,261,000	0	0	1,261,000
CI Technical Assistance Facility	New Zealand	1,000,000	844,580	1,261,000	0	0	1,261,000
Seabed Minerals Authority		95,000	50,626	131,000	113,000	40,000	284,000
Minerals and Natural Resources TA	Commonwealth Secretariat	95,000	30,689	83,000	73,000	0	156,000
Deep Sea Minerals Project	SPC	0	3,610	48,000	40,000	40,000	128,000
Training	New Zealand	0	8,000	0	0	0	0
Technical Assistance	Underwater Mining Institute	0	8,327	0	0	0	0
Total		45,654,577	33,210,045	63,693,150	34,679,150	24,414,400	122,786,700

Financial Statements
As at 30 June 2015

The forecasted financial estimates of the Crown are set out on the following pages.

- (1) **Statement of Financial Performance**
- (2) **Statement of Financial Position**
- (3) **Statement of Cashflows**
- (4) **Statement of Borrowings**
- (5) **Summary of Revenue Levied on Behalf of the Crown**
- (6) **Statement of Financial Risks**

Schedule 11

Statement of Financial Performance (\$000)
For the years ending 30 June 2015

	Budget 2013-14	Budget 2014-15	Projected 2015-16	Projected 2016-17	Projected 2017-18
Revenue					
Taxation revenues	99,653	103,095	104,815	103,225	105,104
<u>Other revenue</u>					
Revenue on behalf of the Crown	9,092	9,943	8,568	8,578	8,578
Sale of goods and services	5,452	5,518	5,518	5,518	5,518
Interest	2,147	2,532	2,551	2,569	2,543
Dividends	2,561	2,115	2,096	2,096	2,096
Total Revenue	118,905	123,203	123,548	121,986	123,839
Expenditure					
Appropriations to agencies	63,591	65,002	65,147	65,144	65,161
Payments on behalf of Crown	43,229	45,456	45,943	45,429	44,667
Debt-servicing interest	1,429	2,137	2,048	1,986	1,848
Building maintenance	1,800	1,800	1,800	1,800	1,800
Infrastructure depreciation	5,070	6,020	6,020	8,020	8,020
Other expenditure	3,739	2,779	2,680	2,679	2,678
Total Expenditure	118,858	123,194	123,638	125,058	124,174
NET OPERATING SURPLUS / (DEFICIT)	47	9	-90	-3,072	-335

Schedule 12

Statement of Financial Position (\$000)
As at 30 June 2015

	Budget 2013-14	Budget 2014-15	Projected 2015-16	Projected 2016-17	Projected 2017-18
Assets					
Cash and equivalents	55,136	38,279	20,755	13,779	16,825
Loan reserves	16,211	16,090	15,896	15,135	12,737
Trust accounts	6,235	6,751	7,275	7,791	8,316
Inventory	4,395	4,395	4,395	4,395	4,395
Tax receivables	16,944	16,713	16,480	15,986	15,766
Debtors and other receivables	10,699	10,699	10,699	10,699	10,699
Advances to SOEs	26,206	24,826	23,358	21,623	19,685
Investment in SOEs	146,733	146,733	146,733	146,733	146,733
Plant, property, and equipment	247,943	335,604	397,329	424,714	445,925
Total Assets	530,501	600,089	642,919	660,854	681,081
Liabilities					
Creditors and other payables	10,412	9,907	9,393	9,393	9,393
Trust liabilities	8,510	9,015	9,529	9,529	9,529
Borrowings	100,112	97,108	101,484	98,077	94,225
Total Liabilities	119,034	116,030	120,406	116,999	113,147
Net Crown Balance	411,467	484,059	522,513	543,855	567,934

Schedule 13

**Statement of Cashflows (\$000)
For the years ending 30 June 2015**

	Budget 2014-15	Projected 2015-16	Projected 2016-17	Projected 2017-18
Cashflows from Operating Activities				
<u>Cash provided from:</u>				
Taxation and levies	103,095	104,815	103,225	105,104
Collection of tax arrears	231	233	494	220
Sale of goods and services	5,518	5,518	5,518	5,518
Interest	2,532	2,551	2,569	2,543
Dividends	2,115	2,096	2,096	2,096
Other income	9,943	8,568	8,578	8,578
	<u>123,434</u>	<u>123,781</u>	<u>122,480</u>	<u>124,059</u>
<u>Cash applied to:</u>				
Appropriations to agencies (less depn)	61,270	61,388	61,388	61,389
Payments on behalf of Crown	45,456	45,943	45,429	44,667
Debt-servicing interest	2,137	2,048	1,986	1,848
Building maintenance	1,800	1,800	1,800	1,800
Other expenditure	3,284	3,194	2,679	2,678
	<u>113,947</u>	<u>114,373</u>	<u>113,282</u>	<u>112,382</u>
Net Operating Activity Cashflows	9,487	9,408	9,198	11,677
Cashflows from Investing Activities				
<u>Cash provided from:</u>				
Subsidiary loan repayments	1,380	0	0	0
	<u>1,380</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Cash applied to:</u>				
Capital expenditure	33,720	36,826	14,747	3,825
Advances to Subsidiaries	0	0	0	0
	<u>33,720</u>	<u>36,826</u>	<u>14,747</u>	<u>3,825</u>
Net Investing Activity Cashflows	-32,340	-36,826	-14,747	-3,825
Cashflows from Financing Activities				
<u>Cash provided from:</u>				
Loans drawn down	9,679	14,515	3,245	0
Cash drawn from loan reserves	6,232	6,303	6,866	8,488
	<u>15,911</u>	<u>20,818</u>	<u>10,111</u>	<u>8,488</u>
<u>Cash applied to:</u>				
Loan repayments	3,288	4,291	4,917	6,678
Loan reserves	6,111	6,109	6,105	6,090
Other reserves	515	524	516	526
	<u>9,914</u>	<u>10,924</u>	<u>11,538</u>	<u>13,294</u>
Net Financing Activity Cashflows	5,997	9,894	-1,427	-4,806
Net cash movements	-16,857	-17,524	-6,976	3,046
Add: Opening Cash and Equivalents	55,136	38,279	20,755	13,779
Closing Cash and Equivalents	38,279	20,755	13,779	16,825

Schedule 14
Statement of Borrowings (\$000)
As at 30 June 2015

	Budget 2013-14	Budget 2014-15	Projected 2015-16	Projected 2016-17	Projected 2017-18
<i>Total Gross Borrowings</i>	<i>100,112</i>	<i>97,108</i>	<i>101,484</i>	<i>98,077</i>	<i>94,225</i>
Assets Held Against Borrowings:					
Advances to subsidiaries	26,206	24,826	23,358	21,623	19,685
Loan reserves	16,211	16,090	15,896	15,135	12,737
<i>Total Assets Held Against Borrowings</i>	<i>42,417</i>	<i>40,916</i>	<i>39,254</i>	<i>36,758</i>	<i>32,422</i>
<i>Net Borrowings of the Government</i>	<i>57,695</i>	<i>56,192</i>	<i>62,230</i>	<i>61,319</i>	<i>61,803</i>

Schedule 15

Revenue Levied on Behalf of the Crown (\$000)
For the years ending 30 June 2015

	Budget 2013-14	Budget 2014-15	Projected 2015-16	Projected 2016-17	Projected 2017-18
<u>Taxation</u>					
Income tax	27,734	20,664	21,321	20,665	21,063
Company tax	10,812	12,309	12,444	12,099	12,308
Import levies	13,207	12,419	12,639	13,069	13,369
Departure tax	8,205	7,731	7,953	8,172	8,393
VAT	39,095	49,972	50,458	49,220	49,971
Withholding tax	600	0	0	0	0
Other	0	0	0	0	0
Total Revenue Levied on Behalf of the Crown	99,653	103,095	104,815	103,225	105,104

Schedule 16

Statement of Fiscal Risks As at 30 June 2015

	(\$000)
Quantifiable Contingent Liabilities	
Guarantees and indemnities	500
Uncalled capital	1,403
Legal proceedings and disputes	1,332
Total Quantifiable Contingent Liabilities	3,235

Guarantees and indemnities relate to the following:

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

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

Legal proceedings and disputes relate to current cases against the Crown.

17 STATEMENT OF ACCOUNTING POLICIES

17.1 Basis of Preparation

Reporting Entity

These financial statements are for the Government of the Cook Islands. These consist of:

- Ministers of the Crown
- Ministries
- Island Administrations
- Offices of Parliament
- Public Enterprises and Other Authorities

A schedule of the entities included in these financial statements is detailed on page 23.

Statement of Compliance

These financial statements have been prepared in accordance with the Ministry of Finance and Economic Management Act 1995-96 and with the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB).

Measurement Base

The financial statements have been prepared on the going concern assumption and the accounting policies have been applied consistently throughout the period except where stated elsewhere in this Statement of Accounting Policies.

These financial statements have been prepared using the historical cost method to report results, cash flows and the financial position of the Crown. The financial statements have been prepared under the accrual basis of accounting and are presented in New Zealand dollars rounded to the nearest thousand dollars.

17.2 Significant Accounting Policies

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

Recent Standards

Of significant relevance to the Crown is the recent development of new standards at the IPSASB. These include:

Table 17.1 Recent Standards

	<u>STANDARDS</u>	<u>EFFECTIVE DATE</u>
A.	IPSAS 25 Employee Benefits	1/01/2011
B.	IPSAS 26 Impairment of Cash Generating Assets	1/04/2009
C.	IPSAS 27 Agriculture	1/04/2011
D.	IPSAS 28 Financial Instruments: Recognition and Measurement	1/01/2013
		1/01/2011
E.	IPSAS 29 Financial Instruments: Presentation	
F.	IPSAS 30 Financial Instruments: Disclosure	1/01/2013
G.	IPSAS 31 Intangible Assets	1/04/2011

These new standards have been issued but are not yet effective for the Crown. The Crown will have to consider these new standards in future years. Crown has not yet determined the effect of these new standards.

Basis of Consolidation

The Government Ministries, Public Enterprises and Other Authorities (including State Owned Enterprises (SOEs)) comprising the reporting entity are consolidated involving addition of like items of assets, liabilities, revenues and expenses on a line by line basis.

The effect of all material inter-entity transactions and balances are eliminated on consolidation.

Commitments and contingent liabilities of Public Enterprises and Other Authorities are reported in the Statements of Commitments and of Contingent Liabilities.

Associate

An associate is an entity over which the Crown has significant influence where the entity is neither a subsidiary nor an interest in a joint venture. Investment in an associate is recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit after the date of acquisition. When the Crown transacts with an associate, all surplus and deficits related to the Crown are eliminated. Distributions received from an associate reduce the carrying value of the investment in the Crown Financial Statements.

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.

Table 17.2 Recent Standards

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

Revenue Earned Through Operations

Revenue from sales of goods is recognised when the product is sold to the customer.

Fines

Fines are economic benefits or services potential received by the Crown from an individual or other entity, as determined by a court or other law enforcement body, as consequence of the individual or other entity breaching the requirements of laws and regulations.

Investment Income

Investment income is recognised in the period in which it is earned.

Gains

Realised gains arising from sale of assets or from the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

Dividends

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

Aid Revenue

Revenue is recognised when development partner funds are expensed on approved projects.

Expenses

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

Welfare Benefits

Welfare benefits are recognised in the period which the payment of these benefits relates to.

Grants and Subsidies

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

Losses

Realised losses arising from sales of assets or the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

Foreign Currencies

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

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

Aid Expenses

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

Depreciation

Each part of an item of plant, property, and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Depreciation of plant, property, and equipment is provided on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Office and computer equipment	3 – 4 years
Motor vehicles	5 years
Furniture and fittings	4 – 10 years
Buildings and improvements	10 years
Coastal protection	25 years
Power distribution network	20 years
Roading network	30 years
Water network	15 years
Airport runways	15 – 100 years
Harbour and ports structures	10 – 20 years
Waste management facilities	15 years

Non-Current Assets

Plant, Property, and Equipment

Plant, property and equipment are recorded at cost less accumulated depreciation.

The cost of purchased plant, property, and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Crown includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Disposals

When an item of plant, property and equipment is disposed, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Additions

The cost of an item of plant, property and equipment is recognised as an asset if, and only if, there will be future economic benefits evident and where these benefits will flow to the Crown and the cost of the item can be measured reliably.

Work in Progress

Work in Progress is recognised as cost less impairment and is not depreciated.

Infrastructure Assets

Infrastructure assets are recorded at cost less accumulated depreciation.

The cost of purchased infrastructure assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Crown includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

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

When an infrastructure asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Work in Progress is recognised as cost less impairment and is not depreciated.

Intangible Assets

Intangible assets are software acquisition costs.

Intangible assets are recorded at cost less accumulated amortisation.

The cost of purchased intangible assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Intangible assets might include: databases, software purchased, or software developed.

Intangible Assets (continued)

When an intangible asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Amortisation of intangible assets is on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Software, databases: 3 - 5 years

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

Receivables and Advances including Debtors and Other Receivables

Receivables and advances are recorded at cost.

After initial recognition, loans and receivables are measured at amortised cost less any provision for impairment. Gains and losses when assets are impaired or derecognised are recognised in the statement of financial performance.

Inventories

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis is measured at cost. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value.

Investments

Investments in associate are accounted in the consolidated financial statements using the equity method. That is, investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit of the associate after the day of acquisition.

Banking portfolio investments

Loans are valued at net realisable value after provisions. Applicable security is obtained depending on the size and nature of loans. Non-performing loans are reviewed monthly on a case by case basis.

Provision for doubtful debts

Provision is made for taxation debt where recovery is considered doubtful. There is no general provision against taxation debt.

Provision is made for banking portfolio Investments (specific loans) where recovery is considered doubtful or they have become non-performing. There is no general provision against banking portfolio Investments.

Provision for doubtful debts (continued)

All bad debts are written off against specific provisions in the period in which they become classified as irrecoverable.

Aid Assets

Development partner funds are deposited into bank accounts until expensed on approved assets.

Liabilities

Borrowings

Borrowing liabilities are accounted for at amortised cost. Any changes are recognised in the Statement of Financial Performance.

Pension Liabilities

Pension liabilities, in respect of the contributory service of current and past Members of Parliament, are recorded at the latest (30 June 1997) actuarial value of the Crown's liability for pension payments. There are no pension liabilities accruing to the Crown as a result of Government employees' membership of the Government Superannuation Fund (New Zealand).

Employee Entitlements

These include salaries and wages accrued up to balance date, annual level earned but not yet taken at balance date. A long service bonus is paid out on the completion of 3 years continuous service within the Government. The bonus is equivalent to a fortnight pay of the employee.

Other Liabilities

All other liabilities are recorded at the estimated obligation to pay. No liability for ongoing welfare payments has been recognised because no legal entitlement is considered to exist beyond the end of the current financial year until a new Appropriation Act is passed.

Aid Liabilities

Funds received from various development partners are treated as liabilities until expensed on approved projects at which stage the funding is included within the Statement of Financial Performance as revenue.

Cash Flow

A cash flow statement identifies the sources of cash inflow, the items on which cash was utilised and the cash balance at the reporting date for Crown. Included in the cash flow statements are financing activities which are activities that result in the change of size and composition of the contributed capital and borrowings of the Crown. Investing activities are the acquisition and disposal of long term assets and other investments and operating activities identifies how much the Crown received from its actual operations.

Cash flow information allows users to ascertain how the Crown raised the cash it required to fund its activities and the manner in which that cash was utilised.

Leases

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incidental on the ownership of a leased asset. The obligations under such leases are capitalised at the present value of minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

Operating leases, where the lessors substantially retain the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease.

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

Commitments

The Statement of Commitments discloses those operating and capital commitments arising from non-cancellable contractual or statutory obligations. Interest commitments on debts and commitments relating to employment contracts are not included.

Contingent Liabilities

Contingent liabilities are recorded when a possible obligation has arisen from an event in the past and which the existence will only be confirmed through the occurrence or non-occurrence of future events. Such liabilities will be disclosed if they are deemed to materially affect the reading of the presented financial statements.

17.3 Changes In Accounting Policies

Plant, Property, and Equipment

For the financial year beginning 1 July 2007, the Crown has voluntarily changed the accounting policy surrounding the carrying value of plant, property, and equipment (PPE). The new policy records all PPE as cost less accumulated depreciation/amortisation and impairment whereas the previous policy required certain SOE assets to be carried at revalued amounts.

IPSAS 3 – Accounting Policies, Changes in Estimates, and Errors provides that for a change in accounting policy, retrospective adjustments are to be done through one of two allowed approaches:

- benchmark approach in which the value of the adjustment is taken through opening retained earnings; or

- alternative approach in which the value of the adjustment is brought through the current year's profit.

IPSAS 3 allows for a prospective application using either of the approaches above in the event that it is impracticable or impossible to determine accurate values relating to adjustments required.

As the historical adjustments cannot be determined in any practicable and timely manner, and those values that are available to the Crown are incomplete and unverifiable, including them into the financial statements would not be beneficial and would not provide more reliable information to be presented. As such, the Crown has adopted the prospective application to this change in policy. Therefore, the effect of this change in policy will be reflected from this accounting period going forward.

IPSAS 17 allows a choice of accounting model for an entire class of property, plant and equipment. The Crown has changed the accounting policy from the cost to revaluation model for the following classes of assets:

- Power network
- Harbors and ports
- Airports

These assets are now carried at revalued amounts which are the fair value at revaluation date less subsequent depreciation and impairment losses.