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**COOK ISLANDS GOVERNMENT  
BUDGET ESTIMATES**

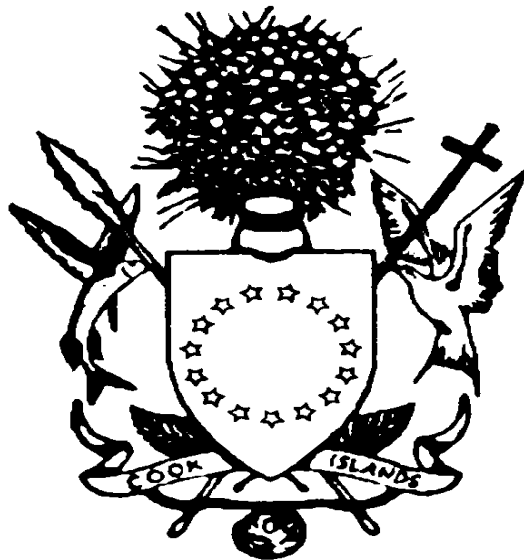
**2013/14**

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**Book 1**

**Appropriation Bill**

**Appropriations and Commentary**



**Hon. Mark Brown  
Minister of Finance  
June 2013**



**GOVERNMENT OF THE COOK ISLANDS**

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5 June 2013

**STATEMENT OF RESPONSIBILITY**

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the Budget Appropriation 2013/14.

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 2013/14 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', followed by a period.

Honourable Mark Brown

**Minister of Finance**



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

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5 June 2013

## **STATEMENT OF RESPONSIBILITY**

The 2013/14 Budget Appropriation Estimates have been produced in accordance with the *Ministry of Finance and Economic Management Act 1995/96* (the Act).

The 2013/14 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', written over a horizontal line.

Richard Neves

**Financial Secretary**

## Appropriation



# 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 2013.

**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<sup>th</sup> June 2014.

**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 2013/14 appropriation to actual expenditure incurred in the period 1 July 2013 to 30 June 2014.

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 2012/13 to actual expenditure incurred up to 30 June 2014.

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**Hon. Mark Brown**



## **Appropriation Bill 2013**

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#### **Summary**

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**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 2014 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—

- |          |   |
|----------|---|
| <b>1</b> | <b>Title</b>  |
|          | This Act is the Appropriation Act 2013.   |
| <b>2</b> | <b>Application</b>  |
|          | This Act applies to the year ending on the thirtieth day of June 2014 (“the year”). |

### **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 **\$196,534,398**
- (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 2014.
- (5) Payments that may be charged against any appropriation made by this Act after 30 June 2014 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 that liability in relation to that invoice had not been made by 30 June 2014.
- (6) The appropriations made in the Appropriation Act 2012 and the Appropriation Amendment Act 2012/13 will lapse on 30 June 2013.
- (7) Payments that may be charged after 30 June 2013 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 2013; or
  - (b) expenses incurred or payments due during the year ended 30 June 2013 for which a valid invoice was submitted before 30 June 2013, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2013.
- (8) Where in the period ended 30 June 2013, 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 2013, those appropriations will also lapse on 30 June 2013.
- (9) Payments that may be charged after 30 June 2013 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 2013; or

- (b) expenses incurred or payments due during the year ended 30 June 2013 for which a valid invoice was submitted before 30 June 2013, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2014.

**Schedule 1 (a)  
Ministry Appropriations**

Agency	Personnel	Operating	Depreciation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	POBOCS	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
Agriculture	822,654	87,643	5,035	915,331	140,535	774,796	0	0	915,331	774,796
Audit	894,440	104,180	26,678	1,025,298	178,700	846,598	138,100	0	1,163,398	984,698
Crown Law	493,054	146,100	5,983	645,137	0	645,137	30,000	0	675,137	675,137
Cultural Development	496,095	254,288	96,655	847,038	175,000	672,038	195,000	0	1,042,038	867,038
BTIB	414,486	266,574	21,661	702,721	102,250	600,471	0	0	702,721	600,471
Education	9,617,626	1,003,065	340,864	10,961,555	0	10,961,555	3,327,482	110,000	14,399,037	14,399,037
Environment	789,683	170,724	30,381	990,788	35,000	955,788	0	0	990,788	955,788
Finance and Economic Management	2,590,359	600,657	122,992	3,314,008	503,500	2,810,508	14,810,186	175,000	18,299,194	17,795,694
FSDA	235,200	178,906	7,788	421,894	0	421,894	0	0	421,894	421,894
Foreign Affairs	1,096,596	601,151	77,726	1,775,473	8,000	1,767,473	541,705	45,000	2,362,178	2,354,178
Head Of State	185,168	34,080	15,057	234,305	0	234,305	35,000	0	269,305	269,305
Health	8,207,307	1,756,330	811,764	10,775,401	400,000	10,375,401	1,555,870	425,000	12,756,271	12,356,271
Infrastructure and Planning	1,508,670	264,351	233,013	2,006,034	245,626	1,760,408	845,000	4,566,000	7,417,034	7,171,408
Internal Affairs	945,109	118,085	21,264	1,084,457	6,000	1,078,457	14,556,800	0	15,641,257	15,635,257
Justice	1,465,290	406,686	104,647	1,976,623	467,765	1,508,858	257,000	0	2,233,623	1,765,858
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	210,382	53,840	5,822	270,044	0	270,044	0	0	270,044	270,044
Parliamentary Services	472,676	83,611	24,579	580,866	8,419	572,447	2,489,445	0	3,070,311	3,061,892
Pearl Authority	208,493	236,688	21,230	466,411	0	466,411	0	0	466,411	466,411
Police	2,910,739	458,663	218,622	3,588,024	69,360	3,518,664	417,000	10,000	4,015,024	3,945,664
Prime Minister's Office	936,638	197,849	36,069	1,170,556	0	1,170,556	240,000	939,000	2,349,556	2,349,556
Public Service Commission	395,992	55,447	49,298	500,737	0	500,737	1,144,716	0	1,645,453	1,645,453
Tourism Corporation	1,426,893	2,708,553	16,000	4,151,446	0	4,151,446	2,000,000	0	6,151,446	6,151,446
Transport	489,465	138,964	39,047	667,476	36,000	631,476	56,000	0	723,476	687,476
CIIC				0		0	50,000	2,579,000	2,629,000	2,629,000
Seabed Mining Authority	0	0	0	0	0	0	340,000	0	340,000	340,000
<b>Total Agencies</b>	<b>37,908,846</b>	<b>10,229,559</b>	<b>2,389,493</b>	<b>50,527,897</b>	<b>2,391,155</b>	<b>48,136,742</b>	<b>43,229,304</b>	<b>8,849,000</b>	<b>102,606,201</b>	<b>100,215,046</b>
CFC- Administered by MFEM	0	0	45,000	45,000	0	45,000	0	200,000	245,000	245,000
Outer Islands (Refer Schedule 1(b))	<b>6,059,782</b>	<b>3,857,305</b>	<b>1,393,237</b>	<b>11,310,325</b>	<b>3,061,097</b>	<b>8,249,228</b>	<b>0</b>	<b>322,000</b>	<b>11,632,325</b>	<b>8,571,228</b>



Agency	Personnel	Operating	Depreciation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	POBOCS	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
<b>Ministerial Support</b>										
Prime Minister	303,509	110,773	11,100	425,382	0	425,382	0	0	425,382	425,382
Deputy Prime Minister	132,000	85,372	5,628	223,000	0	223,000	0	0	223,000	223,000
Minister Mark Brown	187,455	81,613	6,802	275,870	0	275,870	0	0	275,870	275,870
Minister Teariki Heather	124,907	56,931	11,162	193,000	0	193,000	0	0	193,000	193,000
Minister Nandi Glassie	102,585	78,415	12,000	193,000	0	193,000	0	0	193,000	193,000
Minister Teina Bishop	69,500	118,000	5,500	193,000	0	193,000	0	0	193,000	193,000
Leader Of Opposition	150,000	48,200	6,800	205,000	0	205,000	0	0	205,000	205,000
Total	<b>1,069,956</b>	<b>579,305</b>	<b>58,992</b>	<b>1,708,252</b>	<b>0</b>	<b>1,708,252</b>	<b>0</b>	<b>0</b>	<b>1,708,252</b>	<b>1,708,252</b>
<b>Gross Total</b>	<b>45,038,583</b>	<b>14,666,169</b>	<b>3,886,722</b>	<b>63,591,474</b>	<b>5,452,252</b>	<b>58,139,222</b>	<b>43,229,304</b>	<b>9,371,000</b>	<b>116,191,778</b>	<b>110,739,526</b>

**Schedule 1 (b)**  
**Outer Island Appropriations**

<b>Outer Islands</b>	<b>Personnel</b>	<b>Operating</b>	<b>Depreciation</b>	<b>Gross Operating Appropriation</b>	<b>Trading Revenue</b>	<b>Net Operating Appropriation</b>	<b>POBOCs</b>	<b>Capital Expenditure</b>	<b>Total Gross Appropriation</b>	<b>Total Net Appropriation</b>
Aitutaki	1,025,156	390,204	157,848	1,573,208	48,250	1,524,958	0	228,000	1,801,208	1,752,958
Autitaki Power Supply	265,170	1,597,374	348,789	2,211,333	1,900,943	310,390	0	0	2,211,333	310,390
Atiu	655,361	394,881	138,561	1,188,803	224,318	964,485	0	12,000	1,200,803	976,485
Mangaia	774,614	533,655	204,700	1,512,969	301,000	1,211,969	0	12,000	1,524,969	1,223,969
Manihiki	601,488	171,863	92,199	865,550	136,300	729,250	0	10,000	875,550	739,250
Mauke	616,392	204,110	80,877	901,378	113,853	787,525	0	10,000	911,378	797,525
Mitiaro	463,392	64,937	55,200	583,529	58,899	524,630	0	8,000	591,529	532,630
Palmerston	243,218	63,801	42,000	349,019	20,599	328,420	0	10,000	359,019	338,420
Penrhyn	342,480	199,639	52,407	594,526	83,904	510,622	0	12,000	606,526	522,622
Pukapuka-Nassau	700,426	146,126	140,552	987,105	73,695	913,410	0	12,000	999,105	925,410
Rakahanga	372,084	90,716	52,605	515,405	99,336	416,069	0	8,000	523,405	424,069
Outer Islands Capital Fund- MFEM	0	0	27,500	27,500	0	27,500	0	0	27,500	27,500
<b>Gross Total</b>	<b>6,059,782</b>	<b>3,857,305</b>	<b>1,393,237</b>	<b>11,310,325</b>	<b>3,061,097</b>	<b>8,249,228</b>	<b>0</b>	<b>322,000</b>	<b>11,632,325</b>	<b>8,571,228</b>

**Schedule 2**  
**Benefits and Other Unrequited Expenses**

Category of Benefit	Supplementary Estimates	Budget Estimate	Variance
	2012/13	2013/14	
Welfare Payments	13,095,800	13,583,800	488,000
Parliamentary Superannuation	180,000	180,000	0
<b>Total Benefits and Other Unrequited Expenses</b>	<b>13,275,800</b>	<b>13,763,800</b>	<b>488,000</b>

**Schedule 3**  
**Borrowing Expenses and Debt Repayment**

	Supplementary Estimates	Budget Estimate	Variance
	2012/13	2013/14	
Gross Debt Servicing (see Schedule 10)	4,784,433	5,710,000	925,567
<b>Total Borrowing Expenses and Debt Repayment</b>	<b>4,784,433</b>	<b>5,710,000</b>	<b>925,567</b>

**Schedule 4**  
**Other Expenses**

Category of Expense	Supplementary Estimates	Budget Estimates	Variance
	2012/13	2013/14	
Airport Authority	1,704,000	2,047,997	343,997
Airport Authority - Capital	343,997	0	(343,997)
Airport Authority - Outer Island Airport Upgrades - Feasibility Study	206,000	0	(206,000)
Airport Authority - Upgrade Government VIP Lounge	330,000	0	(330,000)
Bank of the Cook Islands	181,000	181,000	0
Ports Authority - Infrastructure	200,000	0	(200,000)
Te Aponga Uira	350,000	350,000	0
Te Aponga Uira - Capital	800,000	0	(800,000)
Asset Management	1,800,000	0	(1,800,000)
Contingency Funds - Capital Expenditure	50,000	50,000	0
Contingency Funds - Operating	184,300	100,000	(84,300)
Crown Infrastructure Depreciation	3,478,150	5,069,598	1,591,448
Expenditure of ADB Loan	7,550,000	0	(7,550,000)
Expenditure of Chinese Loans	8,848,519	6,946,000	(1,902,519)
Foreign Aid	48,465,680	59,363,162	10,897,482
ADB Share Capital	26,600	26,600	0
Transfer to Emergency Response Trust Fund	268,096	0	(268,096)
Transfer to Reserve Trust Fund	474,857	498,263	23,406
<b>Total Other Expenses</b>	<b>75,261,199</b>	<b>74,632,620</b>	<b>(628,579)</b>

**Summary**

Category of Payment	Supplementary Estimates	Budget Estimates	Variance
	2012/13	2013/14	
Schedule 1 - Ministry Outputs (Gross), POBOCs and Capital Expenditure	96,796,437	102,427,978	5,631,541
Schedule 2 - Benefits and Other Unrequited Expenses	13,275,800	13,763,800	488,000
Schedule 3 - Borrowing Expenses and Debt repayment	4,784,433	5,710,000	925,567
Schedule 4 - Other Expenses	75,261,199	74,632,620	(628,579)
<b>TOTAL APPROPRIATION</b>	<b>190,117,869</b>	<b>196,534,398</b>	<b>6,416,529</b>

### **3 GOVERNMENT FINANCIAL STATISTICS OPERATING STATEMENT**

The 2013/14 Budget is presented on the standards established by the International Monetary Fund's Government Financial Statistics Manual 2001.

The GFS framework is an internationally accepted methodology for compiling, monitoring and reporting on fiscal information and statistics across the world.

The GFS framework is based on a series of standard tables which meet the needs of a broad group of users including policy makers, researchers, and investors in sovereign debt.

Table 3.1 presents the GFS operating statement for the general government sector and the inflows and outflows between it and the non-financial corporation sector (State Owned Enterprises such as the Airport Authority and Te Aponga Uira) and the financial corporation sector (Bank of the Cook Islands).

The operating statement presented at Table 3.1 is broken up into several key components:

#### **Operating Transactions**

This represents the cost of the ongoing activities of Government. The net operating balance represents the difference between revenue and expense including all ODA (revenue and capital) whilst expenditure only shows the recurrent expenditure component of development partner activity. In this regard the net operating balance normally will show a high surplus as it omits transactions in non-financial assets (capital) which are captured elsewhere.

To understand the true cash position of the operating statement the impact of depreciation is removed. Whilst the amount is appropriated by the parliament it is not provided to agencies. This is shown as the Cash Surplus/Deficit from Operating Transactions.

#### **Cash Transactions in Non-Financial Assets**

This is the non-operating statement and outlines mostly the capital transactions outlined in Budget Book 3: Capital Plans – these include public works, purchase of plant and equipment, and investment in Information Communication Technology (ICT). To understand the actual cash figure which is required, depreciation is removed. This cost is what is known as net cash applied to the acquisition of fixed assets.

#### **Net Borrowing/lending Requirement**

This outlines whether there is sufficient cash from current revenue to cover the costs of the ongoing operations of government and capital.

The net borrowing requirement is the addition of the cash operating transactions and the cash transactions in non-financial assets, a positive number indicates a surplus which can be accumulated to Crown reserves, a deficit requires borrowings or depletion in Crown reserves.

The next part of the statement identifies how the net borrowing requirement will be financed, or in the case of a surplus, where it will go.

Cash applied to the net acquisition of financial assets outlines the movements in the Government's cash reserves: a negative indicates a decline in Crown reserves, a positive indicates an addition to Crown reserves.

Cash applied to the net incurrence of liabilities outlines borrowings being undertaken.

**Table 3.1 GFS Operating Statement of the Crown 2012/13 to 2015/16 (\$'000)**

Statement of Government Operations	2012/13 Supplementary Estimates	2013/14 Budget Estimates	2014/15 Forecasts	2015/16 Forecasts
<b>TRANSACTIONS AFFECTING NET WORTH</b>				
<b>REVENUE</b>	<b>158,558</b>	<b>178,268</b>	<b>156,914</b>	<b>145,187</b>
Taxes	98,523	105,223	106,942	108,620
Social contributions	75	75	75	75
Grants	47,498	59,364	35,784	22,350
<i>Current</i>	17,316	12,098	10,771	10,716
<i>Capital</i>	30,182	47,266	25,014	11,634
Other revenue	12,462	13,607	14,113	14,142
<b>EXPENSE</b>	<b>131,133</b>	<b>130,956</b>	<b>132,969</b>	<b>132,947</b>
Compensation of employees	46,674	49,173	49,062	48,983
Use of goods and services	43,532	37,393	36,398	36,403
Depreciation	6,963	8,899	10,900	10,900
Interest	993	1,429	1,520	1,520
Subsidies	16,227	16,086	15,026	15,026
Grants	0	0	0	0
Social benefits	14,066	14,544	14,838	14,847
Other expense	2,677	3,432	5,223	5,267
<b>NET OPERATING BALANCE</b>	<b>27,425</b>	<b>47,313</b>	<b>23,946</b>	<b>12,240</b>
<b>Plus NON CASH APPROPRIATIONS</b>				
Depreciation	6,963	8,899	10,900	10,900
<b>CASH SURPLUS/DEFICIT FROM OPERATING TRANSACTIONS</b>	<b>34,597</b>	<b>56,136</b>	<b>34,772</b>	<b>23,066</b>
<b>CASH TRANSACTIONS IN NONFINANCIAL ASSETS</b>				
Net Cash Applied to the Acquisition of Fixed Assets	42,463	45,807	51,178	51,232
Gross transactions in Non-Financial Assets	35,500	36,851	40,311	40,311
Less Non Cash Transactions in Non-Financial Assets (Depreciation)	(6,963)	(8,956)	(10,867)	(10,921)
<b>NET BORROWING/LENDING</b>	<b>(7,866)</b>	<b>10,329</b>	<b>(16,406)</b>	<b>(28,166)</b>
<b>CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>(3,921)</b>	<b>(227)</b>	<b>4,625</b>	<b>4,625</b>
Domestic Transactions	(3,948)	(166)	4,786	4,786
Foreign Transactions	27	(60)	(161)	(161)
<b>CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES</b>	<b>4,154</b>	<b>5,183</b>	<b>27,446</b>	<b>27,446</b>
Domestic Transactions	20	20	20	20
Foreign Transactions	4,134	5,163	27,426	27,426
<b>NET CASH FINANCING TRANSACTIONS</b>	<b>(8,075)</b>	<b>(5,410)</b>	<b>(22,821)</b>	<b>(22,821)</b>

## 4 FISCAL UPDATE

### 4.1 Overview

The Cook Islands fiscal strategy is established in a continued environment of uncertainty in the prospects for the global and regional economy. The Cook Islands has a small economic base which relies principally on tourism. Government continues to appropriate funding towards underwriting two long haul service routes between Rarotonga and Sydney, and Rarotonga and Los Angeles.

The 2013/14 Budget was developed with the aim of supporting growth in a tight fiscal environment, whilst seeking to prioritise and meet the policy intentions outlined in the 2013/14 Budget Policy Statement.

The Government has produced a small underlying net operating surplus of \$0.046 million for 2013/14 which is currently forecast to reduce to \$1.1 million underlying net operating deficit in 2014/15 and return back into surplus in 2015/16.

**Table 4.1 - Reporting of budget balance 2012/13 to 2015/16**

Statement of Government Operations	2012/13 Estimates \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000	2015/16 Projected \$'000
NET GFS Operating Balance	27,425	47,313	23,946	12,240
GFS Revenue	158,558	178,268	156,914	145,187
Remove ODA Revenue	47,498	59,364	35,784	22,350
CISNOC Reimbursement Olympic Cost	93			
<b>Underlying Revenue</b>	<b>111,153</b>	<b>118,905</b>	<b>121,130</b>	<b>122,837</b>
GFS Expenditure	131,133	130,956	132,969	132,947
Remove ODA Recurrent Expenditure	17,316	12,098	10,771	10,716
CISNOC Reimbursement Olympic Cost	(93)			
<b>Underlying Expenditure</b>	<b>113,724</b>	<b>118,858</b>	<b>122,198</b>	<b>122,231</b>
Underlying Budget Balance	(2,571)	46	(122,198)	(122,231)
Re-appropriated Capital Expenditure from Previous years	3,125	425	0	0
<b>FINAL UNDERLYING NET OPERATING BUDGET BALANCE</b>	<b>628</b>	<b>46</b>	<b>(1,068)</b>	<b>606</b>

Whilst revenues are predicted to grow, economic uncertainties remain, and a sudden decrease in tourist numbers will lead to a decline in economic activity and Crown revenue. A conservative approach has been taken in forecasting Crown revenue. Nevertheless, a decline in tourist numbers from New Zealand (and to a lesser extent Australia) could still adversely impact the Budget. An estimated impact of changes to tourism forecast numbers are provided at section 5.10 in the economic chapter.

Total operating revenue estimated for 2013/14 is \$118.9 million, \$7.6 million additional from the time of the Appropriation Amendment 2012/13. Total operating revenues are expected to grow by 6.9 per cent in 2013/14 from 2012/13.

Taxation is expected to grow by \$4.6 million in 2013/14 mainly as a result of a number of increases to some duties which will apply from 1 July 2013, and an increase in departure tax. These have been announced and have been incorporated into the forward estimates, and include:

- an increase in the departure tax from \$55 to \$65 from 1 July 2013, and two per cent every per annum to maintain the real value of the tax;
- a progressive increase on the import levies on tobacco products of 33 per cent per annum for three years. The levy will then be increased at 2 per cent per annum to maintain the real value;
- increasing all alcohol levies by two per cent per annum from 1 July 2013 to maintain their real value; and
- increasing the levies on sugared drinks by two per cent per annum from 1 July 2013 to maintain their real value.

Furthermore, Government has approved to cease the withholding tax on interest on savings and increasing the passenger concession from duties for people arriving in the Cook Islands which come at a cost to taxation revenue.

Increasing the passenger concession from \$250 per person to \$750 per person

Currently people arriving in the Cook Islands are provided with a \$250 passenger concession, and there is no limit to consolidating the duty free allowance with other travelers. The Government has approved increasing the amount to parity with New Zealand from 1 January 2014. The cost to revenue would be approximately \$0.075 million. Additionally, the ability to consolidate allowances would be removed to ensure parity with New Zealand.

Cessation of the Withholding Tax on Interest earned on Savings

The Government has previously stated that it will cease the tax after two years. The 2013/14 Budget incorporates the removal of the withholding tax on interest on savings; the tax will be rescinded on 1 January 2014 – the start of the new tax year. The estimated revenue loss is estimated to be \$0.6 million in 2013/14 increasing to \$1.2 million per annum thereafter. The tax will apply proportionally on interest which is earned prior to 1 January but paid after 1 January.

Major features of the budget include:

Total operating expenditures estimated for 2013/14 is \$118.8 million, \$5.1 million additional from the time of the Appropriation Amendment 2012/13. Total operating expenditures are expected to grow by 4.5 per cent in 2013/14 from 2012/13. Total (POBOCs) have increased by \$0.847 million to a total of \$43.2 million. This is predominantly due to:

- establishment of a Waste Management POBOC at \$0.5 million;
- increasing welfare payments by \$0.5 million to accommodate the increase rate of payment for eligible Cook Islanders aged 70 years and over;
- centralisation of audit fees to the Audit office to ease administration costs;
- \$0.3 million towards hosting Regional engagements to support the Cook Islands position in the Pacific and local promotion; and
- the establishment of a nursing school and a non-communicable fund of \$0.3 million towards improving our health care.

These increases have been offset by;

- parameter adjustments, namely a reduction in the anticipated number of welfare beneficiaries;
- a reduction to the Te Maeva Nui Constitution Celebrations; and
- a reduction in the Air New Zealand underwrite to \$12.6 million per annum.
- The underlying operating surplus of \$0.046 million demonstrates a fiscally responsible budget as per the MFEM Act.

Total capital expenditure funded by the Cook Islands Government and various other sources such as lending, State Owned Enterprises (SOEs), Official Development Assistance (ODA) and Crown reserves at a sum of \$60 million in 2013/14 as published in the Capital Plan. This represents a significant increase of \$20 million from the time of the Budget 2012/13. Capital upgrades are expected to continue to represent the majority of capital investment as a range of existing infrastructure assets are near or at the end of their useful life. Progress has been made towards upgrading individual sanitation systems in the Muri pilot zone and preparing major works in key sectors of water, sanitation (Rarotonga and Aitutaki), transport and energy.

## **4.2 Budget Policy Statement**

The Budget Policy Statement 2013/14 (BPS) was published in December 2012 and has formed the basis for the decisions which are incorporated into the Budget Estimates 2013/14.

BPS 2013/14 was drafted with the initial anticipation of a net operating deficit of \$0.283 million for 2013/14. The forecasts for 2014/15 and 2015/16 were for the Budget to then move into an underlying net operating surplus.

BPS 2013/14 was also prepared in the context of a tight fiscal setting given prior commitments to invest significantly into the growing the tourism industry through airline underwrites and marketing funds, absorbing operating surpluses available for other priorities of the Government.

The Government has managed to undertake new investments whilst also realigning expenditures to meet some of the key intentions of the BPS 2013/14 with an operating balance and overall balanced budget.

Commencing with an underlying net operating deficit of \$0.283 million in 2013/14, the Government has balanced the budget in terms of fiscal responsibility; however given the tight fiscal environment the Budget 2013/14 supports the broad strategic priorities as outlined in BPS 2013/14.

These strategic priorities areas emphasise economic growth that will restore our public finances to a solid and sustainable basis and are reflective of the goals of the NSDP 2011-2015. These are as follows, to;

- put in place measures that will expand our economic base;
- continue our investments in infrastructure;
- progress our goal of energy security;
- strengthen the link between our social development and economic growth;
- ensure that our communities are resilient;
- foster environmental integrity;
- doing business differently in the public service; and
- grow the confidence of economic actors through ensuring law and order.



These priority areas emphasise the Government's approach of budgeting for results by linking strategic planning to the execution of the budget. This brief summary highlights some of the major new investments for 2013/14, by sector, against policies outlined in the BPS 2013/14, noting this statement is not meant to be comprehensive.

#### **4.2.1 Putting in place measures that will expand our economic base**

The Government's largest support to the economic sector in 2013/14 is the continued commitment to underwrite return flights direct from Sydney to Rarotonga and Los Angeles to Rarotonga. Funding is also made available through New Zealand assistance to support investment in the Destination Development Strategy at an estimated \$3 million over 2013/14 which consists of \$2 million in Destination Development which consists of key tourism development areas to enhance the visitor experience and the remaining \$1.0 million in sales and marketing. These resources will assist to improve the Cook Islands tourism product and underpin the sustainability of growth in visitor numbers under the Tourism Growth Strategy.

The Government has taken decisions to add further to the underlying revenue base, these include the new Maritime Cook Islands arrangements in 2013/14 which are based on turnover, increase in the US fisheries access payment, and increased catch turnover.

The Ministry of Marine Resources has forecast an additional \$1.7 million in fisheries catch revenue collected from operators who wish to purchase unutilized quota from within the total allowable catch (TAC). In support of maintaining our marine resources, further funding has been allocated to additional fisheries analysts to assist in managing catch and effort data; port sampling contractors to verify off-loadings onshore; and additional observer personnel for monitoring and surveillance operations.

Provision of \$0.075 million has been allocated to provide improved agricultural extension services through greater support field visits to farmers and revitalising the agricultural sector, promotion of the retirement scheme, and assisting small businesses to improve their accounting processes.

#### **4.2.2 Continuing our investments in infrastructure**

Government has committed to fund \$60 million in capital plans for Budget 2013/14 which is funded through depreciation, cash reserves, lending, State Owned Enterprise (SOE) and Official Development Assistance (ODA).

The main capital works in the Crown 2013/14 capital plan include:

- revised scoping and mobilisation of Master planners and a dedicated project management unit for Te Mato Vai potable water upgrade for Rarotonga;
- revised sanitation programme for Rarotonga, Aitutaki and the Pa Enea with a particular focus on upgrading on-site treatment and disposal upgrades;
- progress scoping and planning investments needed to transition Cook Islands electricity systems to renewable sources;
- upgrades to school and hospital buildings and equipment;
- revised delivery dates for standardised heavy machinery for Pa Enea; and
- progress planning and tendering upgrades to marine and air transport infrastructure.

Total spending on capital and development from all sources in 2012/13 is estimated to be \$22.8 million. Spending will be lower than anticipated in the 2012/13 budget by \$18 million mainly as a result of timing issues, these include:

- Capital works (-\$7.3 million) initially programmed for 2012/13 which for various reasons have been moved into 2013/14 onwards; these include projects associated with the climate adaptation fund (\$1.5 million) and some renewable energy programmes, which have been planned for delivery over the next three years.
- Grants (-\$3 million) The following projects have all been reprogrammed over the 2013 to 2016 period, many of which are delivered in partnership with development partners. The purchase of pearl equipment \$1 million, sanitation upgrades \$0.5 million in Aitutaki, Pa Enea water tanks 0.5 million, 0.7 million Rarotonga water tanks.
- Plant and equipment (-\$6.3 million), this is predominantly driven by \$6 million of Chinese funded equipment which expected to be delivered by December 2013 and the Atiu power grid upgrade which is under review.
- ICT (-\$0.7 million). Meteorological office weather observing management system (\$0.23 million) and the CIIC asset management database have been delayed to 2013/14.
- Lastly, recurrent expenses (\$0.3 million) will be lower than anticipated due to lower maintenance spending on the Rarotonga water network.

The 2013/14 capital involves a number of partnerships led by the Cook Islands Government. These include:

- the Te Mato Vai partnership with New Zealand and the Peoples' Republic of China;
- the sanitation improvement programme funded by New Zealand, Australia and the European Union;
- water improvements and small grants for the Pa Enea, funded by the UN Adaptation Programme;
- the Asian Development Bank project lending for Project City (Avarua road and water improvements), and water tanks for Rarotonga;
- the Peoples' Republic of China grants for equipment, machinery and airport development; and
- the Pacific Adaptation to Climate Change (PACC) assistance to complete Mangaia harbor; and

### **4.2.3 Progressing our goals of energy security**

In regards to energy, existing funding continues to support the focus on strengthening the institutional arrangements for renewable energy, including better coordination of the sector to implement the Government's commitment of 50 per cent of its islands electricity needs to renewable energy by 2015 and 100 per cent by 2020.

Funding has been channeled through the Pa Enea Renewable Energy Project-Land Acquisition Renewable Energy, specifically covering:

- legal fees, land compensation and the associated costs for acquiring land for solar farms and power stations in the Pa Enea;
- ongoing coordination and monitoring of RE projects in the Pa Enea; and
- travel costs and project/technical expertise for the Renewable Energy Division (RED-OPM)

This funding is split over two years; 2013/14 will address land requirements on Pukapuka, Nassau, Manihiki, Rakahanga and Mitiaro, and 2014/15 on Penrhyn, Palmerston, Mangaia, Mauke, Atiu and Aitutaki.

Technical assistance has been sought to complete a project preparatory phase enabling a lending programme through the Asian Development Bank (ADB) with the following outputs:

- Implementation of a six megawatt solar power capacity facility in the project area;
- operation and maintenance knowledge transfer programs; and
- efficient project management services.

The impact of the project will be a reduction of the Cook Islands' dependence on imported diesel for power generation. The outcome will be that customers within the project area have access to a higher share of electricity generated by solar power.

#### **4.2.4 Strengthening the link between our social development and economic growth**

Education is the key to our future prosperity, and Budget 2013/14 has allocated \$1.3 million per annum towards increasing teachers' salaries for both public and nonpublic schools. The Ministry currently employs 311 teaching staff (principals, teachers and teacher aides) making up the majority of the 405 employees. In conjunction with NZ Aid, a further \$0.050 million has been allocated towards the implementation of the Tertiary Education Strategy in a manner consistent with the goals of the Education Masters Plan; the program aims to provide youth training and incentives for employers to encourage youth to stay in the Cook Islands and contribute to the economic development of the country.

Government is committed to improving our health outcomes with the inclusion of an additional \$1 million for the Ministry of Health as outline below:

- Establishment of the Cook Islands Nursing School will address the grave concerns of a growing nursing shortage in both the short and long term. Registered nurses at the front line of health services of the Rarotonga Hospital have reduced significantly in the past four years.
- Establishment of a Non Communicable Disease Fund for health promotion activities (tobacco, alcohol, nutrition, physical activity) to encourage people living in the Cook Islands to make healthy lifestyle choices.
- New funding has been allocated towards increasing salaries for Health Practitioners and also for meeting the high cost of Patient Referrals, particularly chartered flights from the Pa Enua to Rarotonga. Provision has also been made for increased funding towards the purchase of essential medicine to be available for distribution to the public.

The welfare POBOC supports and protects the most vulnerable members of our society through the provision of welfare benefits paid by the Government. Government in its manifesto indicated its desire to double the fortnightly pension for those aged 70 years and over. The planned pension increase will not only help those that are eligible to receive it but also the young families who are responsible for caring for their elderly parents. The rate of payment for eligible Cook Islanders aged 70 and over will increase by \$50 per month to \$500 per month from 1 July 2012. On average, it is estimated that there will be approximately 690 eligible beneficiaries aged 70 and over in 2013/14.

Government is passionate about supporting sporting initiatives in the community through the provision of funding towards CISNOC operations for sports policy implementation.

#### **4.2.5 Ensure that our communities are resilient**

Climate change programmes will continue to be managed and coordinated by the Climate Change Cook Islands Division of the Office of the Prime Minister, in collaboration with key stakeholders in the Cook Islands. The goals include:

- improving the conservation and management of biodiversity, to increase resilience to the impacts of climate change;
- strengthening and building resilience in the fisheries sector, ensuring a higher resilience to the impacts of climate and over fishing; and
- promoting agricultural livelihood, resilience, and food security, and resilience to the impacts of climate change.

“Strengthening the Resilience of our Islands and our Communities to Climate Change (SRIC)” is funded by the Adaptation Fund and the 3rd National Communication Report is funded by the Global Environment Facility. Commenced in 2012 water infrastructure in the Pa Enea forms a large part of the allocated infrastructure budget (\$1.6 million over the life of the project). Additionally there is \$0.04 million allocated to each Pa Enea in Small Grants which can be accessed via SRIC focal points on each island. This fund can be accessed for one or more projects prioritised in relation to building resilience to climate change and disaster risk reduction.

In addition, European Union is funding the Global Climate Change Alliance (GCCA) project to strengthen environmental monitoring and its relevance to the communities of low-lying atolls in the Cook Islands over two years. Capital items planned include a monitoring buoy for Manihiki (\$0.130 million) and upgrade of the National Laboratory (\$0.079 million).

Existing resources continue to support the Joint National Action Plan (JNAP) for disaster risk management and climate change adaptation as the roadmap for building a resilient Cook Islands. It provides a more coordinated approach to dealing with disaster risk reduction and climate change issues by all government departments.

#### **4.2.6 Foster environmental integrity**

Government has declared half of our exclusive economic zone as the Cook Islands Marine Park as a mechanism to enhance the sustainable management of our marine resources. In 2013/14, Government has furthered its commitment to bring to fruition the Cook Islands Marine Park (CIMP) and has appropriated \$0.040 million as a POBOC to be used to progress the operationalization of the Park. Oversight for this POBOC and activities associated with its use will fall under gamut of the Office of the Prime Minister.

Funding has been secured through the Secretariat of the Pacific Regional Environment Programme (SPREP), and the National Environment Service have agreed to a collaborative approach to model E-waste management in the Pacific region, and will together take the lead in addressing this issue.

The national waste and sanitation improvement programme is funded by a blend of finances under negotiation with partners European Union, European Investment Bank, New Zealand and Australia. The Cook Islands’ contribution includes in kind funding for WATSAN staff and MOIP office support, budget support allocated to the sector and contributions from home owners.

- \$0.650 million will be re-programmed into 2013/14 for Northern Group community water infrastructure;
- \$0.108 million has been allocated to waste management of the Cook Islands.

Upgrades of systems of other Southern Group and the Northern Group islands are planned to start in 2014-15 with \$0.3 million allocated in 2013/14 to scope and prepare for that programme. A critical resource limitation to resolve is increasing the number of drain layers registered with the Cook Islands Sewage and Sanitation Board (Chaired by the Ministry of Health).

#### **4.2.7 Doing business differently in the public service**

Investment in consolidating the Cook Islands international position has been supported through the provision of \$0.177 million under the Ministry of Foreign Affairs and Immigration. With a further \$0.307 million allocated towards regional engagements to support our place in the Pacific and local promotion of hosting conferences.

Improving compliance, service delivery, accountability and transparency is progressed through provision of funding towards Public Service Commission (OPSC) and the Ministry of Finance and Economic Management (MFEM). Resourcing has been increased within the OPSC and the Office of the Ombudsman to keep Government accountable. In particular to support performance management systems that provides clarity around performance expectations and timely, consistent, and constructive feedback and an ombudsman investigator to administer complaints around procurement, tax issues and so forth.

The development of cross cutting policies for the public service and machinery of government is expected to be done within existing resourcing. Cost effectiveness is also expected to come through eventual consolidation of administrative services for small government departments.

Government, through the 2013/14 Budget, has allocated further funding to support hosting dignitaries such as the New Zealand Governor General and the swearing in of the incoming Queens Representative. Government recognises the exceptional work the House of Ariki and Mayors in the Pa Enua and the budget includes an increase in salaries to commend their presence in the community. Increased support to the Speaker of the House, and a communications advisor to the Ministerial Support Offices, will help to improve communication with the public on national priorities.

#### **4.2.8 Growing the confidence of economic actors through ensuring law and order;**

Budget 2013/14 provides \$0.147 million towards the Ministry of Justice to digitise land records and establish a digital registry for the land register of Titles, land Trust Account and birth register. It is envisioned that the transformation of land records electronically will improve processes and record keeping at the ministry. In addition, funding has been appropriated to the Ministry of Justice and Crown Law to hold additional special court sittings to complete the outcome of Operation Eagle and fast track the completion of back log cases. There has been a significant increase in the provision of legal advice on commercial matters; to accommodate with the growing demands, the Crown Law Office has been allocated funding to recruit an in-house commercial lawyer as a cheaper alternative from seeking private legal advice.

Given the constrained fiscal environment, the Government has approved savings that are required to put the Budget into surplus. Firstly in terms of personnel, funds associated with any position which has been vacant for a period greater than six months be returned back to the Crown. There are seven positions that meet this criterion across a number of agencies, and this will return \$0.242 million in 2013/14. Further to that, a five per cent reduction in operating costs of agencies, excluding key service delivery agencies of Education, Health and Police will provide a further \$0.254 million in 2013/14. During the next financial year all departments will be requested to find savings through reductions in electricity

consumption, reduced entertainment allowances, and ensuring cheapest travel options are realised. Further appropriation budget reductions have been implemented in ministerial support offices to improve budget efficiencies across the public sector.

The Budget 2013/14, as per the MFEM Act requires that Government aligns new investment and expenditures in light of the key intentions of the Budget Policy Statement 2013/14. In reference to the summary of investments outlined above, the Government has managed to undertake these proposals, appropriate expenditures, and result with an underlying operating surplus of \$0.046 million for 2013/14.

## **5 ECONOMIC UPDATE**

### **5.1 Introduction**

The Cook Islands is a small open economy that is largely dependent on tourism. Consumer preferences and economic growth in our 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 our largest trading partner and source of tourism, but changes in the New Zealand dollar will also impact our domestic markets.

The Cook Islands economy is a small import-driven domestic market, which is extremely vulnerable to external price shocks – particularly in regards to fuel.

The global outlook appears to be stabilising, Europe however, continues to weigh on global growth prospects. The International Monetary Fund (IMF) projects global economic growth to be 3.3 per cent in 2013, with growth increasing to 4.0 per cent in 2014, due largely to recoveries in the US and Europe. The IMF forecasts China to grow by 8.0 per cent in 2013 and 8.2 per cent in 2014, which should favourably affect the continued growth in New Zealand and Australia.

The most recent official economic forecasts for 2013/14 for New Zealand and Australia are 2.5 per cent and 2¾ per cent respectively. Continued economic growth in these markets should have positive flow on effects for tourism arrivals. However, with unemployment at relatively low levels in New Zealand and Australia (6.2 per cent and 5.5 per cent respectively), it is likely that employment growth in these economies will continue to entice Cook Islanders to migrate.

The prospects for economic growth in the Cook Islands continue to be positive in the short term with good growth recorded in 2011/12 and estimated for 2012/13. There are likely to be increasing domestic employment opportunities, with these needing to be filled by migrant workers if the supply of domestic labour is unable to meet demand. Labour market constraints still present major limitations on economic growth.

Nominal Gross Domestic Product (GDP) is expected to grow by 4.6 per cent in 2013/14 due to a large one-off increase in donor funded capital projects and a recovery of tourist arrivals from weak performance in early 2013. Tourist arrivals have been revised down significantly from the forecasts at the 2013/14 Budget Policy Statement in December, but capacity constraints are assumed to become binding a year later than previously estimated. Nominal GDP growth falls to 1.6 per cent in 2014/15 and 0.9 per cent in 2015/16 due to a reduced aid profile in those years partially offsetting the slower growth predicted for tourist arrivals.

Inflation, as measured by the Cook Islands Consumer Price Index (CPI) is estimated to be 2.4 per cent in 2012/13. Inflation is forecast to adjust towards the long term trend over time, with CPI growth forecast to increase 2.7 per cent in 2013/14 and 3.1 per cent in 2014/15.

Real GDP (which accounts for inflation) is estimated to have grown by 3.2 per cent in 2012/13 and is forecast to grow by 1.8 per cent in 2013/14, before falling by 1.4 per cent in 2014/15 and 2.1 per cent in 2015/16 (when estimated inflation grows faster than the nominal economy).

**Table 5.1: Summary of Economic Indicators**

<b>Economic Indicators</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
	<i>Actual</i>	<i>Estimate</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
<b>Economic Activity<sup>0</sup></b>						
Nominal GDP (\$'000)	361,424	388,687	410,893	429,722	436,622	440,447
Per cent change (YOY)	2.9	7.5	5.7	4.6	1.6	0.9
Real GDP (at Constant 2006 Prices, \$'000)	306,987	321,261	331,655	337,605	332,780	325,669
Per cent change (YOY)	2.3	4.6	3.2	1.8	-1.4	-2.1
<b>Inflation</b>						
Consumer Price Index (base Dec. 2006 = 100)	118.4	121.7	124.6	128.1	132.0	136.1
Per cent change (YOY)	0.6	2.8	2.4	2.7	3.1	3.1
<b>Construction/Capital Investment</b>						
Commercial Building Approvals (\$'000)	1,918	2,975	2,975	2,975	2,975	2,975
Residential Building Approvals (\$'000)	9,529	5,887	5,005	4,255	3,618	3,076
Public Works (\$'000) includes Development Partners	21,709	34,011	23,847	33,116	23,340	12,488
<b>Productive Sector Indicators</b>						
Visitor Arrivals	108,752	116,600	120,800	127,700	133,800	138,600
Per cent change (YOY)	8.4	7.2	3.6	5.7	4.8	3.6
Estimated Visitor Expenditures (\$'000)	174,938	192,800	204,500	222,000	239,900	256,100
Pearl Exports (\$'000)	639	550	550	550	550	550
Fish Exports (\$'000)	3,105	2,564	2,560	2,560	2,560	2,560
<b>External Sector</b>						
Merchandise Trade Balance (\$'000)	(129,611)	(131,362)	(131,400)	(131,700)	(132,400)	(133,300)
Services Trade Balance (\$'000)	174,938	192,800	204,500	222,000	239,900	256,100
Exchange Rate (USD/NZD avg)	0.757	0.805	0.825	0.828	0.828	0.828
<b>Financial Sector (at end of financial year)</b>						

Net Government Credit Position (\$'000)	NA	NA	89,000	84,600	80,100	NA
Private and Public Enterprise Deposits (\$'000)	191,974	228,949	233,465	0	0	0
Private and Public Enterprise Loans (\$'000)	286,213	280,364	273,279	0	0	0

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## 5.2 Gross Domestic Product (GDP)

The Cook Islands economy grew a nominal 2.9 per cent in 2011, a similar growth rate to 2010. Real GDP growth (taking into account inflation) was 1.0 per cent in 2011, a significant improvement from the 2.9 per cent contraction in real GDP in 2010.

Tourist arrivals in 2012 were significantly higher than trend levels, with growth slowing in the early months of 2013. Reflecting this, nominal GDP forecasts for the fiscal year estimate the Cook Islands economy will grow 5.7 per cent in 2012/13, slower than the 7.5 per cent estimated for 2011/12 but still strong by historical standards.

Nominal GDP growth is then estimated to slow to 4.6 per cent in 2013/14, with weakness in business investment being offset by growth in capital projects and a return to trend tourism growth. By 2014/15, slower growth in tourism and significant declines in aid commitments lead to nominal GDP growth slowing to 1.6 per cent in 2014/15 and 0.9 per cent in 2015/16.

Real GDP is forecasted to follow a similar pattern to nominal growth but is lower as it takes inflation into account. Real GDP growth is predicted to slow from 4.6 per cent in 2011/12 to 3.2 per cent in 2012/13. This slowing is predicted to continue in the outer years, with real growth continuing to slow to 1.8 per cent in 2013/14 before declining 1.4 per cent in 2014/15 and a further 2.1 per cent in 2015/16.

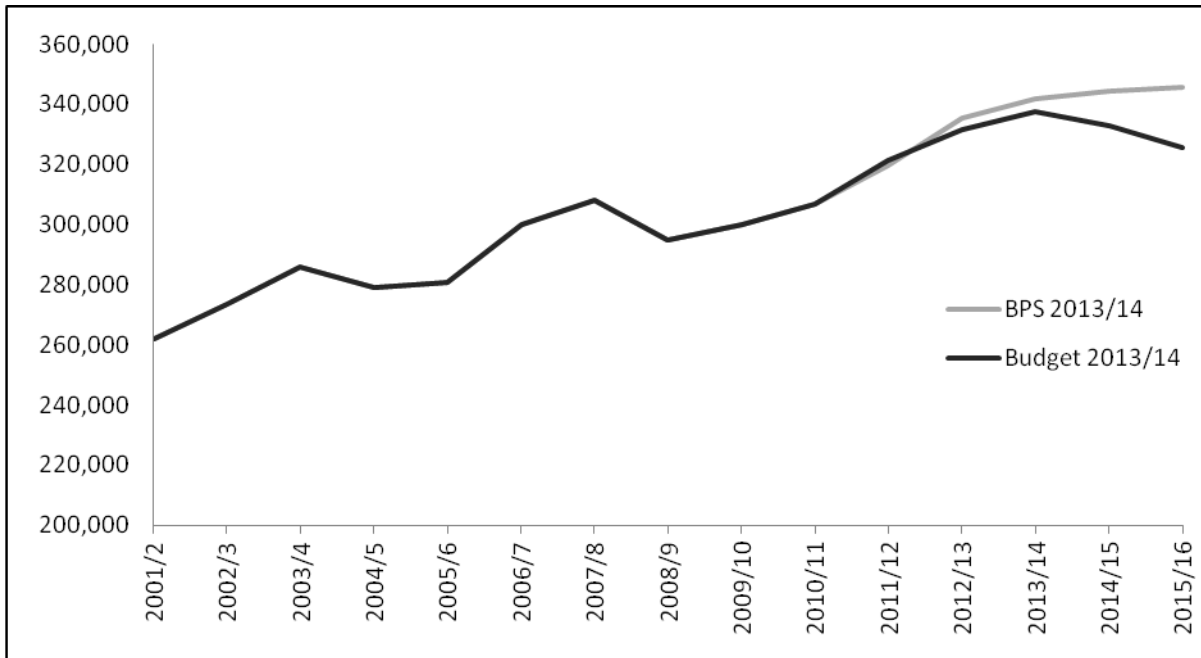
These forecasts, and the Cook Islands stronger economic outcomes, are dependent on a number of recent trends continuing. The key risks to GDP growth are:

- 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 and Honolulu from Auckland);
- an economic slowdown in New Zealand and/or Australia;
- poor budget execution of the substantial aid and capital projects planned across the Cook Islands;
- 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); and
- any reductions in projected aid from development partners.

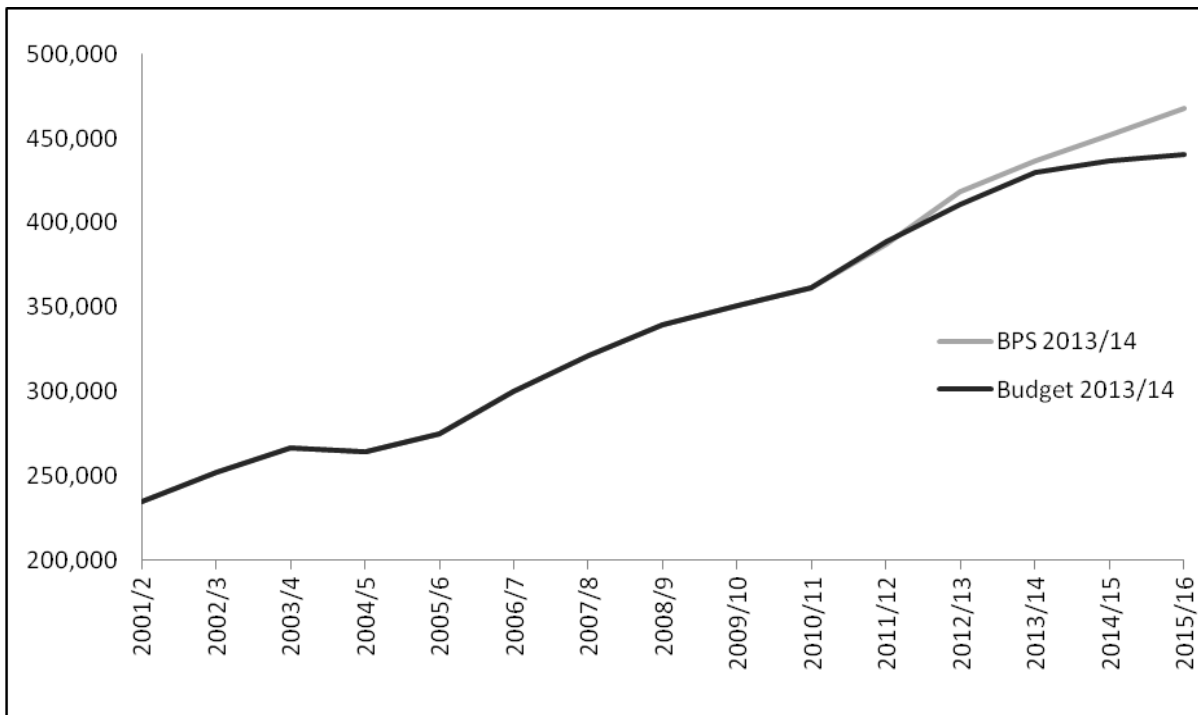
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<sup>1</sup> A downward revision from the 7.9 per cent growth in nominal GDP estimated at the time of the 2013/14 Budget Policy Statement.

**Chart 5.1: Real GDP at 2006/07 prices, 2001/02 to 2015/16 ('000)**



**Chart 5.2: Nominal GDP at current prices, 2001/02 to 2015/16 ('000)**

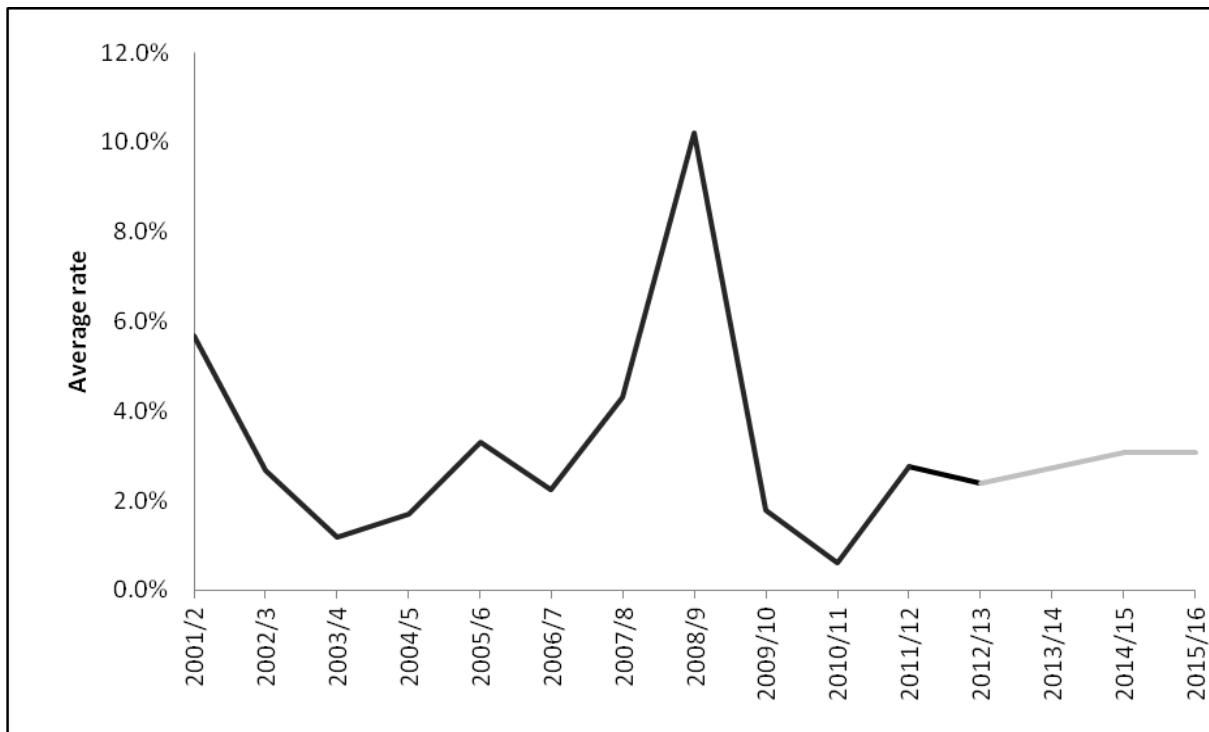


### 5.3 Consumer Price Index (CPI)

Inflation in the Cook Islands is measured by the Consumer Price Index (CPI) which is produced on a quarterly basis. Over the last ten years, the Cook Islands have 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 fuel global 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 March quarter 2013, which showed inflation of 2.4 per cent compared to March 2012.

**Chart 5.3: Consumer Price Index (CPI), 2000/01 – 2014/15**



Annual inflation in the March quarter 2013 was driven by a 10.8 per cent increase in Tobacco and Alcohol prices (contributing 0.8 per cent points to overall inflation), a 1.8 per cent increase in Food prices (contributing 0.5 per cent points), and a 7.2 per cent increase in the cost of Household Services (contributing 0.4 per cent points).

As Chart 5.3 demonstrates, inflation is assumed to increase from 2.4 per cent in 2012/13 to its historical average of 3.1 per cent in the outer years; slightly higher than the New Zealand target rate.

The majority of imports are sourced from New Zealand, with the exception of fuel sourced from other external markets.

A decline in the New Zealand dollar from its historic highs, would be expected to have an inflationary impact on the Cook Island economy. 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 (as occurred in 2007/08 and 2008/09).

## 5.4 Tourism

Tourism remains the largest industry in the Cook Islands, accounting for around 60 per cent of the economy. Strong growth of 7.6 per cent in arrivals in calendar year 2012 is unlikely to be maintained. The first few months of 2013 are demonstrating more moderate levels of growth, and even declines from 2012. In line with these recent observations, tourist arrival forecasts have been revised downwards and may need further revision if this trend continues.

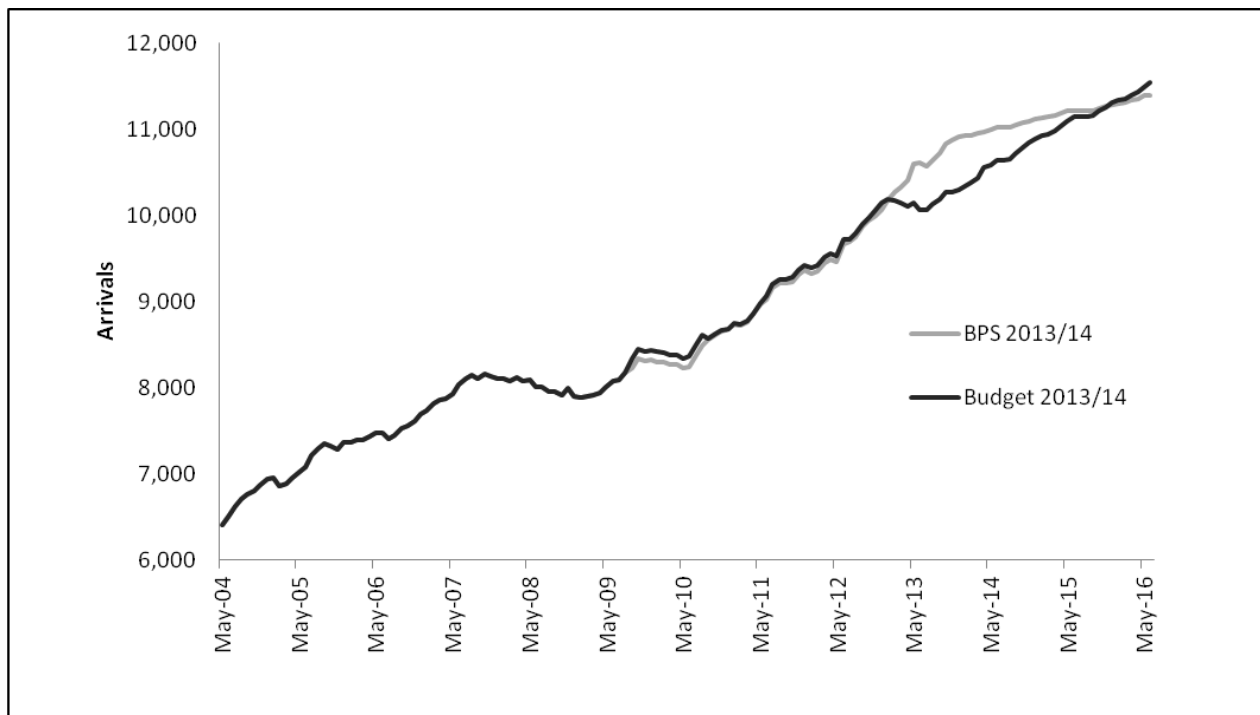
Growth in tourist arrivals is forecast to be 3.6 per cent in 2012/13 and 5.7 per cent in 2013/14. This is a significant downward revision from the 9.7 per cent forecast for 2012/13 at the time of the 2013/14 BPS, with some of this growth being shifted to 2013/14, which was previously forecast at 3.8 per cent growth.

Overall, the preference for travel to the Cook Islands (particularly those of New Zealand) appears to be shifting more towards the first two quarters of the financial year (July – December) than in previous years; the most growth coming out of the August to October period.

New Zealand remains by far the largest market (67 per cent) and has a slightly increasing share of total arrivals, New Zealand is also the largest contributor to overall tourist growth.

Australia has a smaller, but increasing share (18 per cent, up 2 per cent points in the last three years) which is offsetting the declines experienced in European and North American markets.

**Chart 5.4 Total visitor arrivals (12 month moving average) 2004-2016**



**Table 5.2 Actual and forecast total tourism numbers by quarter 2009/10 to 2013/14**

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2010/11	33,886	26,936	19,460	28,470	108,752
2011/12	36,296	28,888	20,559	30,896	116,639
2012/13	38,543	31,719	20,600	29,900	120,800
2013/14	40,100	33,000	22,300	32,300	127,700
2014/15	41,100	35,000	23,500	34,300	133,800

It was evident in the lead up to the Pacific Island Leaders Forum in July/August 2012, which led to a record number of arrivals, that capacity constraints are now an issue in Rarotonga. July 2012 is now the yardstick for how many arrivals Rarotonga can be expected to reasonably handle. While 2013 may not experience such marked constraints as July 2012, future periods may face the prospect of an increasing lack in overall capacity during peak periods. Investment in expanding accommodation and tourist services has kept pace with the growth in arrivals to date, but if growth is to continue, further private investment must be made to fully utilise the projected investment in public infrastructure by the Government.

**Table 5.3 Rising capacity utilisation of Cook Islands tourism sector, 2009/10 – 2015/16**

Year	Average capacity	Months in excess of:				Estimated lost arrivals
		80 per cent	90 per cent	95 per cent	99 per cent	
2009/10	60.8 per cent	1	0	0	0	
2010/11	65.9 per cent	2	0	0	0	
2011/12	70.6 per cent	3	2	1	0	
2012/13	73.6 per cent	5	2	1	1	1700
2013/14	77.6 per cent	5	3	2	1	1300
2014/15	81.2 per cent	7	5	4	3	3100
2015/16	83.9 per cent	8	5	5	4	5800

As Table 5.3 illustrates average utilised capacity is expected to exceed 80 per cent by 2014/15. Actual data suggests the 'shoulder' months are expanding, with the peak season extending from June through to October – July and August are becoming increasingly unable to take additional arrivals. This reality makes it increasingly difficult to justify the Air New Zealand underwrite during the peak months of the year, particularly for the European market which is at a low over this period.

If this expansion into the lower parts of the tourism calendar continues, tourism operators may see expanded usage across the year, with their cash flows benefitting accordingly. Some accommodators may find there is less opportunity for to undertake major renovations during periods of lower occupancy, as January and February be the only months at or below 50 per cent occupancy – this will require better planning of asset management over the year.

As early as 2014/15, one quarter of the year will have occupancy rates approaching 99 per cent, with almost half the year experiencing occupancy rates exceeding 90 per cent. This suggests that the capacity of the tourism sector (be it management capacity or additional capital investment) needs to expand if arrivals are expected to continue. An alternative strategy could also be to increase the quality of service delivery, but this will also require a large amount of private investment to realise any potential gains.

## 5.5 Major Markets

### 5.5.1 New Zealand

New Zealand continues to be the Cook Islands the growing and leading market for visitors, accounting for an estimated 67 per cent of the total market (or an estimated 80,900 in 2012/13). After growing by 8.1 per cent in 2011/12, New Zealand arrivals are expected to grow by 5.6 per cent in 2012/13, due largely to weaker arrivals (relative to 2012) in early 2013. Growth is forecast to return to the long term trend of 7.0 per cent by 2013/14.

Chart 5.5 New Zealand visitor arrivals (12 month moving average) 2004-2016

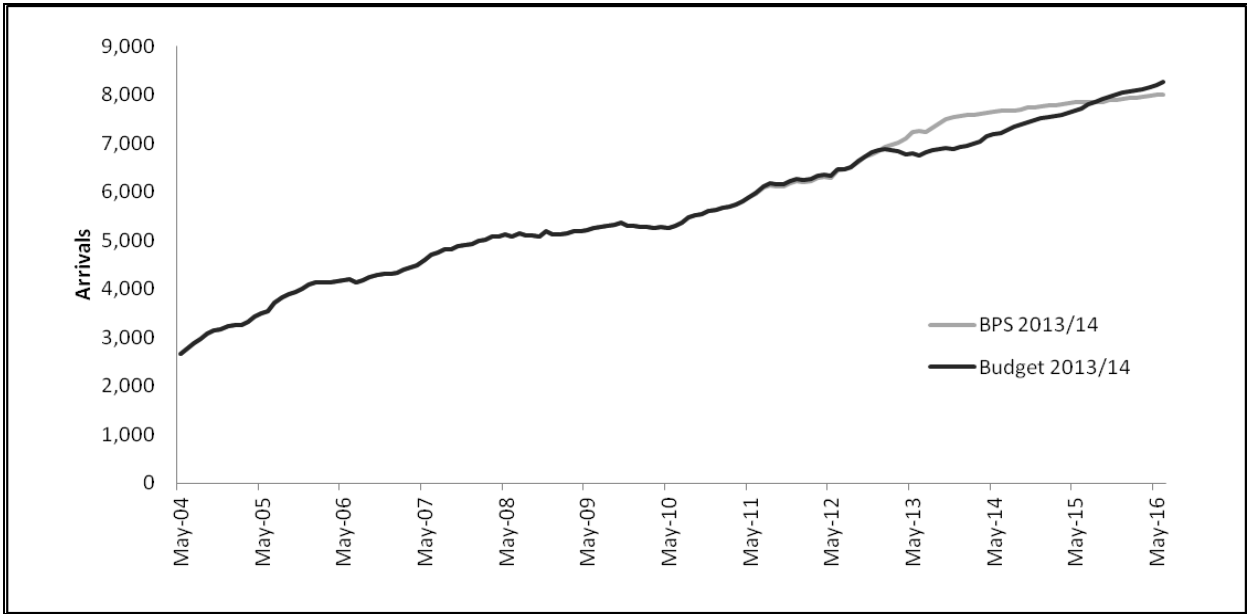


Table 5.4 Actual and forecast New Zealand tourism numbers by quarter 2010/11 to 2014/15

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2010/11	24,068	16,134	10,850	20,693	71,745
2011/12	26,170	17,473	11,545	22,359	77,547

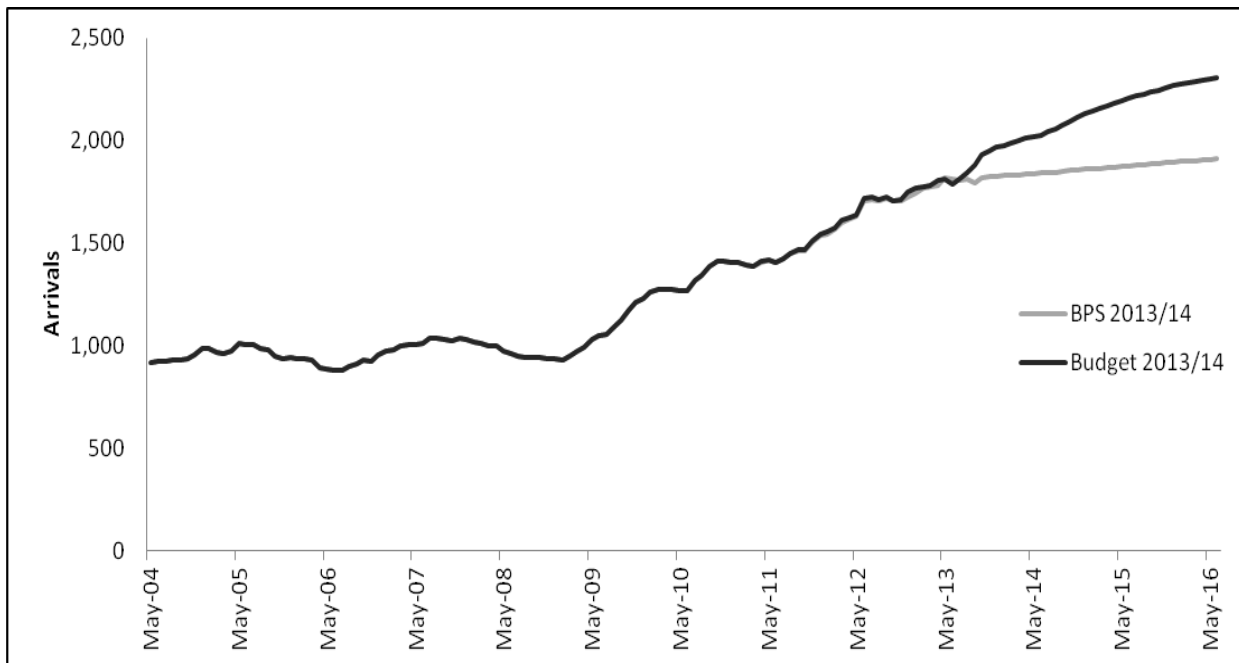
2012/13	28,282	20,046	11,400	21,200	80,900
2013/14	30,000	20,500	12,900	23,300	86,600
2014/15	32,100	21,900	13,800	24,900	92,700

### 5.5.2 Australia

The Australian market has affirmed itself as the second largest tourism market to the Cook Islands (displacing Europe), accounting for approximately 18 per cent of the total market share of visitors to the Cook Islands. After growing an impressive 22.0 per cent in 2011/12, it is expected that growth will slow to 2.9 per cent in 2012/13 due to a very weak performance in early 2013.

Growth is expected to return to 13.4 per cent in 2013/14, before falling to 4.6 per cent by 2015/16. However, if the recent performance of Australian arrivals continues, forecasts for 2013/14 may need to be revised downwards. The performance in early 2013 might be a ‘temporary dip’ in Australian arrivals, additional data will assist in determining this further. A full review of the Underwrite is currently underway and should shed some light on whether the Underwrite is shifting Australian arrivals from travelling via Auckland or whether it is generating ‘new’ arrivals that would not have otherwise occurred.

**Chart 5.6 Australia visitor arrivals (12 month moving average) 2004-2016**



Total arrivals from the Australian market are expected to increase from 20,600 in 2011/12 to 21,300 in 2012/13, a downward revision from the 21,747 estimated at BPS reflecting lower growth outcomes. Growth for future years has been revised upwards, reflecting the consistent growth in the Australian market since 2008/09.

**Table 5.5 Actual and forecast Australian tourism numbers by quarter 2010/11 to 2014/15**

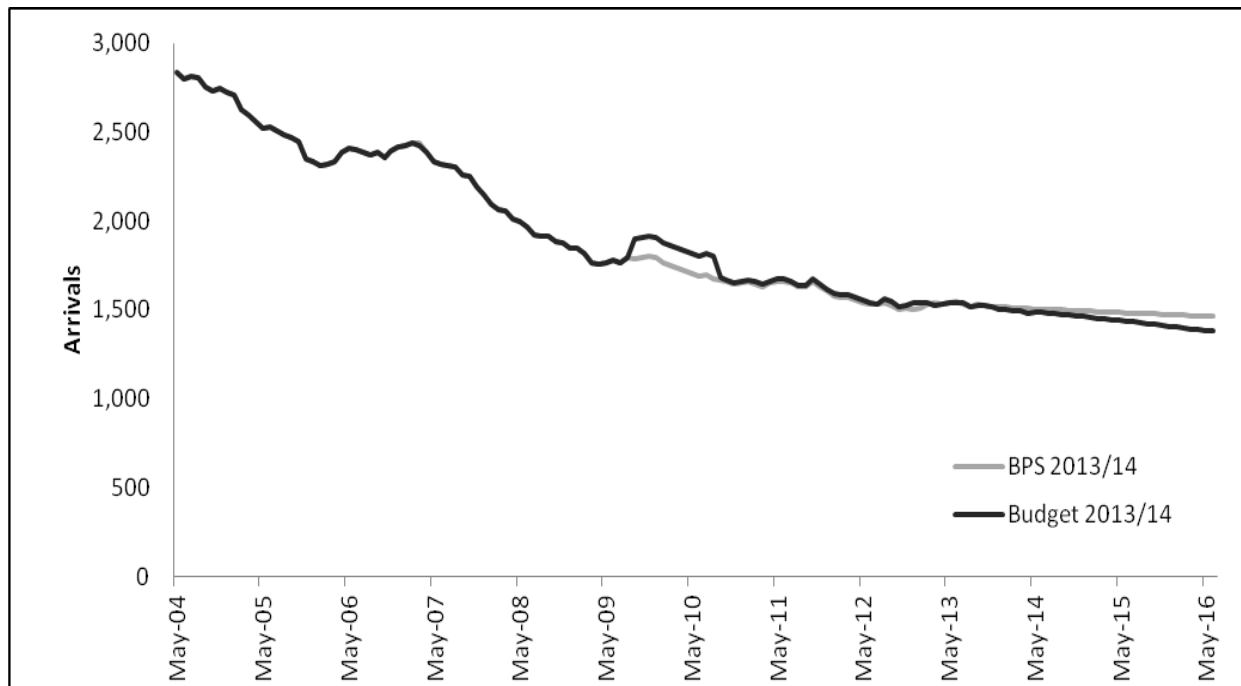
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2010/11	5,022	5,429	2,899	3,550	16,900
2011/12	5,751	6,338	3,698	4,838	20,625
2012/13	5,815	6,622	4,100	4,900	21,400
2013/14	6,900	7,700	4,500	5,200	24,300
2014/15	7,600	8,400	4,900	5,700	26,500

### 5.5.3 Other major markets

Outside of the two major markets, growth in tourist arrivals remains relatively weak. The European market has continued decline since its historic high in 2000/01, while the North American and Asian markets have been relatively flat for the last five years.

After declining 8.2 per cent in 2011/12 (due to further falls in European arrivals), these markets are expected to fall a further 1.0 per cent in 2012/13, with their declining market share being substituted by Australian arrivals. European arrivals are expected to fall to 8,100 in 2013/14 (a 9.6 per cent decline from the estimated outcome for 2012/13) and US arrivals are forecast to grow to 4,800 (growth of 5.8 per cent from 2012/13, which will bring US arrivals onto a similar level as in 2010/11).

**Chart 5.7 Other major markets (12 month moving average) 2004-2016**





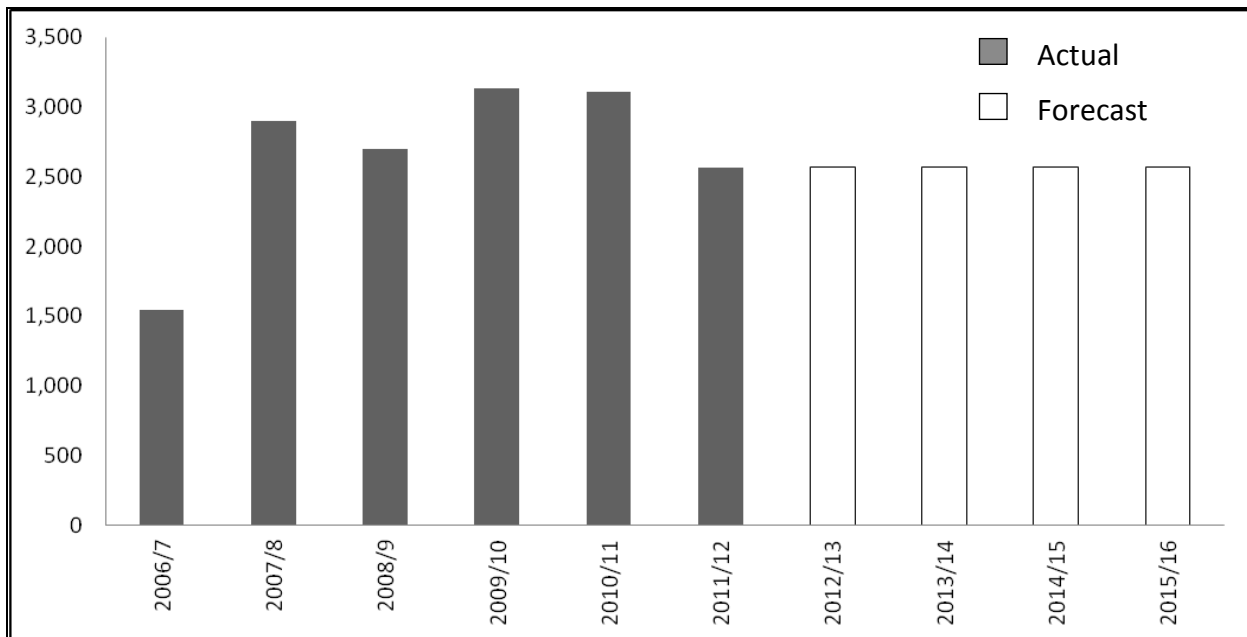
**Table 5.6 Actual and forecast tourism numbers by quarter 2010/11 to 2014/15**

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2010/11	4,796	5,373	5,711	4,227	20,107
2011/12	4,375	5,077	5,316	3,699	18,467
2012/13	4,446	5,051	5,100	3,900	18,500
2013/14	4,300	4,800	5,000	3,800	17,800
2014/15	4,100	4,700	4,800	3,700	17,200

## 5.6 Marine Resources

The Cook Islands marine sector continues to predominantly be made up of the tuna and albacore fisheries and black pearls. The total value of marine exports for 2011/12 was \$3.1 million, a 16.8 per cent fall from 2012/13. Going forward, the exports from the marine sector are expected to stay relatively flat, with most of the Cook Islands catch being processed offshore. The main economic benefit derived from fishing activities continues to be the revenue received by the Ministry of Marine Resources from treaties and fishing licenses – estimated at \$4.9 million in 2013/14.

**Chart 5.7 Domestically Processed Fish Exports 2006/07 to 2015/16, (\$'000)**



### 5.6.1 Fishing

The Cook Islands EEZ is divided into a northern and southern fishery. The majority of fishing takes place in 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 Suwarrow.

Since 2002 the main fishery 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 level of catch and effort in the albacore fishery has increased significantly from 3,072 tonnes in 2008 to 10,478 tonnes in 2012. A total of 47 long liners operated during 2012 and the landed value of the catch was approximately \$33.5 million dollars.

In 2012, the Ministry licensed 17 Chinese exploratory fishing vessels to develop the big-eye tuna and swordfish fishery. The total catch in 2012 of mainly big-eye tuna was 1,722 tonnes. The landed value of the catch was approximately \$6.4 million.

In 2012 there was also an increase in activity by the US purse seine fleet operating in the Cook Islands waters compared to the previous 24 years of the treaty being in-force. A total of 16 purse seine vessels fished around Rakahanga and Manihiki, catching a total of 11,753 tonnes of mainly skipjack tuna. The landed value of the catch was approximately \$25 million dollars.

**Table 5.7 Fishery Catches in the Cook Islands EEZ**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Designated longline fishery	825	2,151	3,467	3,409	3,115	3,446	3,072	7,047	7,070	8,467	10,478
Exploratory longline fishery											1,722
Purse seine fishery	3132	1,598	4	45	79	4	205	1,537	245	476	11,753
<b>TOTAL CATCHES (tonnes)</b>	<b>3,957</b>	<b>3,749</b>	<b>3,471</b>	<b>3,454</b>	<b>3,194</b>	<b>3,450</b>	<b>3,277</b>	<b>8,584</b>	<b>7,315</b>	<b>8,943</b>	<b>23,953</b>

In summary, during 2012 there were 80 fishing vessels which operated in the Cook Islands EEZ with total catch of 23,953 tonnes and landed value of \$64.9 million dollars. The peak prices of cannery albacore tuna from 2011 dropped by about 30 per cent in 2012 and big-eye tuna sashimi prices for Japan also continued to decline by about 10 per cent. This had a significant impact on the landed values of the 2012 catches.

The significance of 2012 catch is that the proven resources of the Cook Islands fishery have been expanded and diversified beyond the albacore through the addition of the big-eye long-line and skipjack tuna purse seine fisheries.

**Table 5.8 Combined fisheries for 2012**

	Nos fishing vessels	Total Catches (tonnes)	Landed value (\$Mill)
Designated longline fishery	47	10,478	33.5
Exploratory longline fishery	17	1,722	6.4
Purse seine fishery	16	11,753	25
<b>TOTAL</b>	<b>80</b>	<b>23,953</b>	<b>64.9</b>

The Ministry of Marine Resources believes that the Cook Islands has now developed a significant “catch history” upon which it can begin to assert its rights to the regional fishery.

The Ministry now intends to establish its EEZ zone based total allowable catches (TACs) and individual license quotas for the key species. The Ministry will essentially change its role from passive monitoring of an “open fishery” to now actively managing a “closed fishery”.

In 2013/14 fisheries revenue will be generated by two main streams – (1) fees from fishing licenses and (2), catch revenue collected from the operators whom wish to purchase unutilised quota from within the TAC.

In 2013/14 the US purse seine vessels will continue to operate under the US Fishery Treaty but the access for these vessels will be limited by the number of fishing days which the Cook Islands will “sell” to the fleet.

There has been little activity in the southern fishery and in 2012 only several long-line vessels were recorded as fishing out of Rarotonga with 20 tonnes landed locally. The small artisanal and game fishing charters operators that fish around Rarotonga’s coast and FADs supply around 40-50 tonnes to the market.

From January to September 2012 there was 402 tonnes of tuna offloaded into Rarotonga by the northern based fishing vessels. 51 tonnes of fresh and frozen tuna was sold on the local market. The remaining 351 tonnes was exported, 103 tonnes was sent fresh by airfreight to markets in Japan and NZ and US. 248 tonnes was sent frozen by sea freight to Pago Pago, China, Japan, Thailand, Vietnam and other markets mainly in Asia.

Due to limited infrastructure, most of 248 tonnes of frozen tuna offloaded into Rarotonga by fishing vessels and sent onwards by sea freight was not processed in-country. Therefore this is not recorded as an export product of the Cook Islands, but is instead labelled as a trans-shipment product.

In 2013/14, the Ministry will continue to promoting the onshore benefits of value added processing, airfreight, and sea exports. In addition the Ministry will continue its efforts to achieve seafood health export certification in order to gain access to the lucrative EU market.

## **5.6.2 Pearls**

Cook Islands pearls are sold on the 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 domestic market is driven by and has a high correlation to the number of visitors into the Cook Islands. This market is catered to by a large number of local businesses and pearl vendors.

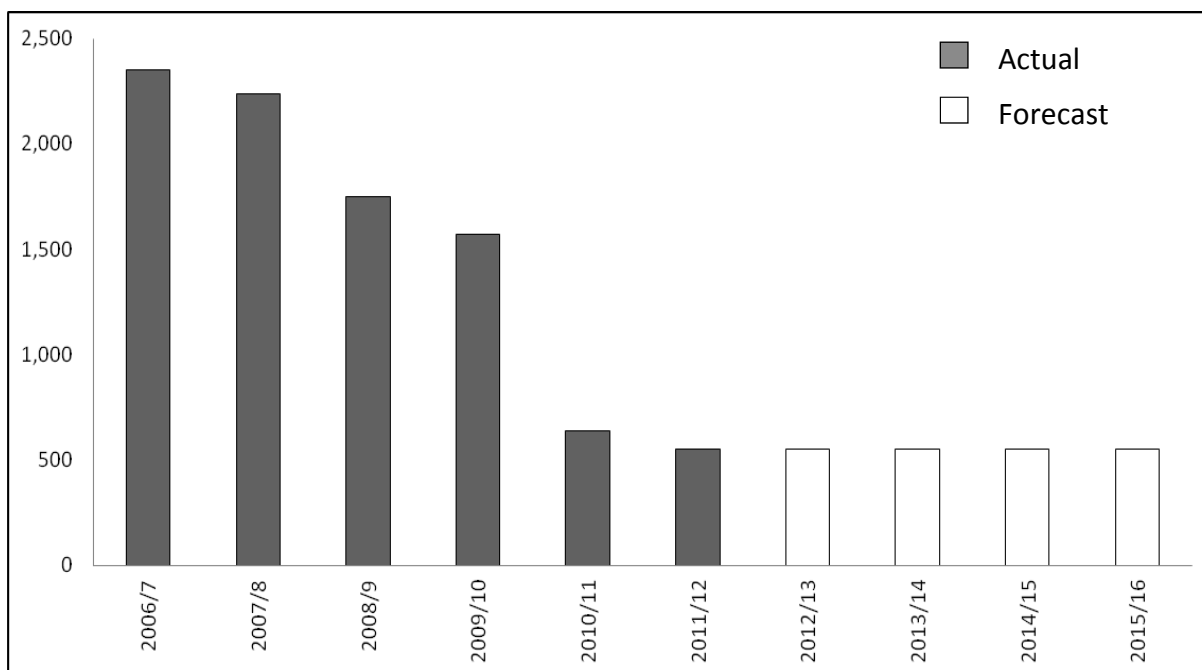
The value of exports continued to decline from \$1.6 million in 2009/10 to \$0.3 million in 2011/12. However, the production base in terms of seeded oysters during this period has remained relatively stable at around 290,000 – 300,000 shells. In the December 2012 survey, seeded oysters were estimated at 279,000. The saleable pearl crop for 2013/14 is estimated to be 106,000 pearls.

Previously, the bulk of the 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 either being sold on the domestic market or are being stockpiled for future sale. Currently, the Cook Islands Pearl Authority’s Pearl Exchange is holding stocks of pearls to be exported or sold domestically.

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. Global economic and financial conditions continue to have an adverse effect on market demand and pearl prices. These factors have acted as a disincentive for farmers to increase production, with many adopting a cautious approach in light of current market uncertainties. It is expected that export levels in 2013/14 will be modest.

By international standards, the Cook Islands is a very small producer of pearls compared to Tahiti (for black pearls), Australia (for white South Sea pearls) or Asian countries (for gold South Sea pearls).

**Chart 5.9 Pearl Exports (including pearl shell) 2006/07 to 2015/16, (\$'000)**



## 5.7 Agriculture

Agriculture remains a largely informal sector in the Cook Islands economy, and therefore, the total contribution to the economy remains difficult to quantify. The latest GDP estimate indicates that the agriculture sector accounted for approximately 2 per cent of GDP, equating to around \$8.4 million in 2011 (previously \$8.8 million<sup>2</sup> in 2010).

The warm to mild climate and fertile soils of the Southern volcanic Islands of the Cook Islands has considerable scope for increased local agriculture production (root crops, fruit and vegetables). However, limitations surrounding local enterprise, substandard facilities for international market access, labour shortages, water supply and high costs of transportation to get produce to markets (to Rarotonga and international markets), are major constraints in the agricultural sector.

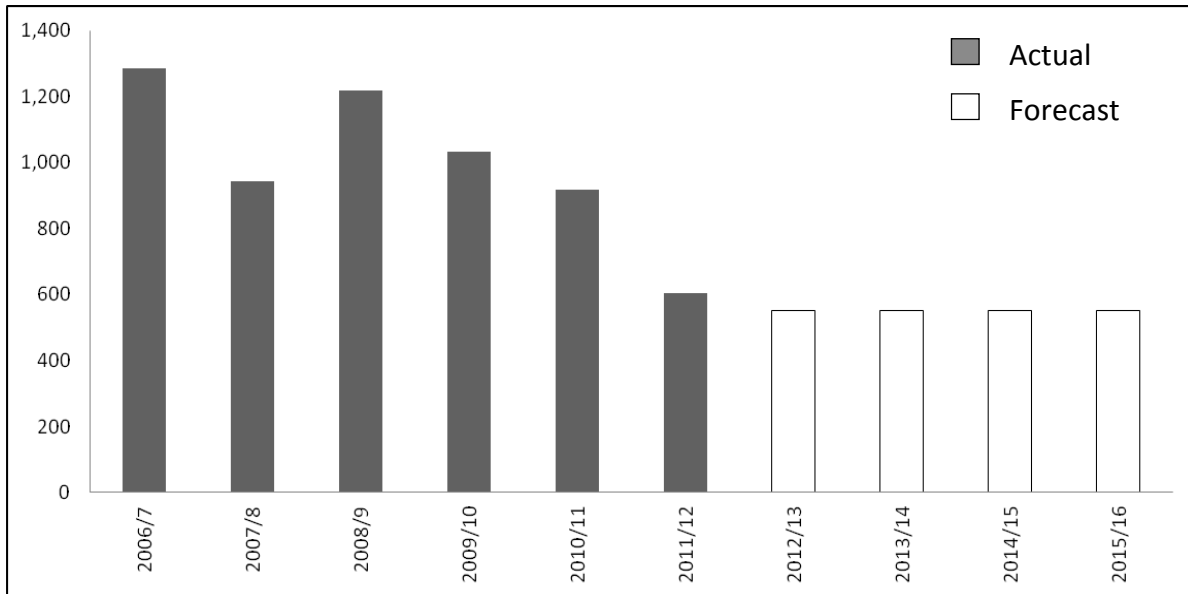
The supply and demand for produce is predominantly based in Rarotonga. Despite the growth in domestic demand from tourism, imports of food items have grown only a small amount, suggesting that domestic supply is growing to meet the increased demand.

Both international and domestic markets offer a number of opportunities for existing and potential crops, but structural constraints within the industry will continue to limit growth.

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<sup>2</sup> At 2012/13 Budget Agriculture contribution to GDP in 2009 was published as \$9.3 million then declined to \$9.1 million in 2010. The historical series has been revised down to \$8.8 million.

**Chart 5.10 Agriculture Exports 2006/07 to 2015/16, (\$'000)**



Export of agricultural produce since 2009 continues to be minimal, and declining, in volume terms. Total estimated exports for the September 2012 quarter were \$0.2 million, 6.0 per cent above exports for the same period in the previous year. Noting these volumes of export mainly reflect Noni fruit from Aitutaki and Rarotonga (93 per cent of total exports) exported to Japan, and Maire Leis from Mauke, Mitiaro and Mangaia (7 per cent of total exports) directed at a growing Hawaiian market.

The downward gradient of this decline in the export of agricultural produce is expected to continue for 2013 but expected to increase by 2014 onwards due to the quarantine heat treatment plant recently certified and operationally cleared by the New Zealand Ministry of Primary Industry (MPI). The Ministry of Agriculture (MoA) is working collaboratively with farmers to increase production in highly demanded goods.

Other growing production initiatives in this sector include the long term investment in the vanilla crop, expected to impact the market in 2014/15 onwards. The Cook Islands Delicious Cactai (dragon fruit), branded at the 2012 Pacific Islands Agriculture Ministers’ Meeting in Fiji, and the newly introduced Cook Islands Gold Pineapples which are expected to enter the domestic market from 2013/14 onwards.

## **5.8 Exports and Imports**

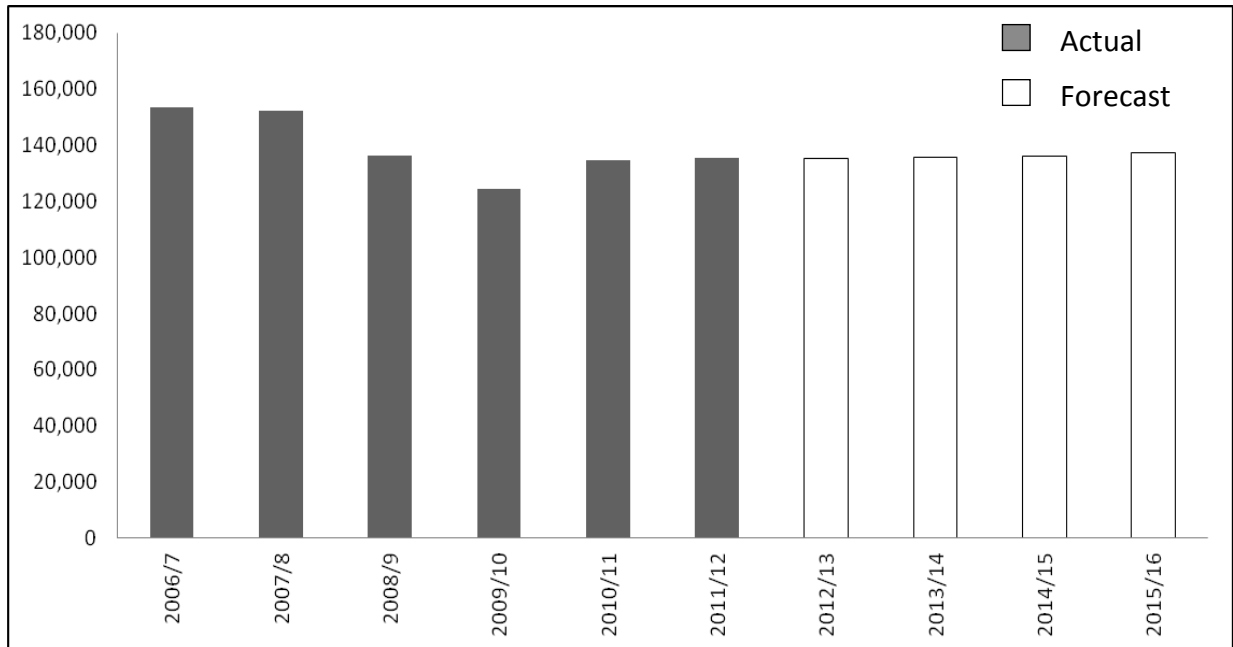
### **5.8.1 Imports**

In 2011/12, total imports to the Cook Islands were \$135.3 million, an increase of 0.4 per cent from 2010/11.

Imports are predominantly made up of food and live animals (23.3 per cent); minerals and fuel (18.6 per cent); machines, transport and equipment (17.8 per cent); basic manufactures (such as construction material or textiles) (14.5 per cent); and miscellaneous manufactured goods (which includes finished or consumer goods) (11.3 per cent).

New Zealand continues to be the leading supplier of imports in to the Cook Islands, accounting for approximately 75 per cent of total imports in 2011/12.

**Chart 5.11 Value of total imports 2006/07 to 2015/16, (\$'000)**



In 2011/12, it is estimated that import leakage from the Cook Islands was approximately 26 per cent – for every dollar spent in the Cook Islands economy, 26 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). However, Chart 5.10 illustrates that despite a huge increase in visitor arrivals since 2010/11, imports have been relatively stable, suggesting that domestic production has increased to meet the tourist demand.

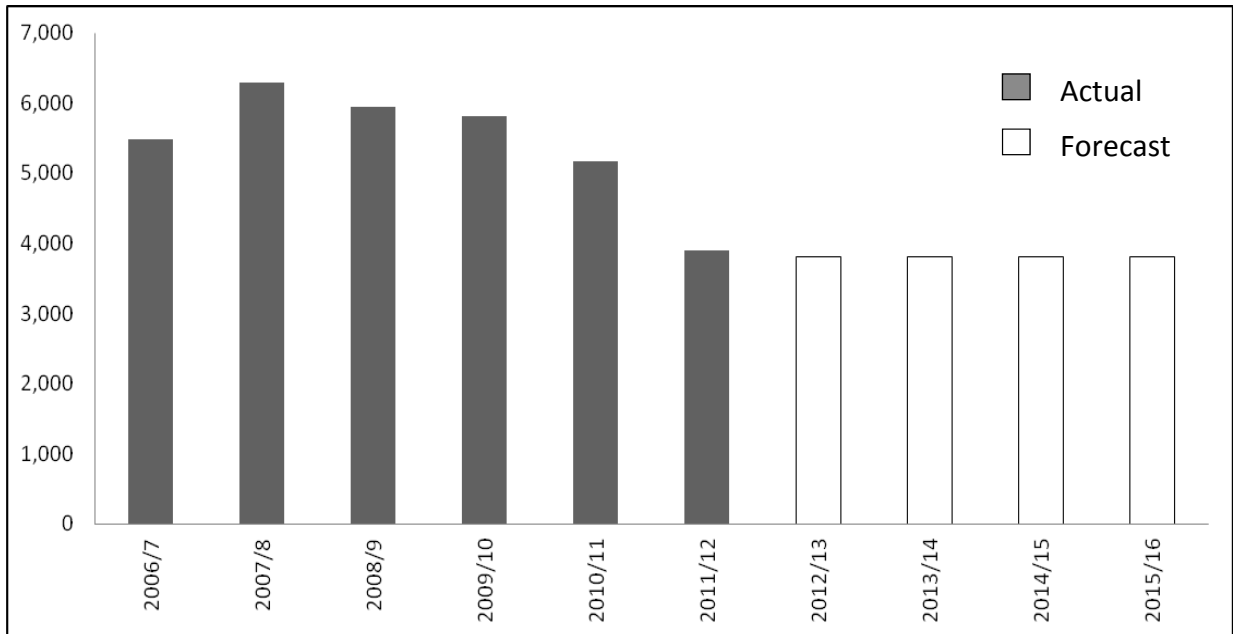
Moving forward, forecasts assume that the observed import substitution will continue over coming years, with food and simple manufactured goods making up a smaller part of the import basket.

### **5.8.2 Exports**

Exports continue their recent weak performance – the total value of exports for 2011/12 was \$3.9 million (a 26.2 per cent fall from 2010/11), predominantly driven by the export of fresh or chilled fish (63.9 per cent), followed by noni (15.7 per cent) and pearls (8.8 per cent). Around 69 per cent of exports were sent to Japan in 2011/12.

For 2011/12, it is estimated that for every dollar earned in the economy, approximately 50 cents is derived from foreign sources (although this is almost exclusively driven by tourist arrivals).

**Chart 5.12 Total exports 2006/07 to 2015/16, (\$'000)**



Almost every export category experienced declines between 2010/11 and 2011/12. When taken together with the low levels of growth in imports despite strong tourist growth, declining exports may suggest that production has shifted toward servicing local markets rather than being exported. Over the forecast horizon, this trend is expected to continue, with exports remaining relatively stable at the current low levels.

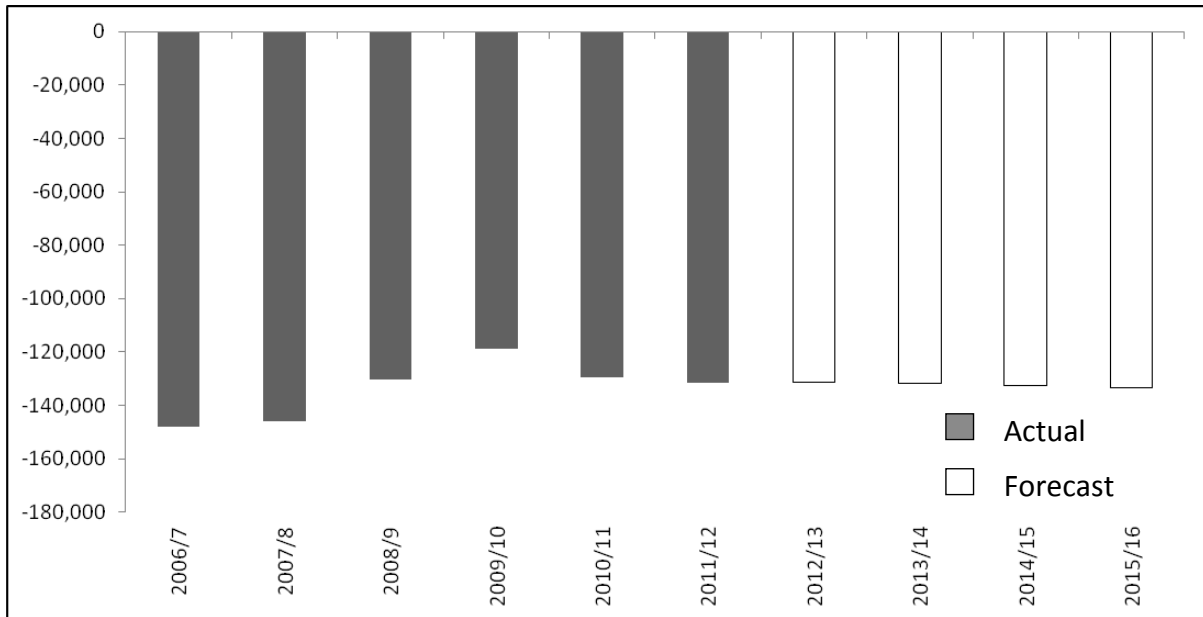
### **5.8.3 Balance of Trade**

A negative merchandise balance of \$131.4 million is estimated for 2011/12, a relatively small 1.4 per cent deterioration compared to 2010/11 despite large growth in tourism arrivals, which should have increased the demand for imports by a larger figure. Going forward, further deterioration in merchandise trade is expected due to growing import demand and stable exports.

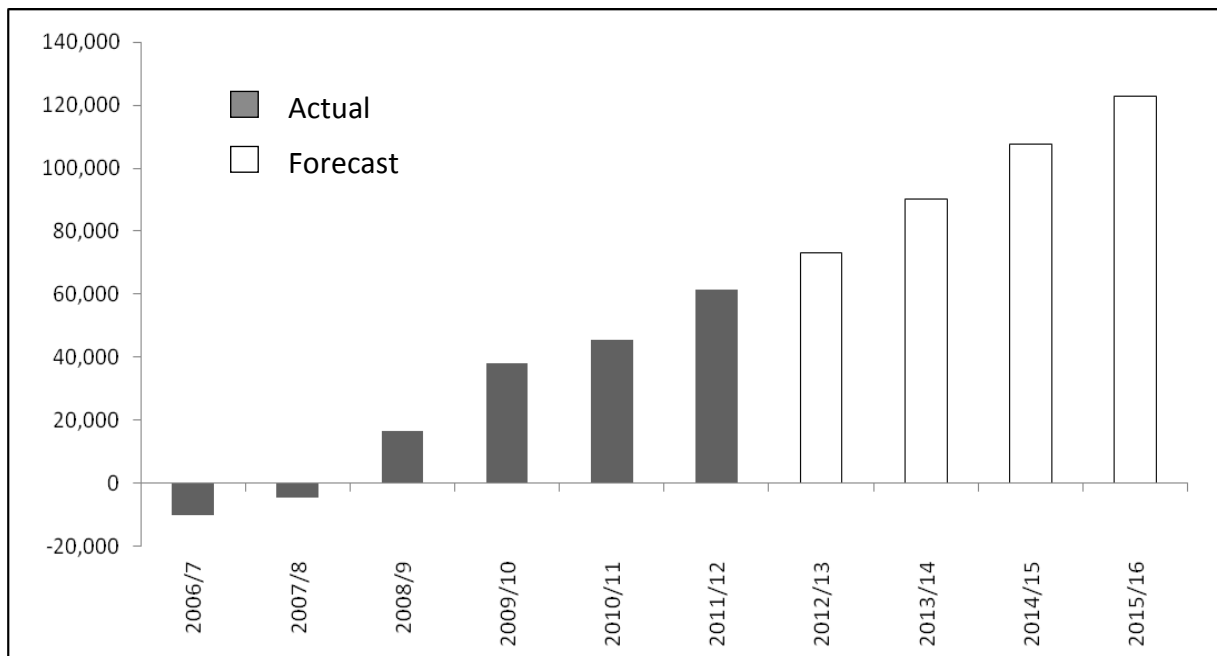
Tourism dominates the services trade, with estimates for tourism spend reaching \$192.8 million in 2011/12.

When estimated services trade is included, the resulting balance of trade is a surplus of \$61.4 million. 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. This trade surplus is expected to grow in line with increases in tourism arrivals.

**Chart 5.13 Balance of Merchandise Trade 2006/07 to 2015/16, (\$'000)**



**Chart 5.14 Balance of Trade (including estimated tourism spend) 2006/07 to 2015/16, (\$'000)**





## 5.9 Banking and Finance

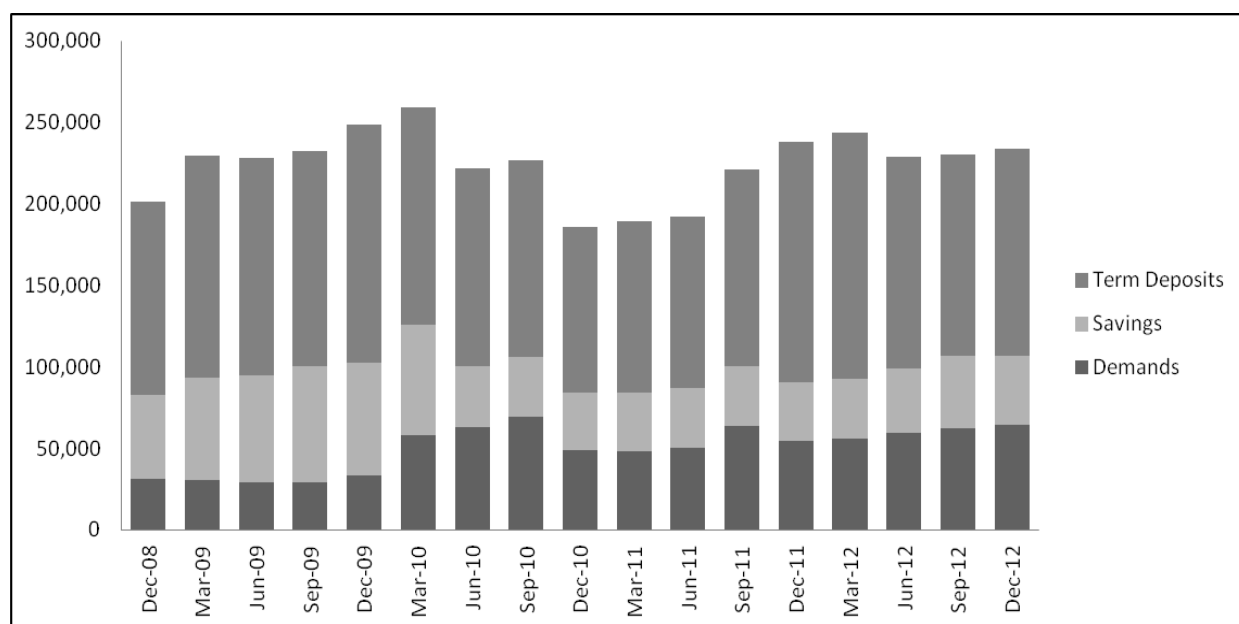
The Reserve Bank of Australia reports that global financial stability has improved significantly since September 2012, which should alleviate some of the funding pressures of local Cook Island Banks despite the continued preference of investors for ‘safe’ money markets internationally. High domestic interest rates, and a significant non-performing loan portfolio of local banks, mean that growth in domestic Cook Island lending is likely to remain weak in the short to medium term.

Net foreign assets (NFA)<sup>3</sup> in the Cook Islands banking sector have increased from \$63.3 million in the December quarter 2011 to \$86.7 million in the December quarter 2012 due to an increase in foreign held assets and a fall in foreign liabilities.

### 5.9.1 Deposits

Overall deposits from the December quarter 2011 have fallen from \$237.9 million to \$233.5 million in the December quarter 2012– a 1.8 per cent decline over the period.

Chart 5.15 Deposits 2008/09 to 2011/12, (\$'000)



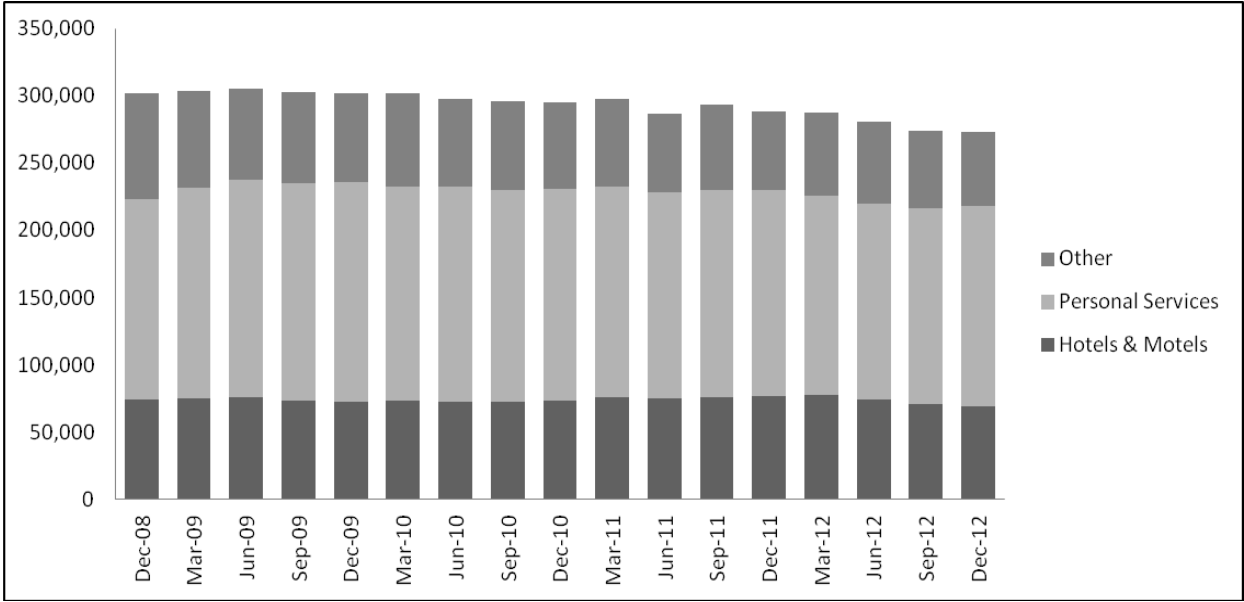
### 5.9.2 Loans

The overall total value of loans has been in a slow but steady decline since 2008. The total value of loans declined from \$288.4 million in the December quarter 2011 to \$273.3 million in the December quarter 2012. This likely reflects both a tightening of in lending conditions and weak demand for credit, despite recent falls in the interest rates by the major lenders.

<sup>3</sup> Net foreign assets are the value of the assets that Banks own abroad, minus the value of domestic assets owned by foreigners

The on-going portfolio of non-performing loans is expected to weigh on loan growth going forward, with demand for credit also remaining weak.

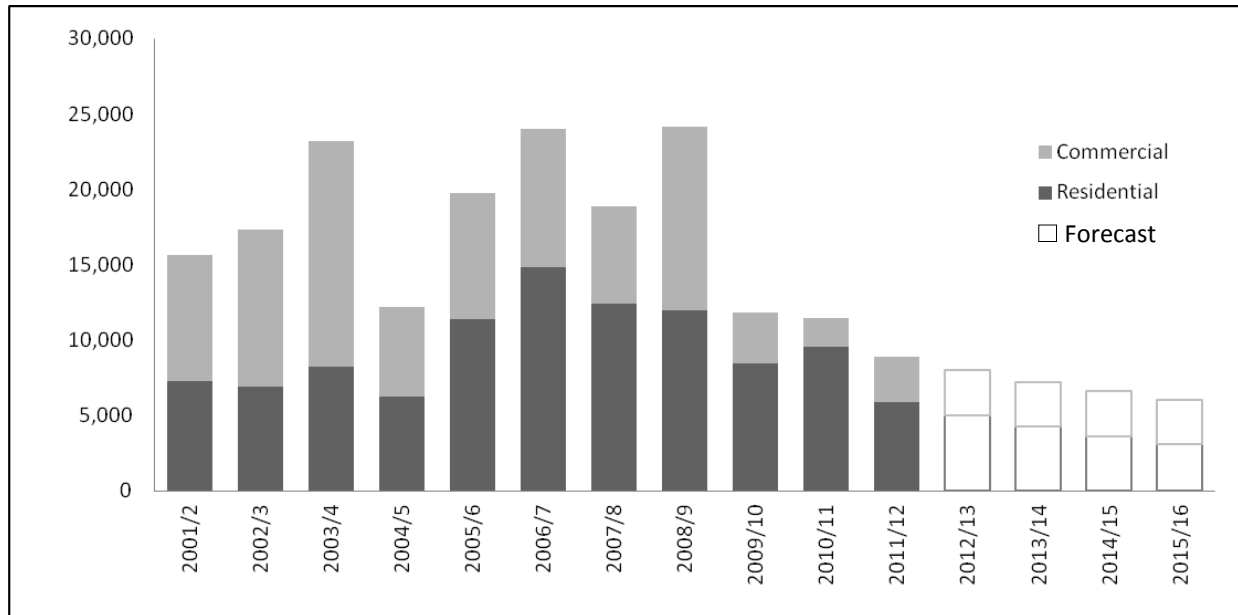
**Chart 5.16 Loans 2008/09 to 2011/12, (\$'000)**



**5.9.3 Housing and Construction**

Despite a large injection of public construction projects in 2008/09, construction activity has been in steady decline, with residential construction falling 60 per cent between 2006/07 and 2011/12. Commercial construction is expected to stabilise at the current low levels, but residential investment is expected to continue to fall over the forecast period.

**Chart 5.17 Value of building approvals 2001/02 to 2015/16**



### 5.9.4 Financial Services Industry

The financial services industry is estimated to collect fees to a net value of \$1.4 million for services undertaken in 2013/14. Registration fees are generally denominated in USD, which means that some income is subject to exchange rate fluctuations.

The regulatory arm of the industry estimates 2 per cent annual growth in the number of new international companies, limited liability companies, and trusts registrations. The Foundations Act was enacted in 2012 and the trustee companies are now promoting the new entity. Captive Insurance legislation will be passed in June 2013 creating a new revenue stream for government and trustee companies. The International Companies Act is in the process of being overhauled and expected to be passed in the first half of 2014.

### 5.10 Sensitivity Analysis

As mentioned in section 5.2, there are several risks surrounding the forecasts presented here. Modelling these scenarios helps officials plan for possible contingencies should the outlook change and these risks become realised. MFEM has modelled four scenarios which are viewed as most likely to affect the forecasts and summarised them in Table 5.:

- Scenario 1:** **Weaker than expected tourism arrivals** – if the weaker than anticipated tourism arrivals experienced in the early half of 2013 were to continue into 2014.
- Scenario 2:** **Aid capital projects experience slippage similar to that experienced in the last two years** – aid project contribute a substantial amount to the local economy and key projects missing deadlines delays the economic benefit from wages, contractor fees, and the benefit of the completed infrastructure.
- Scenario 3:** **Currently contracted projects that have slipped in 2012/13 are realised in 2013/14** – several major projects have already appointed private contractors to deliver infrastructure – particularly in the areas of water and renewable energy. Tendering has

been the major delay in previous projects, which may mean a higher realisation rate in 2013/14 than in 2012/13.

**Scenario 4: There is a 10 per cent spike in food prices** – it is unclear what the impact of drought conditions in New Zealand would be on food prices, but as the major category in domestic consumption baskets, food prices would substantially impact on the lives of everyday Cook Islanders; modelled as a 2.94 per cent increase in inflation for 2013/14, above the 2.7 per cent inflation already forecast.

**Table 5.8 Sensitivity Analysis**

Scenario	Nominal growth	Real Growth	Revenue	Change in revenue
Scenario 1: Weak tourist arrivals	3.1 per cent	0.4 per cent	98,562	-1,463
Scenario 2: Slippage in capital projects	3.1 per cent	0.4 per cent	98,951	-1,074
Scenario 3: Realisation of current projects	6.0 per cent	3.2 per cent	101,098	1,074
Scenario 4: 10 per cent spike in food prices	6.1 per cent	0.4 per cent	101,174	1,149

## 6 MEDIUM TERM FISCAL UPDATE

The Ministry of Finance and Economic Management (MFEM) Act 1995-96 (“the Act”) requires Government to state or reaffirm its long-term objectives for fiscal policy in the annual Budget Policy Statement.

Government must pursue its policy objectives within the financial context established by these principles which are quantified in fiscal responsibility ratios (FRR). The FRR are regularly reviewed and establish the parameters for the Budget, with a particular focus on the level of expenditure on Crown debt.

The Government continues to adopt a prudent fiscal stance due to the vulnerability which would arise in the event that one or both of our major trading partners (New Zealand and Australia) are impacted by a continued global instability.

To control the impacts of fiscal policy on fiscal and macroeconomic stability, the Government of the day must operate within the fiscal responsibility principals outlined in the MFEM Act as follows;

- 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.

## Summary of Medium Term Fiscal Policy

The Government will undertake the following fiscal strategies to ensure the Fiscal Responsibility Ratios are achieved whilst providing some room for further policy initiatives.

- This surplus is expected to be achieved through a combination of increasing revenue and savings initiatives which have the potential to increase productivity, improve performance, and deliver greater efficiencies and value for money while delivering on National Sustainable Development Plan (NSDP2011-2015) and Budget Policy Statement 2013/14 (BPS) priority objectives and actions.
- Running a modest budget surplus which will be passed through to cash reserves to fund future capital initiatives, while still providing for additional Budget spending in the short to medium term. New budget initiatives will be supplemented by identifying initiatives that can be funded through efficiencies gained in other areas of government operations.
- Continue to actively engage with donor partners to align development assistance to this policy statement and our longer term priorities outlined in our NSDP 2011-2015; and
- Maintain a portion of total tax receipts into the reserve trust fund building a buffer to protect the net worth of the Crown.

## Maintain Fiscal Responsibility Ratios (FFR)

The original FFR benchmarks were established prior to the move to GFS reporting.

Some of the ratios have now changed in their nature – for the 2013/14 Budget reporting will be against the previous measures, but the Government may review a new set of fiscal benchmarks which will maintain similar fiscal control whilst incorporating the new GFS reporting framework.

**Table 6.1 Fiscal Indicators Update**

	FY12/13	FY13/14	FY14/15	FY15/16
	Estimate	Estimate	Proj	Proj
<b>Statement of Financial Performance</b>				
Taxation Underlying Revenue (\$m)	95.0	99.7	101.3	103.0
Social Contributions (\$m)	0.1	0.1	0.1	0.1
Other Underlying Revenue (\$m)	16.2	19.2	19.7	19.7
<b>Total Operating Underlying Revenue (\$m)</b>	<b>111.23</b>	<b>118.90</b>	<b>121.13</b>	<b>122.84</b>
Total Underlying Revenue Percentage of GDP (\$m)	27.1	27.7	27.7	27.9
Tax Underlying Revenue Percentage of GDP (\$m)	23.1	23.2	23.2	23.4
<b>Personnel (\$m)</b>	<b>46.2</b>	<b>48.8</b>	<b>49.3</b>	<b>49.3</b>
Percentage of Total Underlying Revenue	41.6	41.0	40.7	40.1
<b>Total Operating Underlying Expenditure (\$m)</b>	<b>113.7</b>	<b>118.9</b>	<b>122.2</b>	<b>122.2</b>
Percentage of GDP	27.7	27.7	28.0	27.8
Percentage of Operating Underlying Revenue	102.2	100.0	100.9	99.5
Re-appropriation of Previous Years Funds for Capital (\$m)	3.1	0.4	0	0
<b>Underlying Operating Balance (\$m)</b>	<b>0.629</b>	<b>0.046</b>	<b>(1.069)</b>	<b>0.606</b>
Percentage of GDP	0.2	0.0	(0.2)	0.1
Non-Operating Balance (\$m)	0	0	0	0
<b>Underlying Overall Surplus/(Deficit) (\$m)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Percentage of GDP	0 per	0 per	0 per	0 per

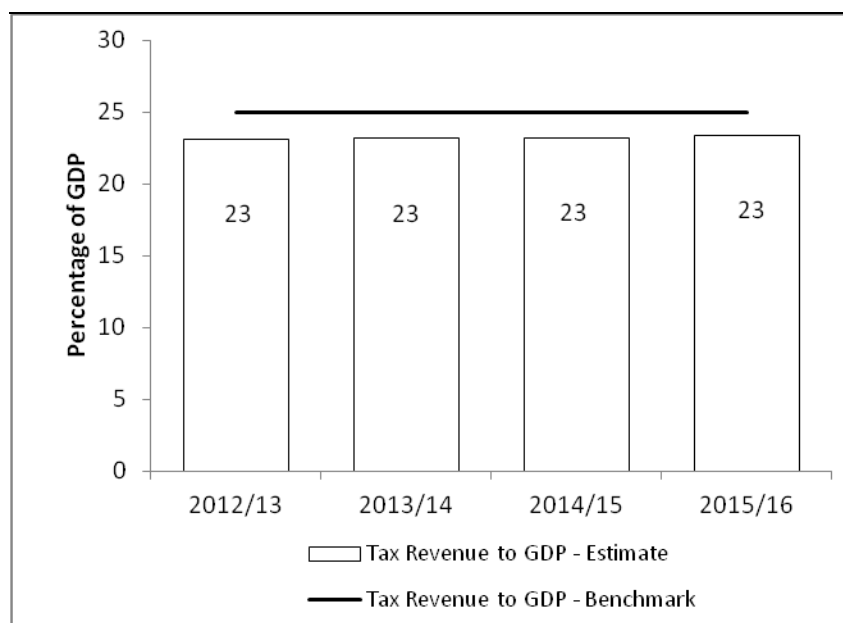
	cent	cent	cent	cent
<b>Statement of Financial Position (\$m)</b>				
Assets (\$m)	388.19	395.68	410.27	410.52
Liabilities (\$m)	98.38	101.08	114.41	114.41
Crown Balance (\$m)	289.81	294.60	295.86	296.11
Percentage of GDP	70.53	68.56	67.76	67.23
<b>Statement of Borrowings (\$m)</b>				
Gross Debt end of FY (\$m)	89.00	100.10	103.10	98.80
Percentage of GDP	21.66	23.29	23.61	22.43
Net Crown Debt, end of FY (\$m)	71.10	83.90	88.30	85.20
Percentage of GDP	17.30	19.52	20.22	19.34
Loan Repayment Reserves Held (\$m)	19.08	17.84	16.60	15.37
<b>Development Partner Support (\$m)</b>				
Grants (\$m)	47.50	59.36	35.78	22.35
Percentage of GDP	11.56	13.81	8.20	5.07
Net Debt Servicing <sup>1</sup> (\$m)	4.78	5.71	6.04	7.80
Percentage of Total Underlying Revenue	4.30	4.80	4.98	6.35
Memo item: Nominal GDP (\$m)	410.89	429.72	436.62	440.45

## 6.1 Tax Revenue to GDP

This ratio sets the revenue boundary and ensures the Crown limits the diversion of resources away from the private sector. The agreed benchmark is to limit collections to within 25 per cent of GDP.

It is important to note that following the recent IMF mission to the Cook Islands in November 2012, Departure tax has been reclassified as a tax rather than an administration fee. The expected performance against this benchmark is illustrated in Chart 6.1 below. Government has maintained its tax regime within appropriate limits and this is expected to continue over the medium term, including the changes to import levies.

**Chart 6.2 Tax Revenue to GDP 2012/13 to 2015/16**



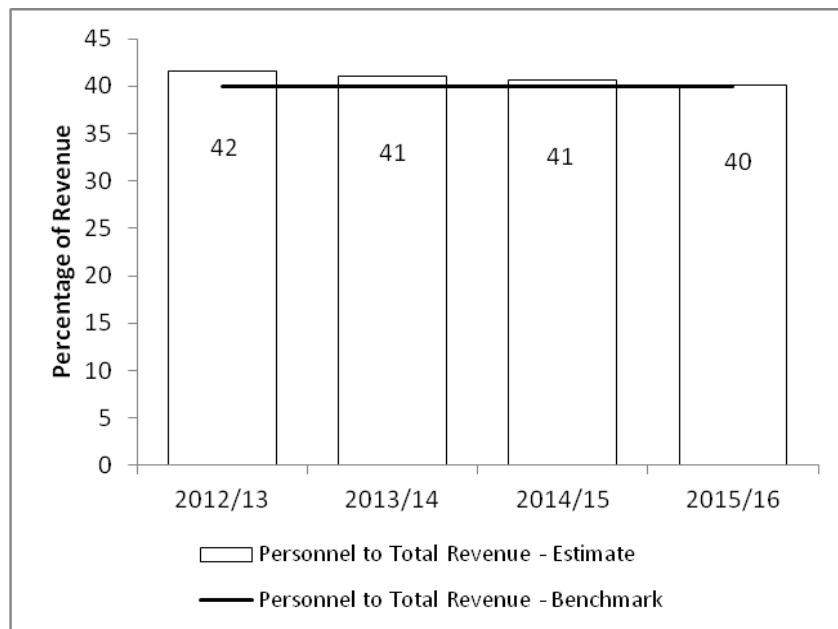
## 6.2 Personnel to Revenue

This ratio is aimed at controlling the expansion in the size of the public service. The agreed benchmark is maintaining expenditure on personnel within 40 per cent of total revenues.

There is no difference between the previous reporting framework and the GFS framework. Subsequently, this ratio is being exceeded as result of Government committing to on-going job sizing increases to the Ministry of Education and Health. It is anticipated that there will be a slow return to the ratio arising out of natural economic growth and the assumption of no alteration to the personnel budget in 2015/16.

As per Chart 6.3. Government's active decision to reduce personnel by taking back savings from vacant positions; however the increases in personnel outweighs the savings which exceeds the levels of the benchmarks established by the FFR.

**Chart 6.3 Personnel Expenditure to Revenue 2012/13 to 2015/16**

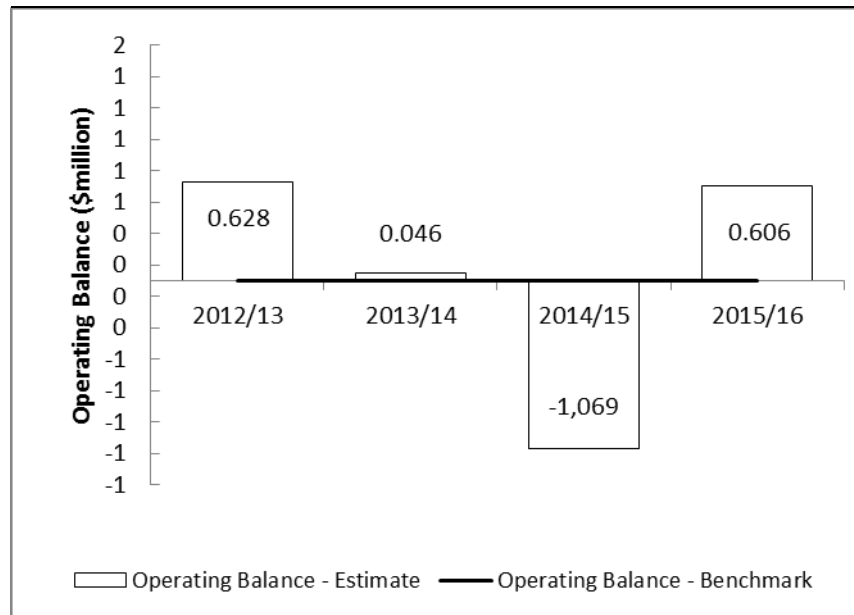


## 6.3 Operating Balance

Maintaining a positive operating balance 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, Government is estimated to maintain within this benchmark over the short and medium term. Government has a small underlying budget surplus of \$0.04 million in 2013/14.

Chart 6.4 Operating Balance 2012/13 to 2015/16



## 6.4 Debt Servicing to Revenue

Debt servicing to total revenue measures the ability of the Crown to service its debt obligations from revenue collected. Debt servicing includes both interest, principle, and is now net of drawdowns of loan reserves to more accurately reflect the ability the Crown to service its debt obligations. The benchmark set is to maintain within five per cent of revenue.

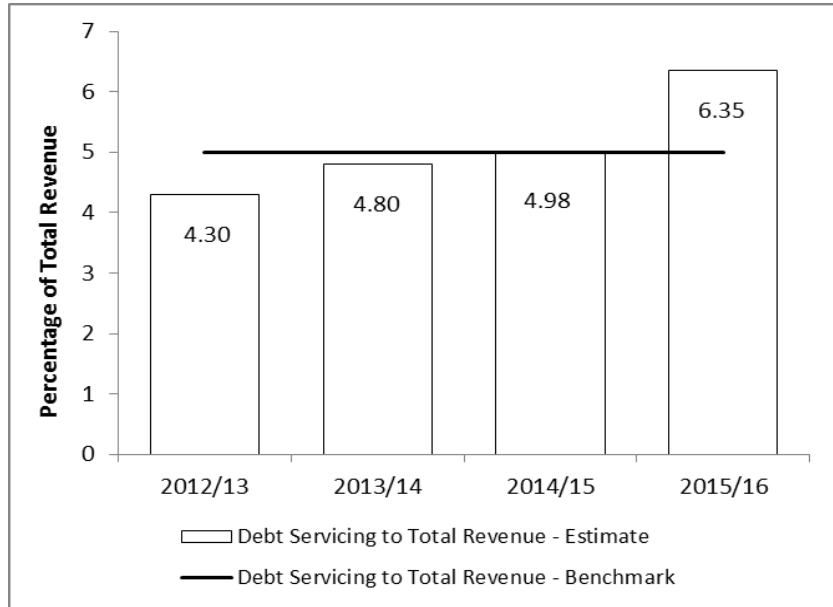
The presentation demonstrates two measures of debt servicing, gross and net. The net debt servicing payment illustrates gross debt servicing payments less outgoings from the loan reserves which have been built up to service debt.

The Crown has committed to new borrowings from the People’s Republic of China to upgrade the Rarotonga water ring main. Government is considering further borrowings and these are discussed in Chapter 10 of the Budget document.

With this amendment to the ratio the level of debt servicing against benchmarks within the short to medium term is maintained within the benchmark as shown in Chart 6.4.



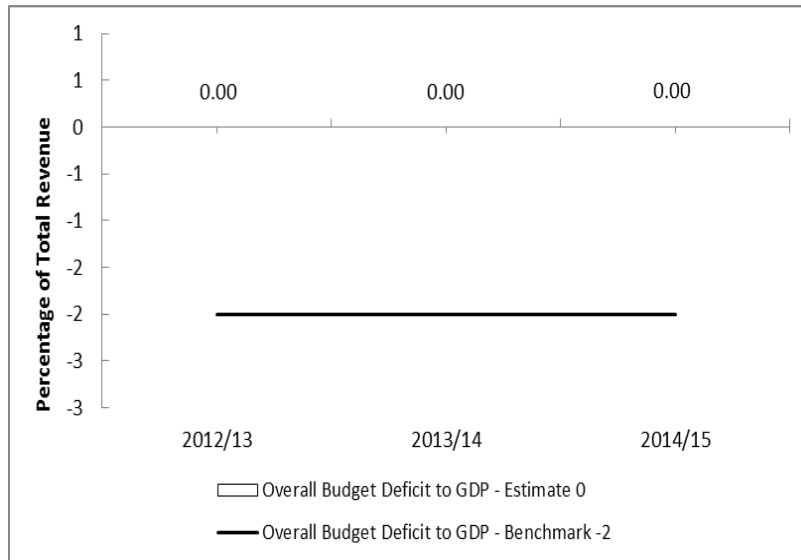
**Chart 6.5 Debt Servicing to Revenue 2012/13 to 2015/16**



## **6.5 Budget Overall Deficit to GDP**

The overall Budgeted Overall Deficit is the shown in the GFS Framework as the Net Cash Financing Transaction. Where this is a deficit, it must be serviced through lending or depletion of reserve funds. The benchmark is set to be maintained within  $\pm 2$  per cent to ensure that the Crown does not accumulate debt too quickly, 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 6.6 illustrates that Government expects to maintain within the benchmark limits over the short to medium term.

**Chart 6.6 Budget Overall Deficit to GDP 2012/13 to 2015/16**



## 6.6 Debt to GDP

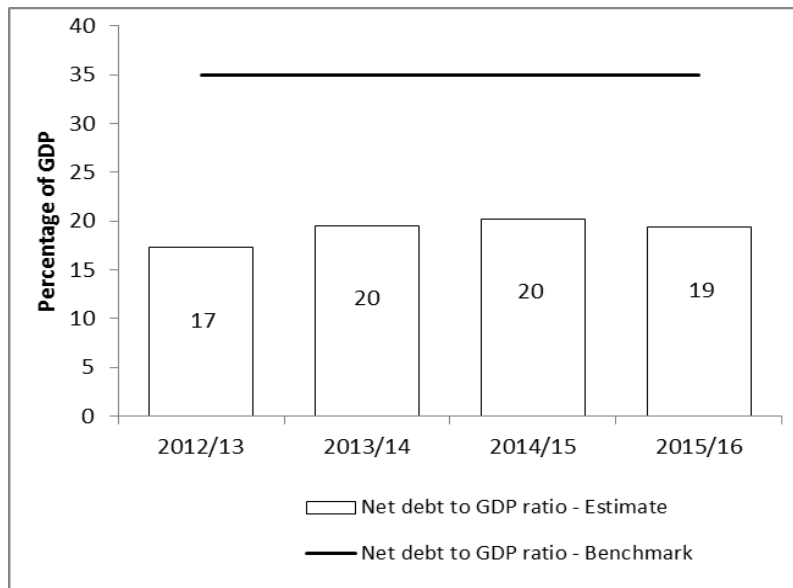
Net debt to GDP measures the level of debt relative to national income and is intended to control the overall level of debt taken on by the Crown. The benchmark agreed to by the Government is to maintain net debt within 35 per cent of GDP.

The presentation demonstrates two measures of debt, gross and net. The net debt illustrates gross debt less loan reserves which have been built up to service debt.

Government is considering further borrowings and these are discussed in Chapter 10 of the Budget document.

Chart 6.6 illustrates that Crown debt is well within the benchmark over the short and medium term. The significant reduction since the time of the 2012/13 Budget is due to a revaluation of debt based on favourable exchange movements.

**Chart 6.7 Net Debt to GDP Ratio 2011/12 to 2014/15**



## 7 REVENUE

### 7.1 Total Revenue

It is expected that Budget revenue will total \$178.5 million in 2013/14, an increase of \$19.6 million on the \$158.6 million expected to be received in 2012/13.

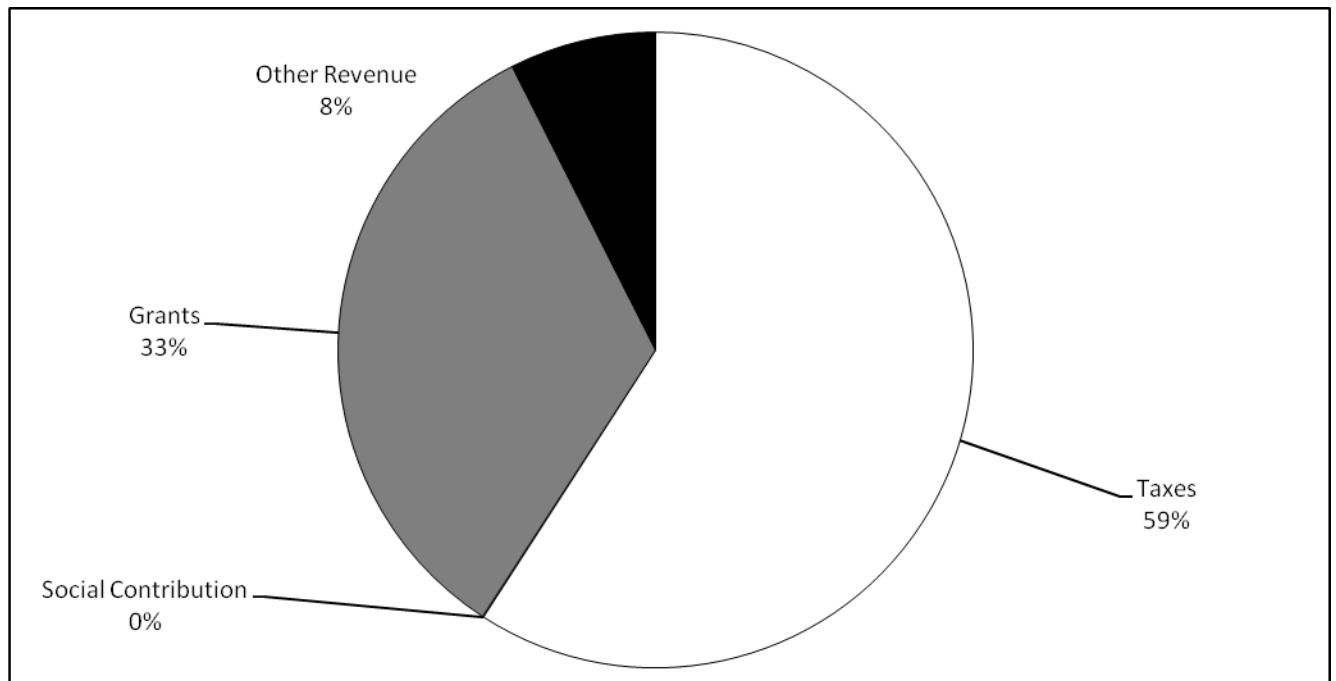
As illustrated in Chart 7.1, taxation provides 59 per cent of revenue, grants (ODA) from other development partners provides 33 per cent, and the remainder is from sources such as sales of goods and services, dividends, fines and interest.

The presentation of revenue is in two formats, Table 7.1 provides revenue amounts with the inclusion of ODA and changes to where some revenue items are classified which is consistent with the standards set out in the IMF Government Financial Statistics Manual 2001. Table 7.2 provides revenue amounts excluding ODA and other changes to determine total underlying revenue.

**Table 7.1 Total GFS Revenue 2012/13 to 2015/16 (Transactions affecting Net worth)**

	2012/13 Estimates \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000	2015/16 Projected \$'000
Taxes	98,523	105,223	106,942	108,620
Social Contribution	75	75	75	75
Grants	47,498	59,364	35,784	22,350
Other Revenue	12,462	13,607	14,113	14,142
<b>Total Operating Revenue</b>	<b>158,558</b>	<b>178,268</b>	<b>156,914</b>	<b>145,187</b>
Growth on Previous Year	-0.8 per cent	12.4 per cent	-12.0 per cent	-7.5 per cent

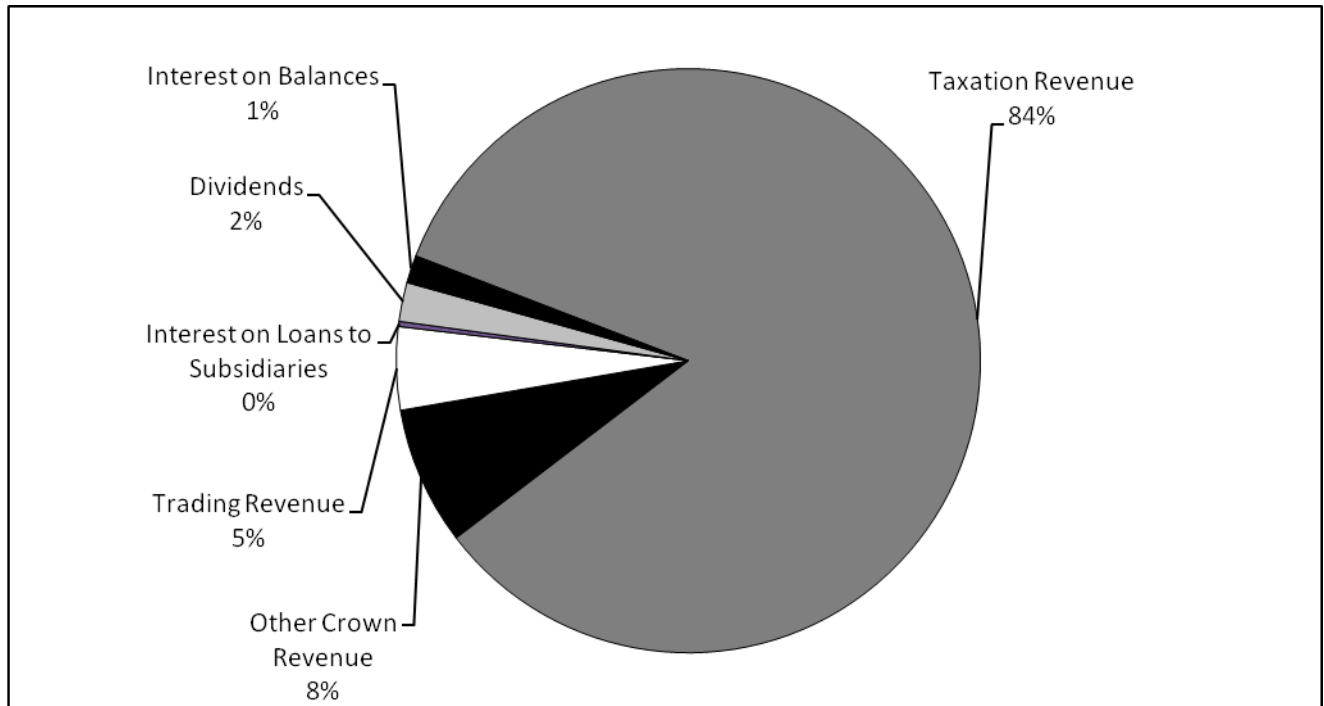
**Chart 7.1 Total GFS Revenue 2012/13 to 2015/16 (Transactions affecting Net worth)**



**Table 7.2 Total Underlying Operating Revenue 2012/13 to 2015/16**

	2012/13 Estimates \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000	2015/16 Projected \$'000
Taxation Revenue	94,971	99,653	101,342	103,020
Other Crown Revenue	6,780	9,092	9,189	9,175
Trading Revenue	5,209	5,452	6,014	6,051
Interest on Loans to Subsidiaries	203	335	323	310
Dividends	2,240	2,561	2,415	2,396
Interest on Balances	1,824	1,812	1,848	1,885
<b>Total Operating Revenue</b>	<b>111,227</b>	<b>118,905</b>	<b>121,130</b>	<b>122,837</b>
Growth on Previous Year	2.3per cent	6.9per cent	1.9per cent	1.4per cent

**Chart 7.2 Total Operating Revenue 2012/13 to 2015/16**



## **7.2 Revenue Initiatives for 2013/14**

Changes in revenue since the 2012/13 Appropriation Amendment consists of two types of changes, parameter changes and policy changes. Parameter changes are the result of factors outside of the immediate control of the Government, whereas policy changes reflect the impact of the Government's decisions.

The Government has made the following policy changes:

- an increase in the personal duty allowance from \$250 - \$750 effective 1 July 2013
- ceasing the withholding tax, effective as of the 1 January 2014

A number of increases in various taxes will apply from 1 July 2013, as a result of decisions which were made by the Government last year. These have been announced and have been incorporated into the forward estimates, and include:

- an increase in the departure tax from \$55 to \$65 from 1 July 2013, and two per cent every per annum to maintain the real value of the tax;
- a progressive increase on the import levies on tobacco products of 33 per cent per annum for three years. The levy will then be increased at 2 per cent per annum to maintain the real value;
- increasing all alcohol levies by two per cent per annum from 1 July 2013 to maintain their real value; and
- increasing the levies on sugared drinks by two per cent per annum from 1 July 2013 to maintain their real value.

The Government has already taken decisions to add further to the underlying revenue base, these include the new Maritime Cook Islands arrangements which are based on turnover, the increase in the US fisheries access payment, and the increased catch turnover which will commence from 2013/14.

Table 7.3 Impact of policy changes to Revenue

	2013/14	2014/15	2015/16
<b><i>2012/13 Supplementary Budget</i></b>			
Underlying Revenue (Excl ODA)	115.424	118.563	118.563
Underlying Expenditure (Excl ODA)	115.632	116.513	116.513
Depreciation	8.899	10.900	10.900
Underlying Expenditure (Excl Depreciation)	106.733	105.613	105.613
<b>Underlying Budget Balance as at February 2013</b>	<b>(0.208)</b>	<b>2.050</b>	<b>2.050</b>
<b>UNDERLYING REVENUE (EXCLUDES ODA)</b>	<b>115.424</b>	<b>118.563</b>	<b>118.563</b>
<b><i>Underlying Revenue - Changes due to Parameters</i></b>	<b>0.501</b>	<b>0.524</b>	<b>2.199</b>
<b>Tax</b>			
General Changes in Tax Parameters	0.509	(0.199)	(1.463)
<b>Non Tax</b>			
Increased Interest MFEM	0.120	0.144	0.169
Improved Compliance Immigration Fees	0.050	0.050	0.050
Other Parameter Changes to Non Tax Revenue	(0.179)	(0.009)	0.008
Adjustments to outer year baselines	0.000	0.537	3.436
<b><i>Decisions Taken by Government</i></b>	<b>2.980</b>	<b>2.043</b>	<b>2.075</b>
<b>Changes to Taxes</b>	<b>(0.172)</b>	<b>(0.775)</b>	<b>(0.775)</b>
Cessation of the 15 per cent Withholding Tax on Interest on 31 Dec 13	(0.400)	(1.000)	(1.000)
Increase in the personal duty allowance 250 to 750 from 1 Jan 14	(0.037)	(0.075)	(0.075)
Improved Offshore Compliance on Company Tax	0.265	0.300	0.300
<b>Changes to Non-Tax Items</b>	<b>3.152</b>	<b>2.818</b>	<b>2.850</b>
<b><i>Funds from SOE's</i></b>	<b>0.435</b>	<b>0.060</b>	<b>0.060</b>
Cost of Capital Charge on Excess Cash held by SOE's	0.060	0.060	0.060
Additional Dividend from Te Aponga Uira	0.375	0.000	0.000
<b><i>Dividends from other Agencies</i></b>	<b>0.045</b>	<b>0.056</b>	<b>0.068</b>
Increase in FSC Dividend (Equivalent to five per cent of Op Expenditure)	0.013	0.013	0.013
Changed Arrangements with Cook Islands Maritime	0.032	0.043	0.055
<b><i>Marine Resources</i></b>	<b>1.964</b>	<b>1.994</b>	<b>1.994</b>
Increase in the US Fisheries Multilateral Treaty	0.264	0.294	0.294
Fisheries Catch Revenue	1.700	1.700	1.700
<b><i>Increased Fees and User Charges</i></b>	<b>0.465</b>	<b>0.465</b>	<b>0.485</b>
<b><i>Revenue on behalf of Crown</i></b>			
Increase in Immigration Fees from 1 July 2013	0.122	0.122	0.122
Increase and Change in Drivers Licence and Motor Vehicle Rego 1 July 13	0.055	0.055	0.075
Increase in Immigration work permits by\$300 per annum from 1 July 14	0.256	0.256	0.256
Increase in Censorship fees from 1 July 14	0.002	0.002	0.002
Increased Firearm Fee Increases from 1 July 14	0.030	0.030	0.030

<i>Trading Revenue - Parameter Changes</i>	0.072	0.072	0.072
<i>Finance and Economic Management</i>	0.050	0.050	0.050
Infrastructure and Planning	0.022	0.022	0.022
 <i>Trading Revenue - Policy Changes</i>	 0.171	 0.171	 0.171
Agriculture	0.050	0.050	0.050
Business Trade and Investment Board	0.102	0.102	0.102
Environment	0.015	0.015	0.015
Infrastructure and Planning	0.040	0.040	0.040
Outer Islands	(0.037)	(0.037)	(0.037)

<b>Total Changes in Underlying Revenue due to Parameters</b>	<b>0.501</b>	<b>0.524</b>	<b>2.199</b>
<b>Total Changes in Underlying Revenue due to Decisions</b>	<b>2.980</b>	<b>2.043</b>	<b>2.075</b>
<b>Total Change in Underlying Revenue</b>	<b>3.481</b>	<b>2.567</b>	<b>4.274</b>
<b>Total Underlying Revenue</b>	<b>118.905</b>	<b>121.130</b>	<b>122.837</b>

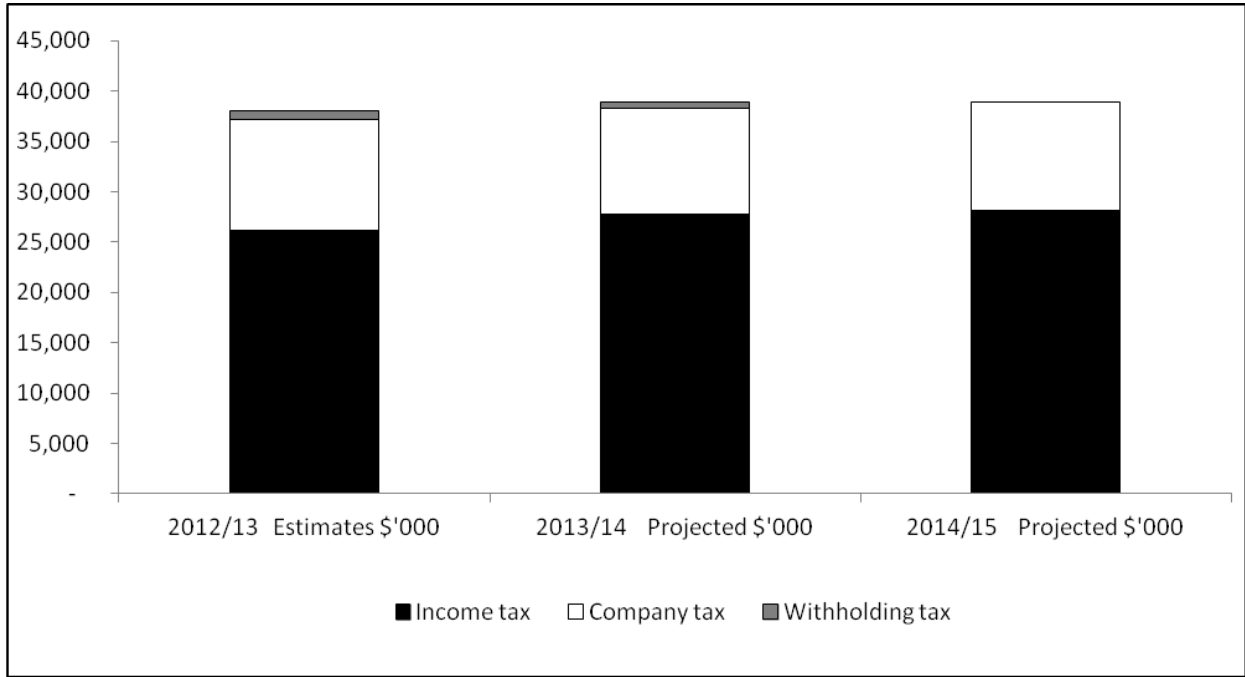
### 7.3 Taxes

Taxes are categorized 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.

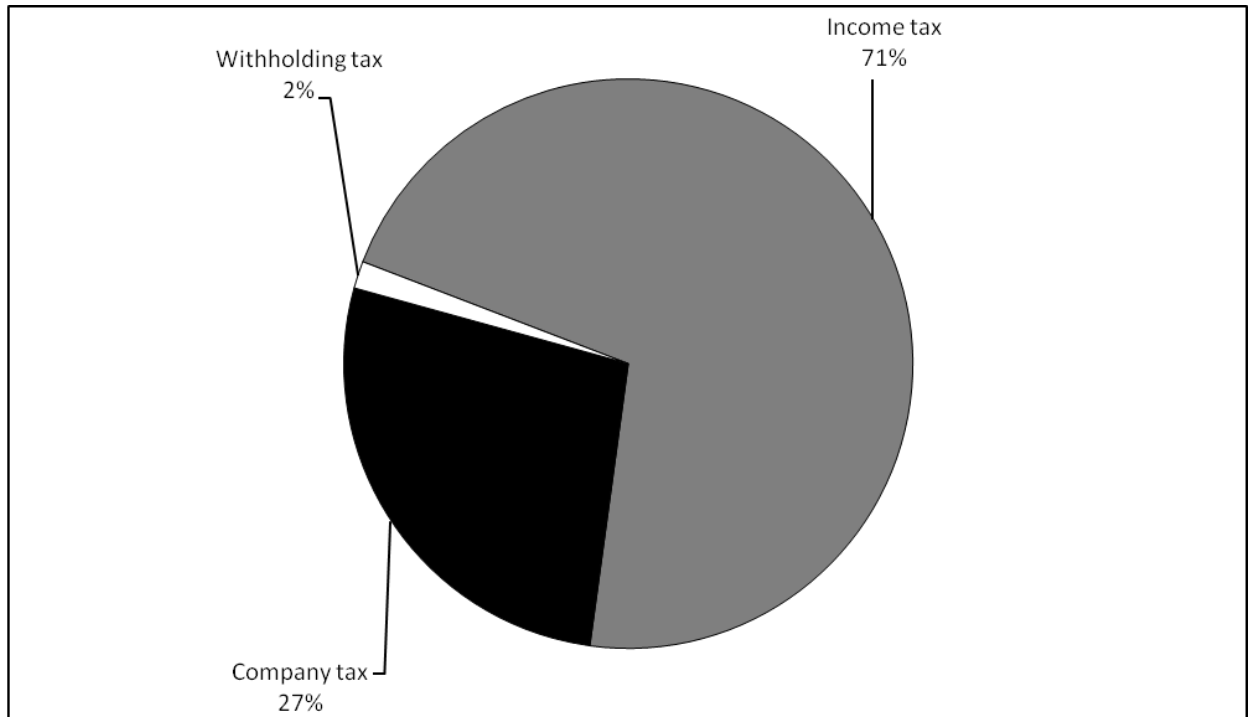
**Table 7.4 Total Direct Taxation 2011/12 to 2014/15**

	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>Estimates</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Income tax	26,201	27,734	28,173	28,416
Company tax	11,001	10,812	11,028	11,128
Withholding tax	900	600	-	-
<b>Total Direct Taxation</b>	<b>38,102</b>	<b>39,146</b>	<b>39,200</b>	<b>39,544</b>
Growth on Previous Year	1.7%	2.7%	0.1%	0.9%

**Chart 7.3 Total Direct Taxation 2012/13 to 2015/16**



**Chart 7.4 Total Direct Taxation 2013/14**





Direct taxation which includes company tax, income tax and withholding tax is expected to grow by 2 per cent in 2013/14.

Individual income tax is expected to benefit from the infrastructure projects around Rarotonga and a continuation of tourism growth. Income tax is expected to reach \$27.7 million in 2013/14, with company tax reaching \$10.5 million. Of the two, company tax is forecast to remain relatively soft compared to the growth in VAT receipts.

The 15 per cent withholding tax on interest earned on bank deposits was introduced at the time of the 2010/11 Budget and will cease as of 1 January 2014, at an annual cost of \$1.2 million a year to the Budget.

**Table 7.5 Total Indirect Taxation 2011/12 to 2014/15**

	<b>2012/13 Estimates \$'000</b>	<b>2013/14Projected \$'000</b>	<b>2014/15Projected \$'000</b>	<b>2015/16 Projected \$'000</b>
VAT	37,350	39,095	39,685	40,034
Departure tax	6,481	8,205	8,773	9,266
Import levies	13,038	13,207	13,683	14,176
Motor Vehicle Registration	620	675	675	675
Fisheries - US Treaties	486	750	780	780
Fisheries - Catch Revenue	0	1,700	1,700	1,700
Fishing Fines	0	0	0	0
Fishing Licences	2,440	2,440	2,440	2,440
Motor Vehicle Dealers	5	5	5	5
<b>Total</b>	<b>60,421</b>	<b>66,077</b>	<b>67,741</b>	<b>69,076</b>
<b>Growth on Previous Year</b>	<b>4.9 per cent</b>	<b>9.4 per cent</b>	<b>2.5 per cent</b>	<b>2.0 per cent</b>

Indirect taxation is expected to grow by 8 per cent in 2013/14 predominantly due to increases inclusion of the new Fisheries Catch Revenue

VAT tax is expected to reach \$39.1 million in 2013/14, a \$1.7 million increase on the estimated 2012/13 receipts. The 4.6 per cent growth in VAT receipts is in line with the forecast nominal GDP growth.

Departure Tax – \$8.2 million in revenue is estimated to be received in 2013/14 representing an increase of \$1.7 million on the \$6.5 million estimated for 2012/13. This increase is due to increased numbers of tourists as well as the previously determined \$10 increase in departure tax as of 1 July 2014.

In 2012/13 also experienced lower departure tax receipts due to the change over from ‘pay at the border’ to ‘pay in the ticket’, which required forgoing some departure tax from forward bookings not being required to pay at the border if they were made before the changeover date.

Import levies - \$13.2 million in revenue is estimated to be received in 2013/14 representing an increase of \$0.2 million on the \$13.0 million estimated for 2012/13 and is expected to grow in line with the

economy also reflecting the increase in tariffs on specific beverages and tobacco levies which came into effect on 1 August 2012.

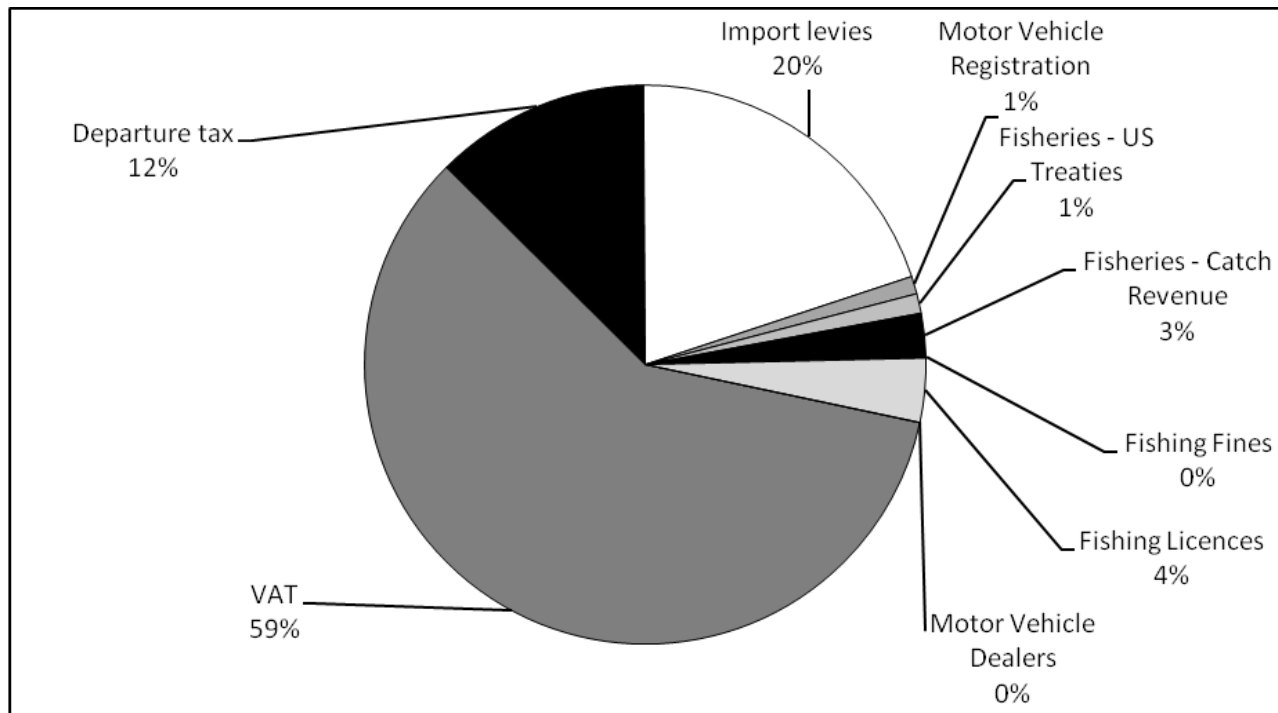
Motor Vehicle Registrations – \$0.67 million is estimated in revenue is estimated to be received in 2013/14 representing an increase \$0.055 million on the \$0.620 million estimated for 2012/13. This is due a change in the fee structure for motor vehicle registrations.

Fisheries US Treaties – \$0.75 million in revenue is estimated to be received in 2013/14 representing an increase of \$0.26 million on the \$0.49 estimated for 2012/13. The final negotiation of the US Treaty is expected to take place in May 2013 and a new Treaty adjusted to US\$63.0 million of which equal share payment is distributed to the 16 Pacific Island Parties.

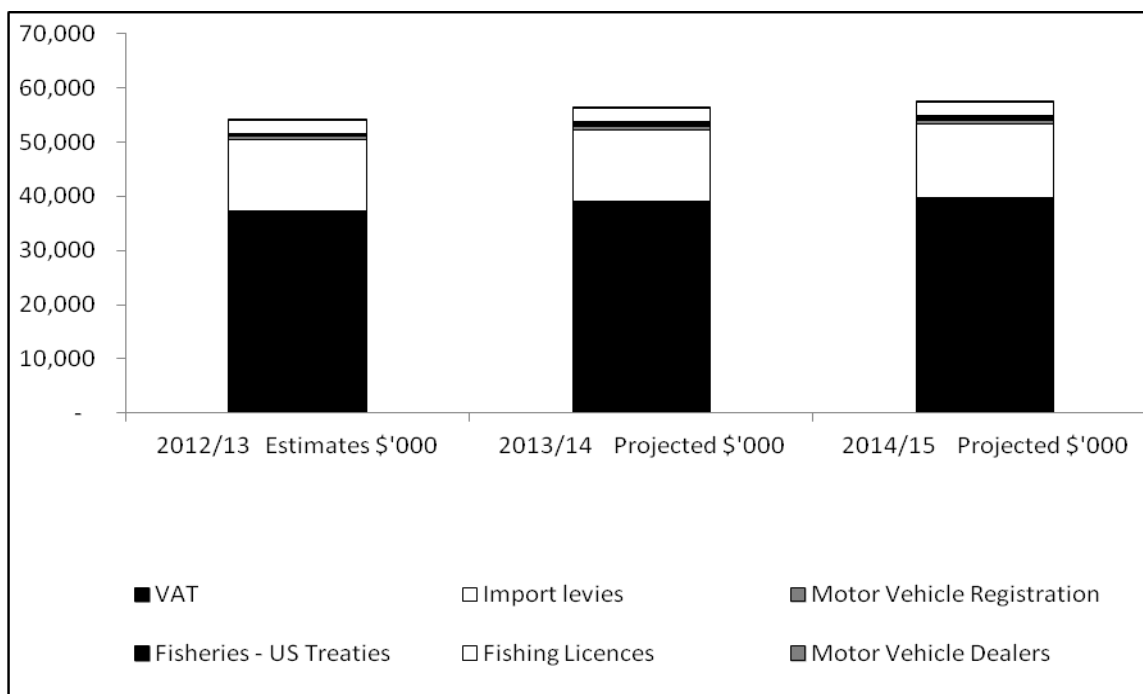
Fisheries Catch Revenue - \$1.7 million in revenue is estimated to be received in 2013/14. The Ministry of Marine Resources(MMR) are establishing future rights to the fishery and within the next 3 years MMR expects to have adopted catches limits in the three main fisheries - skipjack tuna, albacore tuna and big-eye tuna. MMR is looking to stabilize the levels of Access fees and Fishing licenses and focus more on generating revenue from the Catch revenue component and the additional Quotas we issue. The management regime will be more a ‘closed’ catch system compared to the ‘open’ catch system MMR employs today.

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**Chart 7.5 Total Indirect Taxation 2012/13 to 2015/16**



**Chart 7.6 Total Indirect Taxation 2011/12 to 2014/15**



#### 7.4 Social Contributions

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.

**Table 7.6 - Social Contributions 2012/13 to 2015/16**

	2012/13 Estimates \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000	2015/16 Projected \$'000
Employer Liabilities	75	75	75	75
<b>Total</b>	<b>75</b>	<b>75</b>	<b>75</b>	<b>75</b>

## 7.3 Grants

**Table 7.7 - Grants 2012/13 to 2015/16**

	<b>2012/13 Estimates \$'000</b>	<b>2013/14 Projected \$'000</b>	<b>2014/15 Projected \$'000</b>	<b>2015/16 Projected \$'000</b>
Current grants from foreign governments	17,523	27,030	6,530	3,666
Capital grants from foreign governments	29,975	32,333	29,255	18,684
<b>Total</b>	<b>47,498</b>	<b>59,363</b>	<b>35,784</b>	<b>22,350</b>
Growth on Previous Year	5.7per cent	25.per cent	-39.7per cent	-37.5per cent

Grants are transfers received by other governments or international organisations, otherwise known as official development assistance. Full details on ODA are contained in Chapter 14 of this book.

Current grants from development partners (foreign Governments) in the 2013/14 estimates also includes receipts for committed capital projects budgeted in the Capital plan for the 2014/15 and 2015/16 Years.

## 7.4 Other Revenue

**Table 7.8 Other Revenue 2012/13 to 2015/16**

	<b>2012/13 Estimates \$'000</b>	<b>2013/14 Projected \$'000</b>	<b>2014/15 Projected \$'000</b>	<b>2015/16 Projected \$'000</b>
Interest	2,027	2,147	2,171	2,195
Dividends	2,240	2,561	2,415	2,396
Administrative fees	7,473	8,248	8,827	8,825
Incidental sales by nonmarket establishments	600	525	575	600
Fines, penalties, and forfeits	105	105	105	105
Miscellaneous and unidentified revenue	17	21	20	21
<b>Total</b>	<b>12,462</b>	<b>13,607</b>	<b>14,113</b>	<b>14,142</b>
Growth on Previous Year	-37per cent	9per cent	4per cent	0per cent

### 7.4.1 Interest

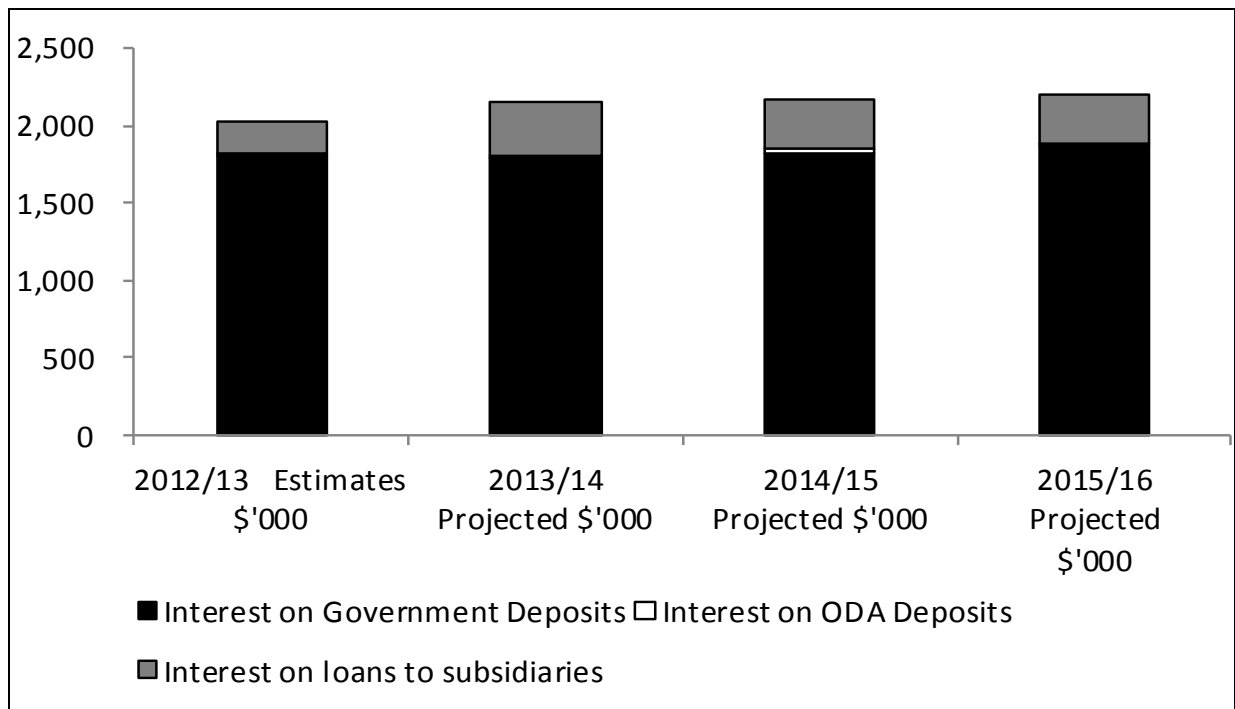
Interest on balances - is estimated to reach \$2.17 million in 2013/14, this is anticipated to increase for the outer years. This represents an increase of \$0.1 million on the \$2.05 million expected to be received in 2012/13 as cash balances increase due to new ADB ERSP Loan taken on by Government.

Interest on ODA deposits represents all interest earned on development partner bank accounts that are administered by the Development Coordination Division of the Ministry of Finance and Economic Management. These include 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 7.9 Total Interest 2012/13 to 2015/16**

	2012/13 Estimates \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000	2015/16 Projected \$'000
Interest on Government Deposits	1,824	1,812	1,848	1,885
Interest on loans to subsidiaries	203	335	323	310
<b>Total</b>	<b>2,027</b>	<b>2,147</b>	<b>2,171</b>	<b>2,195</b>
Growth on Previous Year	-16per cent	6per cent	1per cent	1per cent

**Chart 7.8 Total Interest 2012/13 to 2015/16**



### 7.4.2 Dividends

Total dividends due to the Crown are estimated to reach \$2.5 million in 2013/14. This represents an increase of \$0.3 million on the \$2.2 million dividends expected to be received in 2012/13. The increase is predominantly due to a one off extra ordinary dividend to be provided by Te Aponga Uira (TAU) in 2013/14.

In 2012/13 the Cook Islands Investment Corporation (CIIC) (the parent company) commenced the SOE reform programme with the expectation of developing a dividend policy to provide both Government and SOE's some transparency in terms of requirements around dividend levels. Currently, dividend payment levels are determined individually by each SOE.

The Ports Authority has also indicated that it will not be able to provide the Crown with dividend into the medium term due to the ADB loan repayments for the upgrade of the Avatiu International Harbour.

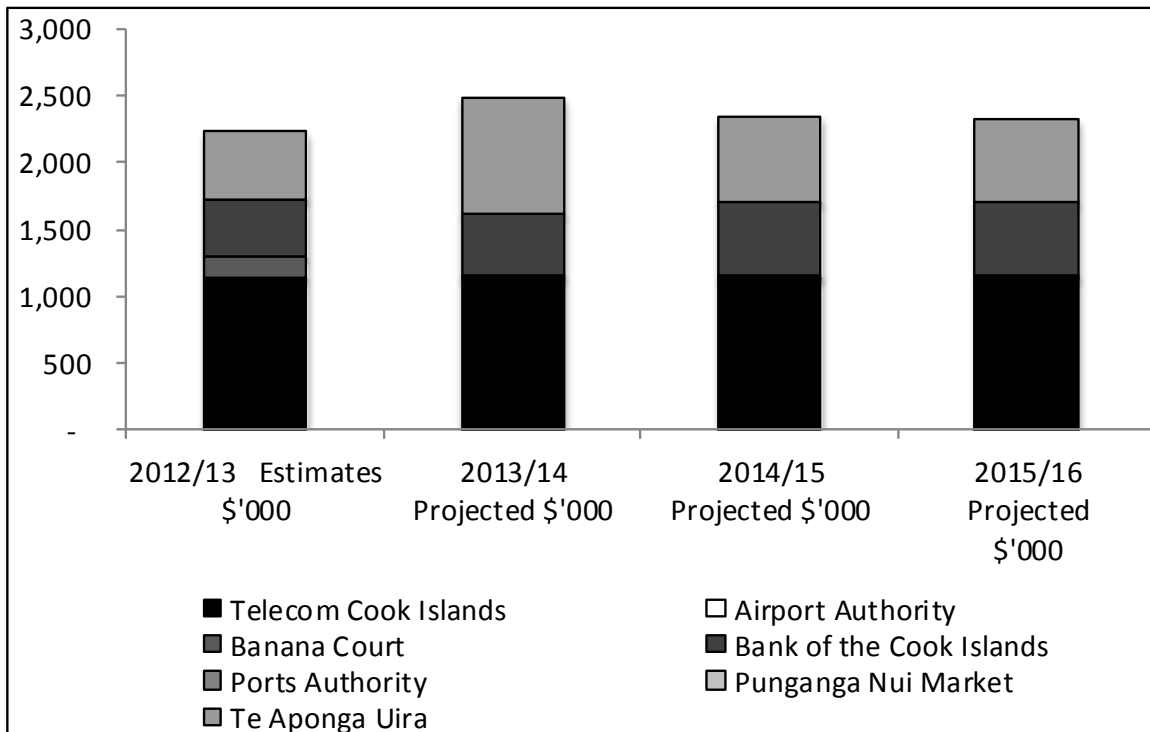
Bank of the Cook Islands (BCI) Dividend - is estimated to reach \$0.47 million in 2013/14, a slight increase on the \$0.44 estimate for 2012/13.

Telecom Cook Islands provides a dividend of \$1.150 million which is expected to remain constant over the outer periods.

**Table 7.10 Total Dividends 2012/13 to 2015/16**

	2012/13 Estimates \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000	2015/16 Projected \$'000
Telecom Cook Islands	1,150	1,150	1,150	1,150
Airport Authority	0	0	0	0
Banana Court	150	10	10	10
Bank of the Cook Islands	440	466	557	557
Ports Authority	0	0	0	0
Punganga Nui Market	0	0	0	0
Te Aponga Uira	500	875	638	619
Extraordinary SOE Dividends	0	60	60	60
<b>Total</b>	<b>2,240</b>	<b>2,561</b>	<b>2,415</b>	<b>2,396</b>
Growth on Previous Year	-27per cent	14per cent	-6per cent	-1per cent

**Chart 7.9 Total Dividends 2012/13 to 2015/16**



### 7.4.3 Administrative Fees

There are also a number of administrative fees which are collected.

- Financial Services Commission (FSC) – \$0.290 million in revenue is estimated to be received in 2013/14 representing a decrease of \$0.03 million on the \$0.293 million estimated for 2012/13. An additional one off extraordinary fee of 5 per cent of FSC operational budget was requested by Government for 2013/14. Despite the additional one off payment, the estimate is an overall reduction from 2012/13 as a result of fluctuations in exchanges rates.
- Immigration Fees – \$0.92 million in revenue is estimated to be received in 2013/14 representing an increase of \$0.38 million on the \$0.54 million estimated for 2012/13. The increase reflects the revision of the current fee structures for several permits issued by the Immigration office provided in the table below. Total fees are anticipated to remain unchanged in the outer years.

**Table 7.11**

<b>Particulars</b>	<b>Old Fees</b>	<b>New Fees</b>
Application Fee	\$10.00	\$20.00
Authority to Travel	\$25.00	\$50.00
CI/PR Status Stamp	\$20.00	\$50.00
Entry and Work Permit	\$480.00	\$680.00
Residence Permit	\$60.00	\$100.00
Variation Fee	\$250.00	\$250.00
Visitors Extension	\$50.00	\$200.00
PR Application	\$100.00	\$150.00

- Tattsлото Grants – \$0.14 million in revenue is estimated to be received in 2013/14 representing a decrease of \$0.02 million on the \$0.12 million estimated for 2012/13. And is expected to increase over the outer years.
- \$0.12 million Proceeds from the Tattsлото grants is channeled through to CISNOC via a POBOC and any additional funds received will be directed to the repayment of the CISNOC debt owed to the Crown.
- Censorship Fees – \$0.01 million in revenue is estimated to be received in 2013/14 representing no change in estimates for 2012/13; however total fees are anticipated to slightly increase in the outer years.
- Permits – \$0.066 million in revenue is estimated to be received in 2013/14 representing an increase of \$0.04 million on the \$0.03 estimated for 2012/13. This is due to a revision of fee structures for the Firearm Fee which is expected to Increase from 1 July 2013.
- Driver’s License – \$0.70 million in revenue is estimated to be received in 2013/14 representing no change on estimates for 2012/13. However, these estimates are expected to increase based on suggested improvement in administration and issuing of drivers licenses, revenue estimates will be reviewed during the financial year.
- Research Fee - \$0.01 in revenue is estimated to be received in 2013/14 representing a slight increase on estimates for 2012/13. 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 - \$0.107 million in revenue is estimated to be received in 2013/14 representing an increase of \$0.04 million from the estimated amount \$0.07 million for 2012/13. The estimates are reflective of the new agreement between Maritime Cook Islands and the Ministry of Transport, with the inclusion of an expected growth in sales on moving average of 10-20 per cent over next three years.
- International Shipping License – \$0.015 million in revenue is estimated to be received in 2013/14 representing no change for 2012/13.
- Liquor License – \$0.03 million in revenue is estimated to be received in 2013/14 representing no change from the estimated amount for 2012/13.
- Upper Air Space Management – \$0.48 million in revenue is estimated to be received in 2013/14 representing an increase of \$0.012 million on the \$0.46 million estimated for 2012/13. 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 ration.
- Total Trading Revenue – \$5.5 million in revenue is estimated to be received in 2013/14 and is expected to slightly increase in the outer years going forward. Trading revenue provides a means of recovery for operational costs incurred in delivering services. Improved compliance, increase in tariffs and development on new policies and the review of old policies and fee structures has been a contributing factor to the increase in trading revenue across Ministries, such as the increase in agricultural quarantine certificates issued at the airport from \$7 to \$10.

**Table 7.12 Administrative Fees 2012/13 to 2015/16**

	2012/13 Estimates \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000	2015/16 Projected \$'000
Financial Services Commission	293	290	276	276
Immigration Fees	540	968	968	968
Tattslotto Grants	120	137	143	150
Censorship Fees	10	10	12	12
Permits	26	66	56	56
Drivers Licences	700	700	700	630
Research Fee	1	1	1	1
Shipping Registration	70	107	118	130
International Shipping Licence	15	15	15	15
Liquor Licencing	26	26	26	26
Upper Air Management Agreement	464	476	498	510
Total Trading Revenue	5,209	5,452	6,014	6,051
<b>Total</b>	<b>7,473</b>	<b>8,248</b>	<b>8,827</b>	<b>8,825</b>
Growth on Previous Year	-0.3%	10.4%	7.0%	0.0%

#### **7.4.4 Incidental Sales by nonmarket establishments**

Numismatic – \$0.45 million in revenue is estimated to be received in 2013/14 representing a decrease of \$0.05 million on the \$0.50 estimated for 2012/13. The decrease is due to a revision of revenue estimates based on collections to date.



**Table 7.13 – Incidental Sales by nonmarket establishments 2012/13 to 2015/16**

	2012/13 Estimates \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000	2015/16 Projected \$'000
Circulating Currency - Coins	100	75	75	100
Numismatics	500	450	500	500
<b>Total</b>	<b>600</b>	<b>525</b>	<b>575</b>	<b>600</b>
Growth on Previous Year	20.0%	-12.5%	9.5%	4.3%

#### 7.4.5 Fines, Penalties and forfeits

Court Services – \$0.04 million in revenue is estimated to be received in 2013/14 representing no change on the estimates for 2012/13

Instant Fines – \$0.07 million in revenue is estimated to be received in 2013/14 representing no change on the estimates for 2012/13. This is expected to remain constant for the outer years.

**Table 7.14 - Fines, Penalties and forfeits 2012/13 to 2015/16**

	2012/13 Estimates \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000	2015/16 Projected \$'000
Court Services	40	40	40	40
Instant Fines	65	65	65	65
<b>Total</b>	<b>105</b>	<b>105</b>	<b>105</b>	<b>105</b>
Growth on Previous Year	-17.3%	0.0%	0.0%	0.0%

#### 7.4.6 Miscellaneous and unidentified revenue

Foreign Investment fees – \$0.020 million in revenue is estimated to be received in 2013/14 representing a slight increase from the \$0.017 amount estimated for 2012/13.

Applications for foreign investment are 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 reflecting the enforcement of the new investment code.

**Table 7.15 - Miscellaneous and unidentified revenue 2012/13 to 2015/16**

	2012/13 Estimates \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000	2015/16 Projected \$'000
Foreign Investment -BTIB	17	21	20	21
<b>Total</b>	<b>17</b>	<b>21</b>	<b>20</b>	<b>21</b>
Growth on Previous Year	0.0 per cent	21.7per cent	-4.1per cent	2.5per cent

## 8 EXPENDITURE

### 8.1 Total Expenditure

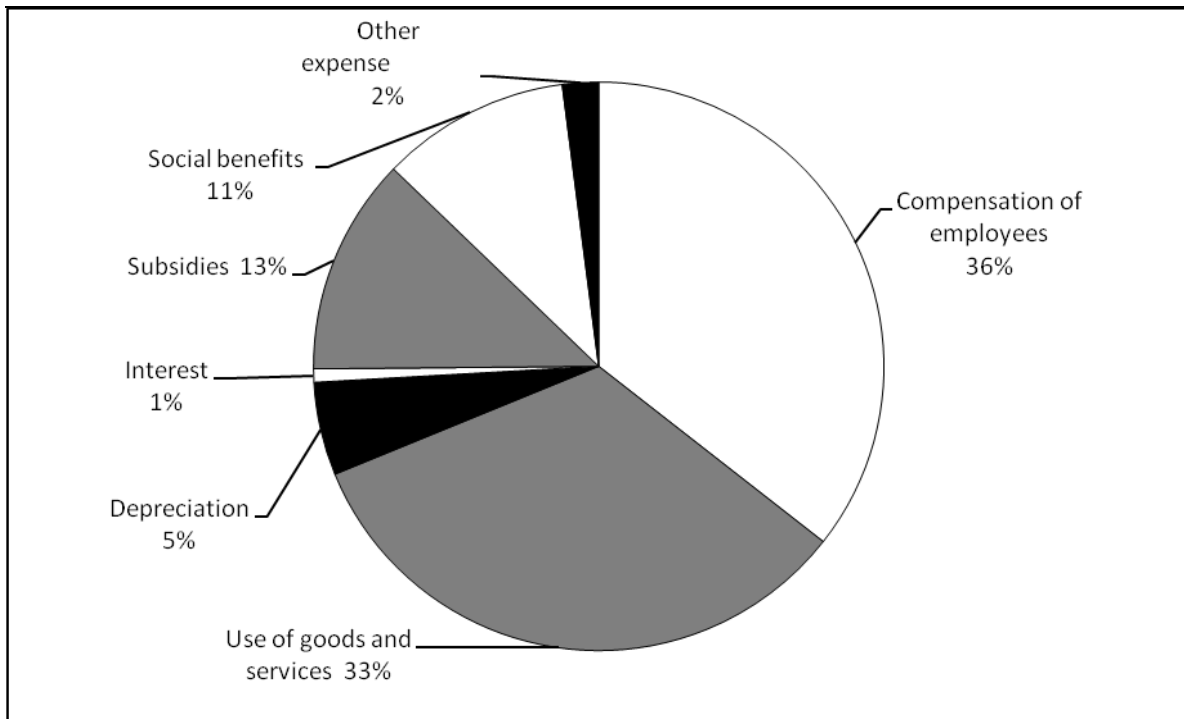
During the last financial year, for the first time, the Cook Islands Government adopted the IMF Government Financial Statistics (GFS) format to present Crown expenditures. The Cook Islands are now consistent with international standards and Table 8.1 demonstrates crown expenditure in a GFS format.

Total Crown expenditure will be \$130.9 million in 2013/14, a decrease of \$0.1 million from the time of the budget in 2012/13.

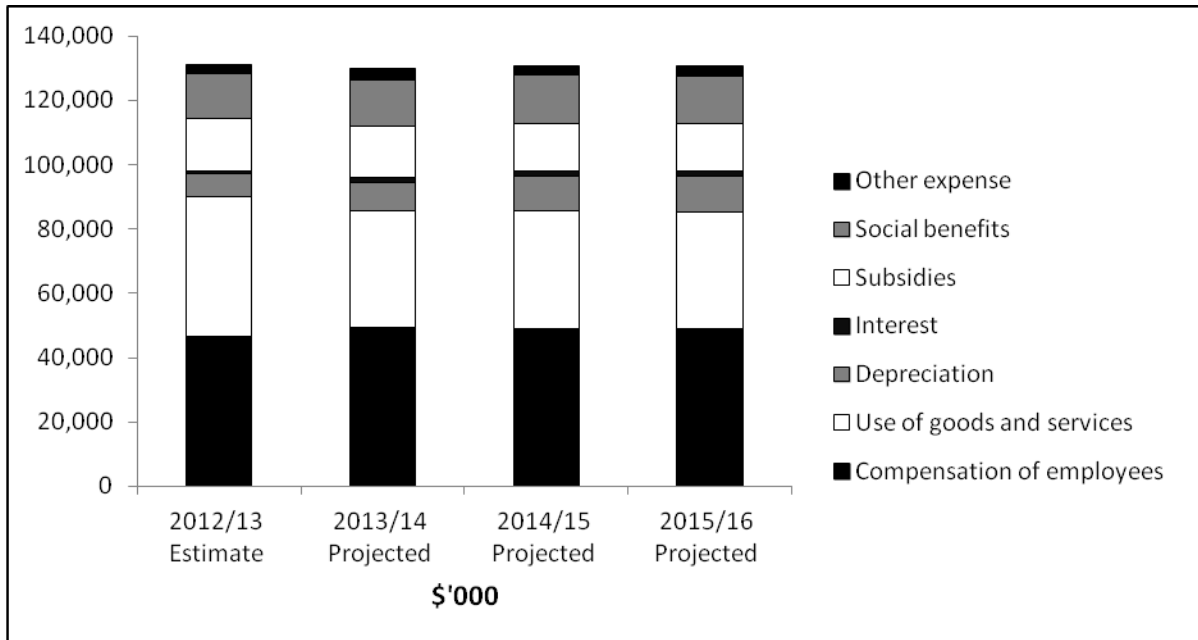
**Table 8.1 Total GFS Expenditure 2012/13 to 2015/16 (Transactions affecting Net worth)**

	2012/13 Estimate	2013/14 Projected	2014/15 Projected	2015/16 Projected
Compensation of employees	46,674	49,173	49,062	48,983
Use of goods and services	43,532	37,393	36,398	36,403
Depreciation	6,963	8,899	10,900	10,900
Interest	993	1,429	1,520	1,520
Subsidies	16,227	16,086	15,026	15,026
Social benefits	14,066	14,544	14,838	14,847
Other expense	2,677	3,432	5,223	5,267
	<b>131,132</b>	<b>130,956</b>	<b>132,967</b>	<b>132,946</b>

**Chart 8.1 Total GFS Expenditure 2012/13 to 2015/16 (Transactions affecting Net worth)**



**Chart 8.2 Total GFS Expenditure 2012/13 to 2015/16 (Transactions affecting Net worth)**

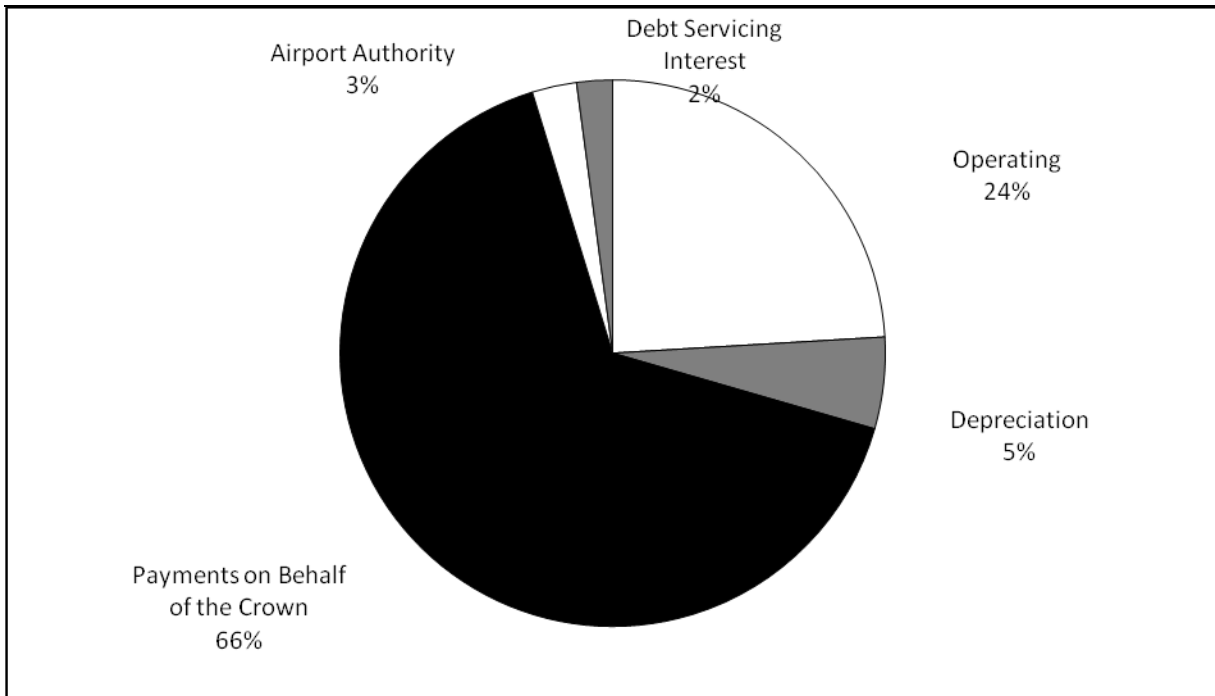


Total expenditure as presented in previous budgets is shown at Table 8.2.

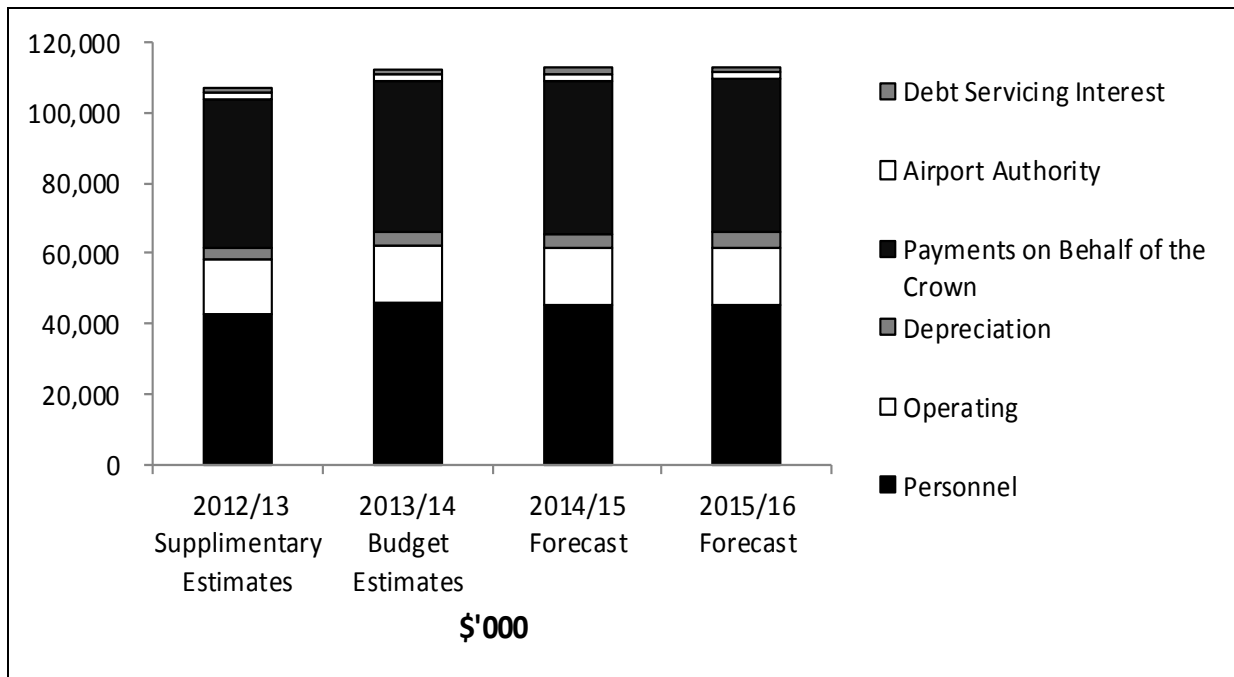
**Table 8.2 Total Operating Expenditure 2012/13 to 2015/16**

	Supplementary Estimates 2012/13	Budget Estimates 2013/14	Forecast 2014/15	Forecast 2015/16	Variance
<b>Operating Expenditure</b>					
Ministry Outputs	61,533	63,591	65,812	65,867	2,058
<i>Personnel</i>	42,545	45,039	45,596	45,592	2,494
<i>Operating</i>	15,503	14,666	16,254	16,258	(837)
<i>Depreciation</i>	3,485	3,887	3,963	4,018	402
Payments on Behalf of the Crown	42,389	43,229	43,483	43,698	840
Airport Authority	1,704	1,998	1,998	1,998	294
Airport Authority - Capital	344	0	0	0	0
Bank of the Cook Islands	181	181	181	181	0
Ports Authority - Infrastructure	200	1,110	50	50	910
Te Aponga Uira	350	350	350	350	0
Debt Servicing Interest	1,368	1,429	1,520	1,283	61
Asset Management	1,800	1,800	1,800	1,800	0
Crown Infrastructure Depreciation	3,478	5,070	6,904	6,904	1,591
Disaster/ Contingency Operating Expenses	184	100	100	100	(84)
<b>Total Operating Expenses</b>	<b>113,724</b>	<b>118,858</b>	<b>122,198</b>	<b>122,231</b>	<b>5,135</b>
Re-appropriated Capital Expenditure from Previous Year	3,125	425	0	0	(2,700)
<b>Fiscal Operating Surplus/(Shortfall)</b>	<b>629</b>	<b>46</b>	<b>(1,069)</b>	<b>606</b>	<b>-582</b>

**Chart 8.3 Total Operating Expenditure 2012/13 to 2015/16**



**Chart 8.4 Total Operating Expenditure 2012/13 to 2015/16**



Changes in expenditure result from either:

- policy decisions leading to new initiatives undertaken by Government; or
- movements that occur outside of a decision are referred to as parameter changes. For example, these would include movements in welfare beneficiary numbers.

Since the 2012/13, Budget changes to the baseline expenditure for the period 2013/14 to 2015/16 have occurred both as the result of Government policy and by parameters changes which are directly outside of the control of Government.

Table 8.3. demonstrates the impact of policies and parameter changes on the level of expenditure in the budget.

Overall, the impact is an increase of \$5.134 million for expenditure from the time of the supplementary budget 2012/13 to the 2013/14 Budget. The major change outside the immediate control of the Government was the increase in costs of job sizing for the Ministry of Education Teachers and Ministry of Health Medical staff that Government are legally obligated to pay. Government has taken policy decisions totalling \$5.6 million in 2013/14 and remains at constant levels in 2014/15.

To offset some of the policy decisions, savings measures were taken totalling \$1.31 million in 2013/14, declining to a savings of \$0.789 million in 2014/15.

## 8.2 New Expenditure Initiatives

The Government has approved new spending initiatives totalling \$5.7 million in 2013/14, and reduces to \$5.1 million in 2014/15. Further details on each of the initiatives are provided further on.

**Table 8.3 New Expenditure Initiatives**

	2013/14	2014/15	2015/16
<b>Outer Island Funding Formula Adjustments</b>	<b>(0.074)</b>	<b>(0.079)</b>	<b>(0.079)</b>
Compensation of Employees	0.380	0.373	0.369
Use of Goods and Services	(0.455)	(0.453)	(0.448)
<b><u>Maintaining our Obligations</u></b>	<b>1.073</b>	<b>1.074</b>	<b>1.074</b>
GFS Payments 8 to 12.1 per cent (Employer Contribution)	0.329	0.329	0.329
Debt Servicing Chinese Concessional Loan	0.491	0.681	0.681
Government contribution to the Te kukupa boat refit	0.150	0.000	0.000
Annual maintenance of the new HRM system	0.078	0.039	0.039
Increase in Pa Enea Broadcasting Subsidy	0.020	0.020	0.020
Standard and Poors Subscription	0.005	0.005	0.005
<b><u>Improving our Health Outcomes</u></b>	<b>0.965</b>	<b>0.959</b>	<b>0.959</b>
Non Communicable Diseases Proceeds from Increased Levies	0.195	0.195	0.195
Increased Salaries for Health Practitioners	0.507	0.507	0.507
Establishment of the Cook Islands Nursing School	0.143	0.137	0.137
Xray machine maintenance	0.045	0.045	0.045
Increase to Patient Referrals	0.050	0.050	0.050

Increase to Pharmaceutical Expenditure	0.025	0.025	0.025
<b><u>Consolidating the Cook Islands International Position</u></b>	<b>0.177</b>	<b>0.117</b>	<b>0.117</b>
Rental - Auckland Consulate General	0.055	0.040	0.040
Participation UN Commission Continental Shelf deliberations	0.045	0.000	0.000
Additional Foreign Affairs Post in Wellington	0.060	0.060	0.060
Wellington High Commission Property Rates Increase	0.017	0.017	0.017
<b><u>Helping our Aged</u></b>	<b>0.414</b>	<b>0.414</b>	<b>0.414</b>
Increasing the Pension for over 70 yoa to \$500 per month	0.414	0.414	0.414
<b><u>Education the Key to our Future Prosperity</u></b>	<b>1.315</b>	<b>1.315</b>	<b>1.315</b>
Increased Salaries for Teachers and Other School Based Staff	1.295	1.295	1.295
Implementation of the Tertiary Education Strategy	0.050	0.050	0.050
Cost recovery on Implementation of the Tertiary Education Strategy	(0.030)	(0.030)	(0.030)
<b><u>Sports for all</u></b>	<b>0.100</b>	<b>0.100</b>	<b>0.100</b>
CISNOC Operational Support for Sports Policy Implementation	0.100	0.100	0.100
<b><u>Regional Engagements - Our place in the Pacific and local Promotion</u></b>	<b>0.307</b>	<b>0.000</b>	<b>0.000</b>
Pacific Islands Chiefs of Police Conference (PICP)	0.057	0.000	0.000
Gender Regional Triennial Meeting	0.030	0.000	0.000
Education Ministers Forum	0.020	0.000	0.000
SOPAC Conference 2013	0.100	0.000	0.000
PWWA Conference 2013	0.100	0.000	0.000
<b><u>Maintaining our Marine Resources</u></b>	<b>0.245</b>	<b>0.245</b>	<b>0.245</b>
Additional Vessel Monitoring for Marine Resources	0.155	0.155	0.155
Additional Vessel Monitoring for Marine Resources	0.025	0.025	0.025
Marine Resources Office in Pago Pago to monitor Fishing Fleet	0.015	0.015	0.015
Advisory services in Sea Bed Mineral Authority	0.050	0.050	0.050
<b><u>Ensuring Justice</u></b>	<b>0.262</b>	<b>0.070</b>	<b>0.070</b>
Special Court sitting for Operation Eagle and Pokoinu Land Inquiry	0.040	0.000	0.000
Improvement of Land and Information Registry -Personnel	0.088	0.000	0.000
Improvement of Land and Information Registry - Operating	0.020	0.000	0.000
OPM Land Administration and Survey	0.015	0.000	0.000
Operation Eagle prosecution resources for Crown Law	0.030	0.000	0.000
Introduce Commercial Law Personnel into Crown Law	0.070	0.070	0.070
<b><u>Improving Compliance</u></b>	<b>0.144</b>	<b>0.144</b>	<b>0.069</b>
MFEM Debt and Returns Catchment Officer	0.030	0.030	0.030
Offshore Company Tax Compliance Effort	0.075	0.075	0.000
Employment of an additional Immigration Compliance Officer	0.030	0.030	0.030
MFEM Boarder Control Salary Correction for Trading Revenue	0.009	0.009	0.009
<b><u>Protecting our Environment</u></b>	<b>0.197</b>	<b>0.189</b>	<b>0.189</b>
E Waste Initiative (NES)	0.008	0.000	0.000
Increase in Waste Management Fees	0.108	0.108	0.108
Cook Islands Marine Park - Linkage in the OPM	0.040	0.040	0.040
Localising Climate Change in the Office of the Prime Minister	0.041	0.041	0.041

<b><u>Our Representatives</u></b>	<b>0.343</b>	<b>0.323</b>	<b>0.323</b>
Ceremonial Funds for the Head of State	0.020	0.000	0.000
Supporting the House of Ariki	0.020	0.020	0.020
Increased Remuneration for Mayors and Counsellors	0.156	0.156	0.156
Increase in Civil List for Remuneration	0.052	0.052	0.052
QR Official Assistance	0.035	0.035	0.035
Additional Support for Prime Minister Support Office	0.060	0.060	0.060
<b><u>Remembering those that served</u></b>	<b>0.005</b>	<b>0.005</b>	<b>0.005</b>
Returned Services Association Funding for ANZAC Day	0.005	0.005	0.005
<b><u>Keeping Government Accountable</u></b>	<b>0.080</b>	<b>0.080</b>	<b>0.080</b>
Performance Analyst PSC	0.045	0.045	0.045
Additional Investigator for the Office of the Ombudsman	0.035	0.035	0.035
<b><u>Economic Opportunity</u></b>	<b>0.075</b>	<b>0.065</b>	<b>0.065</b>
Improved Extension Services to Farmers	0.045	0.045	0.045
Promoting the Retirement Scheme	0.020	0.020	0.020
Assistance to Small Business to get their Accounts in Order	0.010	0.000	0.000
<b>TOTAL EXPENDITURE INITIATIVES</b>	<b>5.627</b>	<b>5.020</b>	<b>4.945</b>

## 8.2.1 Maintaining our Obligations

### GSF Subsidy increase from 8 – 12.1 per cent

The New Zealand Government Superannuation fund employer's contribution has increased from 8 to 12.1 per cent. The proposed increase is effective as of 1 July 2013 and the Cook Islands government public servants on this scheme will be entitled to this increase.

### Annual maintenance for new Government Payroll system

MFEM together with the Office of the Public Service Commission (OPSC) have purchased a payroll/Human Resource Management Information system (HRMIS) which will require annual maintenance costs. This is an OPSC and MFEM initiative to address the issue of the lack of a Human Resource database to manage public servants. The system can efficiently and effectively process payroll services and is integrated with the HRMIS to centralize, for example, annual leave recording.

### Job sizing for Health and Education

During the current financial year, the social sector, in particular the Ministry of Education and Ministry of Health were proactive in carrying out job-sizing reviews with the Office of the Public Service Commission. As a result, all positions were returned to the above ministries with approved new salary bands. Under the Public Service Act 2009, Government has a legal obligation to fund public servants within the approved salary bands. It was noted however; that job sizing for these ministries should accompany other public sector reforms including downsizing rather than being an ad hoc process of one by one evaluation.

In order to achieve the appropriate salary band, staff performance assessments are undertaken, salary increments phased, and Education and Health are allowed to downsize and shed ineffective jobs to make budget space. This will ensure organisational effectiveness (delivery of outputs) and cost effectiveness (value for money) is achieved.

A more structured approach to job sizing is critical. A status quo approach will see other parts of Government putting forward applications for job-sizing without any thought to reforms, the current approach to job sizing has now become unaffordable.

## **8.2.2 Consolidating the Cook Islands International Position**

### **Participation in UN Commission on the Limits of the Continental Shelf deliberations**

Under Articles 76 and 77 of the United Nations Convention on the Law of the Sea (UNCLOS), coastal States are entitled to claim sovereign rights over the natural resources of the continental shelf beyond the 200-mile exclusive economic zone (EEZ), subject to certain geological criteria being met. Claims to the extended continental shelf (ECS) must be endorsed by the UN Commission on the Limits of the Continental Shelf.

Following a detailed examination of the information available, in April 2009, the Cook Islands submitted to the Commission a claim to an ECS enclosing an area of approximately 413,000 sq km to the north of the Cook Islands' EEZ.

It will be necessary for a minimum of three persons to travel from Rarotonga to New York to present the Cook Islands submission, respond to questions from the Commission and to argue the merits of the Cook Islands' claim. Those three persons (including perhaps one Minister) would deal with policy, legal and technical issues regarding the claim.

The Cook Islands attended two hearings in 2012/13 FY. Each hearing took place in New York over a period of approximately five working days. It is anticipated that the Cook Islands will need to attend another two hearings in 2013/14.

If approved, the Cook Islands will have sovereign rights to seabed minerals in an enormous area beyond its EEZ - a possibly significant benefit to the country over the medium to longer term.

### **Rental - Auckland Consulate General**

The Cook Islands Consulate Office (CICO) is now expected to find new premises as the building where they are currently located has been sold. They have until 30 June 2013 to find a new location. As the current premises was formerly owned by CI Property Corp (CIIC), CICO will now have to pay rent and insurance for their new premises. These costs were, until the end of 2011/12, taken off an earlier loan, given by the CICO to CIPC. However, this has now been paid off and so CICO must now pay for rent and insurance costs going forward.

### **City Rates of Wellington High Commission Office**

The Cook Islands High Commission (CIHC) is expected to pay City Rates each year. Previously the CIHC received rebates from the City that basically covered the cost of rates paid. However there was a change of policy last year and the CIHC only received half the rebates that they used to receive. MFAI is therefore seeking funding to cover half the City Rates payable by the CIHC each year. One of the threats of doing business overseas is unforeseen expenses due to changes in the operating environment.

## **8.2.3 Maintaining our Marine Resources**

### **Catch and Effort Data Management and Control**

This program will provide greater economic benefits through licensing revenue, local investments, value added products, exports and infrastructure development. It will provide economic opportunities to the



northern group islands. Although the level of fishing effort has greatly expanded in recent years the resources provided to MMR to support this expansion has declined. A significant boost in resources is required if the MMR is to ensure that the expansion of this industry can be sustained without detriment to regional stocks or local depletion, and more effective licensing arrangements can be put in place (such as a vessel day scheme) to derive greater benefits from licenses.

## **8.2.4 Ensuring Justice**

### **Improvement of Land and Information Registry**

When the Ministry of Justice transferred paper records to digital a form in 2008, part time data entry operators were engaged to do the task. Due to minimal quality and accuracy checks, it was subsequently discovered that the records were entered incorrectly and are not accurate. Cross checking with paper records continue today to reveal mistakes and errors in the digitised records. This issue will have impact on the planned digitisation and computer program intended for the land Register of Titles, Land Trust Account and Birth Register. The Ministry of Justice have received government funding to address this issue.

### **Introduce Commercial Law Personnel into Crown Law**

The Crown Law Office currently does not have a strong background in providing legal advice on commercial matters. This has resulted in poor advice in the past and has exposed Government to litigation which has resulted in costly settlements. Employment of a Crown Counsel with significant experience in commercial law to assist the Solicitor-General in the provision of such advice will minimise those risks and is cost efficient.

## **8.2.5 Improving Compliance**

### **New Position - Collection of tax debt and tax returns**

The Ministry of Finance and Economic Management currently face the issue of insufficient resources to address tax debt (currently at \$25 million) and tax return collection. A 26 per cent debt/expected revenue per cent is a concern. This can now be alleviated through the employment of a second Debt and Return Collection Officer. The recruitment of another Debt and Return Collection Officer will help manage the large number of debt cases and intervene earlier where taxpayer's are falling behind. Generally, the earlier we make contact with tax defaulters, the better the end result for all parties.

### **Offshore Company Tax Compliance Effort**

A review has recently been carried out on the Revenue Management Division of MFEM by the IMF. The review and other anecdotal evidence points to a need to strengthen our audit area, particularly in the area of capturing hotel room sales to overseas wholesalers. Employment of an additional Senior Tax Auditor within RMD, specifically tasked or dedicated to auditing hotels and their sales to overseas wholesalers, through the use of our Tax Information Exchange Agreements with New Zealand and Australia and other means.

## **8.2.6 Protecting our Environment**

### **Cook Islands Marine Park**

Government has declared half of our Exclusive Economic Zone as the Cook Islands Marine Park as a mechanism to enhance the sustainable management of our marine resources. In 2013/2014, Government has furthered its commitment to bring to fruition the Cook Islands Marine Park and has appropriated \$40,000 as a POBOC to progress the operationalization of our Marine Park. Oversight for

this POBOC and activities associated with its use will fall under the gamut of the Office of the Prime Minister.

## 8.3 Savings

The Government has identified total on-going savings of \$2.1 million.

**Table 8.4 Savings in Expenditure**

<b>SAVINGS</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>Total</b>
<b><u>Making Ministerial Support Offices more Efficient</u></b>	<b>(0.147)</b>	<b>(0.147)</b>	<b>(0.147)</b>	<b>(0.441)</b>
Reduction in Operating Costs - Prime Minister Puna's Support Office	(0.012)	(0.012)	(0.012)	(0.036)
Reduction in Operating Costs - Minister Marsters's Support Office	(0.012)	(0.012)	(0.012)	(0.036)
Reduction in Operating Costs - Minister Bishop's Support Office	(0.012)	(0.012)	(0.012)	(0.036)
Reduction in Operating Costs - Minister Heather's Support Office	(0.012)	(0.012)	(0.012)	(0.036)
Reduction in Operating Costs - Minister Glassie's Support Office	(0.012)	(0.012)	(0.012)	(0.036)
Reduction in Operating Costs - Minister Brown Support Office	(0.012)	(0.012)	(0.012)	(0.036)
Reduction in DPM Support Office Vacant Positions	(0.075)	(0.075)	(0.075)	(0.225)
<b><u>Whole of Government Savings</u></b>	<b>(0.098)</b>	<b>(0.105)</b>	<b>(0.104)</b>	<b>(0.307)</b>
Cease the MFEM Insurance POBOC	(0.040)	(0.040)	(0.040)	(0.120)
Cease uneconomic power connections POBOC	(0.050)	(0.050)	(0.050)	(0.150)
Reduction in NSF contribution POBOC	(0.008)	(0.015)	(0.014)	(0.037)
<b><u>Improving support to the Community</u></b>	<b>(0.050)</b>	<b>(0.050)</b>	<b>(0.050)</b>	<b>(0.150)</b>
Reduction in Vaka Maintenance POBOC transfer to Capital	(0.050)	(0.050)	(0.050)	(0.150)
<b><u>Better use of our Public Servants</u></b>	<b>(0.242)</b>	<b>(0.242)</b>	<b>(0.242)</b>	<b>(0.726)</b>
Vacant Position - Parliament Librarian	(0.020)	(0.020)	(0.020)	(0.060)
Vacant Position - NES Finance Officer	(0.040)	(0.040)	(0.040)	(0.120)
Vacant Position - Crown Law Crown Counsel	(0.030)	(0.030)	(0.030)	(0.090)
Vacant Position - MFEM Internal Auditor	(0.035)	(0.035)	(0.035)	(0.105)
Vacant Position - MOIP Director of Finance	(0.045)	(0.045)	(0.045)	(0.135)
Vacant Position - Health Personal Assistance and Policy Officer	(0.040)	(0.040)	(0.040)	(0.120)
Vacant Position - Police Analyst	(0.032)	(0.032)	(0.032)	(0.096)
<b><u>Productivity Dividends from more Efficient Operations</u></b>	<b>(0.254)</b>	<b>(0.254)</b>	<b>(0.254)</b>	<b>(0.762)</b>
Five Per cent Reduction in Operating Costs - Cook Islands Pearl Authority	(0.013)	(0.013)	(0.013)	(0.039)
Five Per cent Reduction in Operating Costs - BTIB	(0.013)	(0.013)	(0.013)	(0.039)
Five Per cent Reduction in Operating Costs - Ministry of Culture	(0.013)	(0.013)	(0.013)	(0.039)
Five Per cent Reduction in Operating Costs - Parliament	(0.005)	(0.005)	(0.005)	(0.015)
Five Per cent Reduction in Operating Costs - National Environment Service	(0.009)	(0.009)	(0.009)	(0.027)

<b>SAVINGS</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>Total</b>
Five Per cent Reduction in Operating Costs - Ministry of Agriculture	(0.005)	(0.005)	(0.005)	(0.015)
Five Per cent Reduction in Operating Costs - Audit Office	(0.005)	(0.005)	(0.005)	(0.015)
Five Per cent Reduction in Operating Costs - Crown Law	(0.008)	(0.008)	(0.008)	(0.024)
Five Per cent Reduction in Operating Costs - MFEM	(0.028)	(0.028)	(0.028)	(0.084)
Five Per cent Reduction in Operating Costs - FSDA	(0.010)	(0.010)	(0.010)	(0.030)
Five Per cent Reduction in Operating Costs - Head of State	(0.002)	(0.002)	(0.002)	(0.006)
Five Per cent Reduction in Operating Costs - MFAI	(0.026)	(0.026)	(0.026)	(0.078)
Five Per cent Reduction in Operating Costs - MOIP	(0.037)	(0.037)	(0.037)	(0.111)
Five Per cent Reduction in Operating Costs - Ministry of Justice	(0.021)	(0.021)	(0.021)	(0.063)
Five Per cent Reduction in Operating Costs - Ministry of Marine Resources	(0.014)	(0.014)	(0.014)	(0.042)
Five Per cent Reduction in Operating Costs - Ombudsman	(0.003)	(0.003)	(0.003)	(0.009)
Five Per cent Reduction in Operating Costs - Office of the Prime Minister	(0.010)	(0.010)	(0.010)	(0.030)
Five Per cent Reduction in Operating Costs - OPSC	(0.003)	(0.003)	(0.003)	(0.009)
Five Per cent Reduction in Operating Costs - Ministry of Internal Affairs	(0.007)	(0.007)	(0.007)	(0.021)
Five Per cent Reduction in Operating Costs - Ministry of Transport	(0.007)	(0.007)	(0.007)	(0.021)
Five Per cent Reduction in Operating Costs - Tourism	(0.015)	(0.015)	(0.015)	(0.045)
<b><i>Localising Te Maeva Nui in 2013</i></b>	<b>(0.528)</b>	<b>0.000</b>	<b>0.000</b>	<b>(0.528)</b>
Localised Approach to Te Maeva Nui in 2013	(0.528)	0.000	0.000	(0.528)
<b>TOTAL SAVINGS</b>	<b>(1.319)</b>	<b>(0.789)</b>	<b>(0.797)</b>	<b>(2.914)</b>

### **Personnel Savings**

Government has now sought to embed these savings in agency budgets. This is not intended to reduce the current number of filled positions in the public service, rather, this takes account of actual personnel under spends in this current year, whilst also taking into account long term vacancies that currently exists that been filled for 6 months and more.

### **Savings in Goods and Services Expenditure**

Government has sought from agencies a five per cent reduction in the use of goods and services. The operating reduction across government should not reduce the current operations; rather take into account the savings achieved through the centralising of government services such as finance, human resources, information technology, and legal, and efficiency gains in energy that will result in reduced energy consumption. These savings should also be targeted at reducing the operating budgets across government for entertainment and travel.

### **POBOC Savings**

A total of \$1.9 million has been identified as POBOC savings as result of budget efficiencies. Full details on the POBOCS can be found in the POBOC section 8.7.

## **8.4 Details on Operating Expenditure**

Operating expenditure refers to expenditure on the delivery of government's core outputs by the public service. Operating Expenditure is made up of compensation of employees (36 per cent), use of goods and services (33 per cent), subsidies (13 per cent), social benefits (11 per cent) and other operating expenditure (2 per cent). Total operating expenditure is estimated to come in at \$129 million for 2013/14.

### **Compensation to Employees (formerly Personnel)**

The compensation to employee's expenditure estimated for 2013/14 has increased to \$ 49.17 million, this represents a \$3.117 million increase in comparison to the Appropriation 2012/13. The increase is predominantly a result of the funding of jobsizing to the Ministry of Health and the Ministry of Education.

### **Use of Goods and Services (formerly operating expenditure)**

The total operating expenditure estimated for 2013/14 has reduced to \$36.33 million, this represents a \$1.205 reduction from the Appropriation 2012/13. Overall this represents a 5 per cent operating savings from Ministry baseline budgets to improve cost saving efficiencies in the public service. Heads of Ministries will be responsible for finding these savings in their budgets.

### **Consumption of Fixed Capital (formerly Depreciation)**

Total depreciation for 2013/14 is consistent with the estimated amount from the Appropriation 2012/13 at \$8.889 million.

### **Debt Servicing Payments**

Gross Debt servicing payments incorporate both interest and principal payments for 2013/14 are estimated to be \$5.7 million. Further information on debt and associated servicing payments are contained within Chapter 10.

## 8.5 Minor Adjustments to Expenditure

- Promoting the Retirement Scheme, \$0.020 million
- Book-keeping and Accounting Assistance to Small Businesses, \$0.010 million
- Senior Investigator at the Office of the Ombudsman to handle tax, procurement, immigration, police issues, 0.035 million
- Localise a donor funded Performance Analyst position at the Office of the Public Service Commission, \$0.045 million
- A new position aimed to Improve Extension of services to farmers for the Ministry of Agriculture, \$0.045 million
- Maintenance of the Rarotonga Hospital's X-ray machine, \$0.045 million
- Land Administration and Survey services for OPM, \$0.015 million
- Additional Immigration Compliance Officer, \$0.030 million

## 8.6 Ministerial Support Offices

The Ministerial Support Office budgets have been reduced for budget 2013/14 however due to the GSF subsidy increase from 8 per cent to 12.1 per cent employer contributions, two support offices namely the Support office for the Prime Minister and Minister of Finance have received slight increases to compensate for staff members currently on the GSF scheme. Additional funding was also provided for a communications advisor to sit under the Prime Minister's office; however, this position will also service other Cabinet Ministers' offices. The Ministerial Support Offices were also included in the budget cuts to improve efficiencies in the public service.

**Table 8.5 Ministerial Support Office Summary 2013/14**

Summary	Net Baseline			Budget
	2013-14	Budget Cut	Transfer	2013-14
PM	377,382	(12,000)	60,000	425,382
DPM	310,000	(12,000)	(75,000)	223,000
Minister Brown	287,870	(12,000)		275,870
Minister Heather	205,000	(12,000)		193,000
Minister Glassie	205,000	(12,000)		193,000
Minister Bishop	205,000	(12,000)		193,000
Leader of the Opposition	205,000			205,000
<b>TOTAL</b>	<b>1,795,252</b>	<b>(72,000)</b>	<b>(15,000)</b>	<b>1,708,252</b>

## 8.7 Payments on Behalf of the Crown

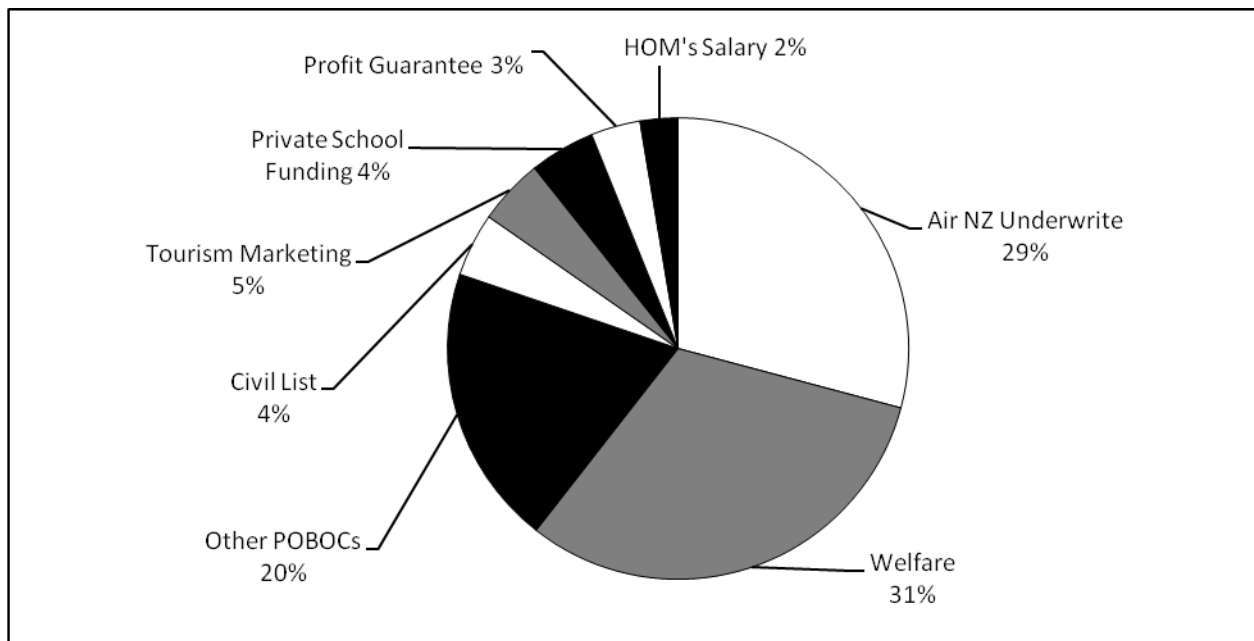
Payments on Behalf of Crown (POBOCs) have increased by \$0.230 million to a total of \$43.2 million in 2013/14.

Government POBOC's comprise of a large variety of payments to Ministries that serve for different purposes. The POBOC's of significant value can be seen below in Table 8.6.

**Table 8.6 POBOC Summary 2013/14 – 2015/16**

<b>POBOCS</b>	<b>2013/14 Estimate \$'000</b>	<b>2014/15 Projected \$'000</b>	<b>2015/16 Projected \$'000</b>
Air NZ Underwrite	12,600	12,600	12,600
Welfare	13,584	13,878	14,157
Other POBOCs	8,501	8,461	8,446
Civil List	1,925	1,925	1,925
Tourism Marketing	2,000	2,000	2,000
Private School Funding	1,983	1,983	1,983
Profit Guarantee	1,500	1,500	1,500
HOM's Salary	1,144	1,144	1,144
<b>Total POBOCS</b>	<b>\$43,236</b>	<b>\$43,490</b>	<b>\$43,755</b>

**Chart 8.5 POBOC Summary for 2013/14 – 2015/16**



Based on Chart 8.5, it is evident that the Air New Zealand underwrite and Welfare POBOC's equate to a large portion of the total POBOC appropriation for 2013/14. More detail on each of the POBOC's with significant value is provided below.

## 8.7.1 Subsidies

Table 8.7

Air New Zealand Underwrite			
2012/13	2013/14	2014/15	2015/16
13,600,000	12,600,000	12,600,000	12,600,000

The Air New Zealand underwrite POBOC supports two non-commercial long haul services operated by Air New Zealand from Los Angeles to Rarotonga and from Sydney to Rarotonga.

The 2013/14 estimate of \$13.6 million at the time of the Budget 2012/13 has reduced by \$1.0 million to \$12.6 million in Budget 2013/14. This new costing has been extended to cover the forward years under the assumption that present operations will continue.

Table 8.8

Apex - Profit Guarantee POBOC			
2012/13	2013/14	2014/15	2015/16
1,500,000	1,500,000	1,500,000	1,500,000

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.

## 8.7.2 Use of Goods and Services

Table 8.9

Civil List			
2012/13	2013/14	2014/15	2015/16
2,447,602	1,924,971	1,924,971	1,924,971

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 2013/14, an increase of \$0.052 million has been added to the POBOC for remuneration and to accommodate the GSF subsidy increases to members on this employee contribution scheme.

Table 8.10

Marketing – Tourism Growth Strategy			
2012/13	2013/14	2014/15	2015/16
2,000,000	2,000,000	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 will strengthen the load factor for these route services.



### **Te Kukupa boat refit**

The age of the patrol boat CIPPB Te Kukupa means increasing maintenance cost which will require on-going funding. It is paramount that the vessel undergoes a life extension refit to prolong its service life to the Cook Islands so the CI Police has received POBOC funding of \$0.150 million.

### **Establishment of Waste Management POBOC**

The purpose of this POBOC is to administer payments for the Rarotonga Rubbish Collection in a timely manner, in accordance with the Cook Islands Government Policies and Procedures Manual (CIGPPM) and within the allocated budget. This will ensure continuous service delivery of all rubbish collection on Rarotonga.

Over the 2012/13 financial period, the Ministry experienced financial constraints to its operational budget due to the unanticipated increase in contractor rates. The increase in rates was unexpected and therefore affected the operational budget of the Waste Management Facility to the extent that it absorbed the full operational budget allocation in addition a portion of the operational budget from other Outputs within the Ministry.

## **8.7.3 Compensation of Employees**

**Table 8.11**

	<b>HOM'S Salary POBOC</b>			
<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	
1,138,279	1,144,716	1,144,716	1,144,716	

The Head of Department (HOM) Salaries POBOC was established in 2012/13. The purpose is to provide the Office of the Public Service Commission with legislative mandate over the determination of HOM Salaries. The component of HOM Salaries was transferred out of the Personnel Budget for all Ministries governed by the Public Service Commission Act and moved into this POBOC. The office of the Public Service Commission will use this POBOC to assist them in monitoring HOM's performance against their remuneration packages. The amount of funds expended on HOM's salaries and entitlements will therefore be made more transparent. The POBOC amount has received a slight increase as a result of the GSF subsidy increase from 8 – 12.1 per cent for HOM's on this scheme.

## **8.7.4 Social Assistance**

### **Re-establishment of Nursing School**

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. Most new nurses are recruited from neighbouring low income countries like Fiji, Solomon Islands, Vanuatu and Tonga. Foreign nurses on contract within the Ministry make up 30 per cent of the nursing workforce. It is anticipated that failure to reopen the Cook Islands Nursing School in 2013 will result in a higher intake of foreign workers within the next 4 years. The Ministry of Health faces another hurdle as 30 per cent of its 111 nurses are nearing or over the age of 60 and will therefore soon be retiring.

### **Establishment of Health Non Communicable Disease Fund**

The Cook Islands is experiencing an epidemic of obesity, cardiovascular disease and stroke, diabetes, and cancer. The Ministry of Health has received high rates of tooth decay and periodontal disease in our children resulting from poor choices of food and nutrition. The burden of disease (Non Communicable Disease/chronic) impacts severely on the social and economic status of the Cook Islands particularly with early death and/or referral to New Zealand for tertiary level care.

Tobacco use is one of the key risk factors for the development of a wide range of non-communicable diseases including heart disease, cancer, diabetes, and stroke. A high proportion of the Cook Islands population are obese (average BMI = 32.8) with women (average Body Mass Index = 33.3) and men (32.3).

The establishment of a sustainable funding mechanism will be used for health promotion activities (tobacco, alcohol, nutrition, and physical activity) to encourage people living in the Cook Islands to make healthy lifestyle choices.

**Increase to Patient Referral**

An additional \$0.050 million has been appropriated to assist the payment of costs due to the increase in number of patients from the Pa Enua and Rarotonga accessing the health services in New Zealand. Although the outer islands statistics does not show a dramatic increase in patients referred to Rarotonga, it must be noted that emergency cases in the Pa Enua warrants a chartered flight which is costly. In 2011/12, there were 12 chartered flights to Pa Enua which has an average cost of \$0.020 million per flight.

There are increasing numbers of patients presenting with chronic diseases and complications from cardiovascular disease, diabetes, cancer, renal failure, stroke; as well as multiple injuries from road traffic crashes, the majority of which are alcohol related. These represent a myriad of ailments requiring tertiary level services that 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 conduit to meet these needs.

**Increase to Pharmaceuticals POBOC**

The Ministry of health will receive an additional \$0.050 million to ensure availability of essential medicines for clinicians to treat patients.

The request to increase the allocation is due to the following reasons:

- Increasing number of NCD patients;
- Increase in costs of pharmaceutical supplies;
- Increase in palliative care patients requiring pain relief;
- The new Human Papillomavirus (HPV) vaccine was introduced as part of the immunization schedule. The first dosage was introduced in 2011 through a mass treatment of the 9-13 year old population - partially funded by the WHO; the requirement is for all nine year old girls to be vaccinated. This vaccine is important for the prevention of cervical cancer;

**Welfare POBOC**

**Table 8.12**

<b>Welfare POBOC</b>			
<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
13,095,800	13,583,800	13,878,200	14,157,400

The Welfare POBOC supports and protects the most vulnerable members of our society through the provision of welfare benefits paid by Government.

The payments are aimed at assisting the disadvantaged, the elderly, the 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. A review of the welfare system is currently underway.

**Table 8.13 Old Age Welfare Funds**

	<b>2012/13 Budget</b>	<b>2013/14 Budget</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>
<b><i>Legislated Payments</i></b>				
1 Child Benefit	2,595,600	2,570,400	2,552,400	2,534,400
2 New Born Allowance	267,000	310,000	347,000	367,000
3 Old Age Pension Destitute and Infirm Persons	8,617,600	8,988,000	9,276,000	9,564,000
4 Payment Government-funded Paid Maternity	448,200	414,000	401,400	390,600
5 Leave	49,000	192,000	192,000	192,000
<b><i>Non-legislated Welfare Payments</i></b>				
6 Caregiver's Allowance	315,000	306,000	306,000	306,000
7 Christmas Bonus	300,000	300,000	300,000	300,000
8 Funeral Allowance	170,000	170,000	170,000	170,000
9 Power Subsidy	86,400	86,400	86,400	86,400
10 Special Assistance Bank of Cook Islands Transaction	100,000	100,000	100,000	100,000
11 Fees	147,000	147,000	147,000	147,000

**Table 8.14 Details on Welfare Payments**

	<b>Payment Rate</b>	<b>Beneficiaries 2012/13 Budget</b>	<b>Beneficiaries 2013/14 Estimated</b>	<b>Assumptions</b>
<b><i>Legislated Welfare Payments</i></b>				
Child Benefit (monthly)	60	3605	3,570	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	267	310	An increase in the number of births expected based on current trends.
Old Age Pension - 60 to 69 years of age (monthly)	400	1,018	1,010	A minor reduction 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)	500	691	690	Maintenance of the current number of people turning 70 years of age based on current trends.
Destitute and Infirm Persons Payment(monthly)	150	249	230	A decrease in the number of people receiving these payments based on current trends.
<b><i>Non-legislated Welfare Payments</i></b>				
Caregiver's Allowance(monthly)	150	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 2012.
Funeral Allowance*	2,400	70	70	Estimated number of old age beneficiaries expected to funeral assistance.
Power Subsidy(quarterly)	60	360	360	Estimated number of old age beneficiaries expected to receive power subsidy.
<b><i>Other Payments</i></b>				
Government-funded Paid Maternity Leave***	1,200	42	160	Estimated number of working women in the private sector expected to be eligible for paid maternity leave.

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 Jan 2013.

**Table 8.15 Old Age Welfare Funds**

	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Cost to Government	414,000	414,000	414,000
Beneficiary numbers for 70 and over	690	690	730
Annual Increase in Pension per person aged 70 and over	600	600	600
Annual Increase in per person before increase	5,400	5,400	5,400
New Annual rate	6,000	6,000	6,000

The Government will increase the rate of payment for eligible Cook Islanders aged 70 and over from \$450 per month to \$500 per month from 1 July 2013. The increase is part of the Government's commitment to phase in an increase to the old age pension to a target of \$800 per month over the next few years.

The payment is paid in two monthly instalments on the 1<sup>st</sup> and the 16<sup>th</sup> of each month.

On average, it is estimated that there will be approximately 690 eligible beneficiaries aged 70 and over in 2013/14.

The rate of payment for old age pensioners aged between 60 and 69 will remain at the current rate of \$400 per month. On average, it is estimated that there will be approximately 1,010 eligible beneficiaries aged between 60 and 69 years in 2013/14.

### **8.7.5 Current Miscellaneous Other Expense**

**Table 8.16**

<b>Private School Funding POBOC</b>			
<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
1,731,295	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 must demonstrate 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 is identified through religious affiliation.

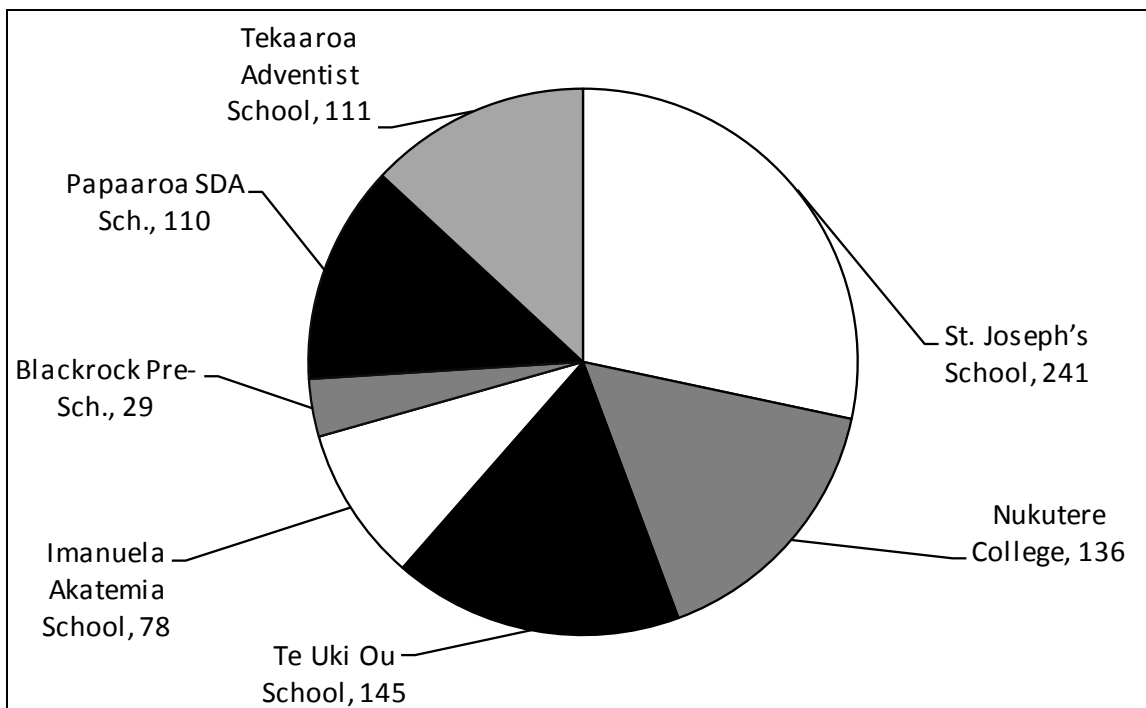
All private schools receive 100 per cent equivalent funding to government schools for professional staff salaries and operating costs based on enrolment - no funds are provided for grounds or buildings. Funding is conditional on the school being open to education review, quality assurance, and financial audit. 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 with respect to service training for teachers, specialist services and specific resourcing or pedagogical projects.

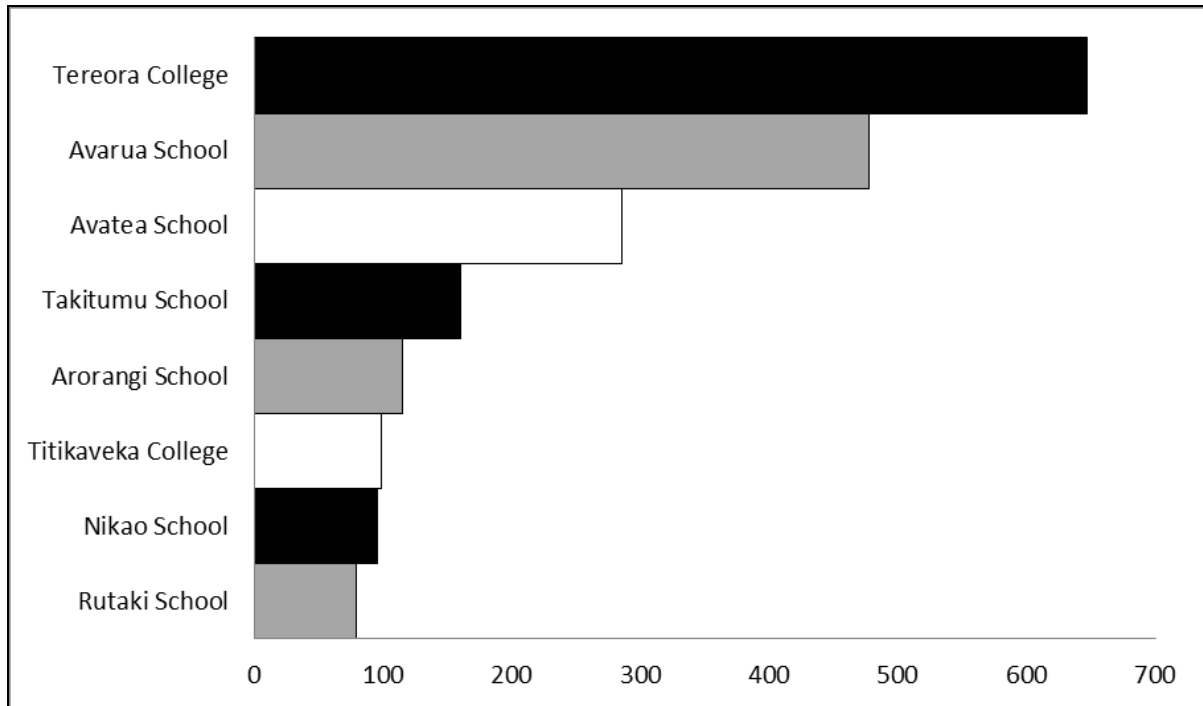
Private schools may charge additional fees. These are utilized to fund buildings, ancillary staff (e.g. library, office) and for some schools, additional teachers (some private schools have lower teacher: student ratios).

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

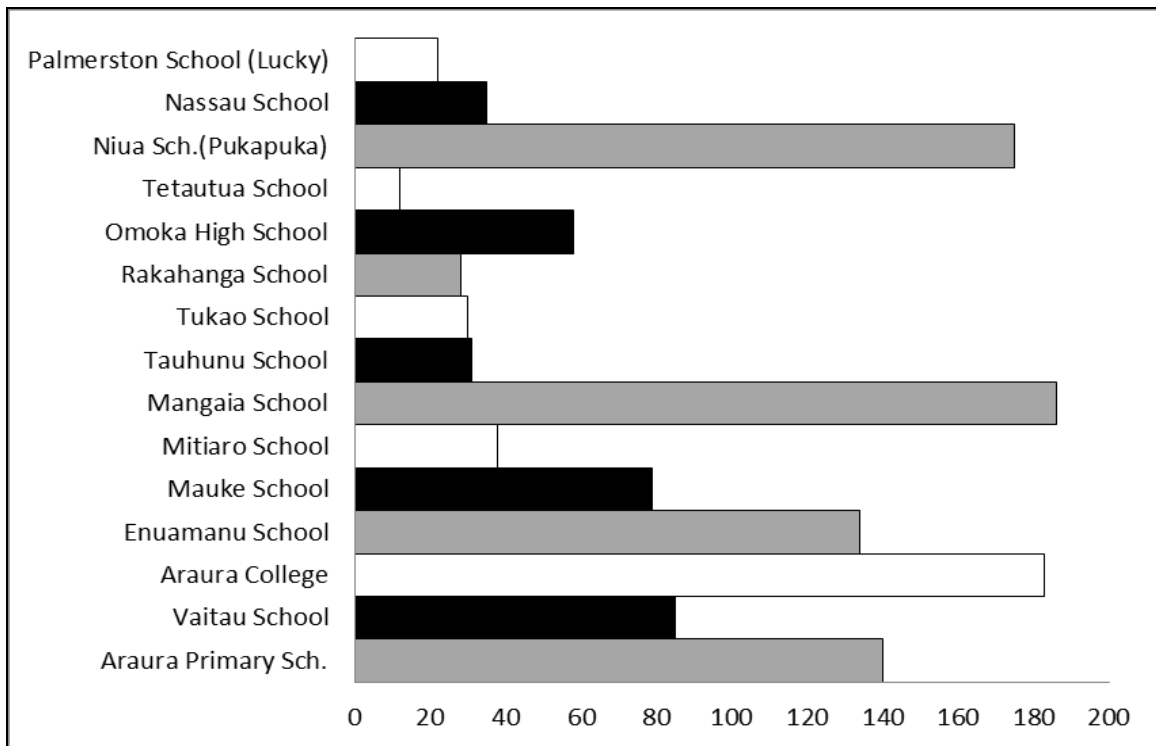
**Chart 8.6 Total Private School Enrolments for 2013**



**Chart 8.7 Total Rarotonga School Enrolments for 2013**



**Chart 8.8 Total Pa Enua School Enrolments for 2013**





## **Regional Engagements - Our place in the Pacific and local Promotion**

### **Pacific Islands Chiefs of Police Conference (PICP)**

Rarotonga will host the 43rd Pacific Islands Chiefs of Police Conference - 2013. It will attract the majority of the 21 Chiefs and their partners, observer organizations and others to the Cook Islands.

### **Gender Regional Triennial Meeting**

The Gender Regional Triennial in conjunction with the Secretariat of the Pacific Community Meeting will be hosted in Rarotonga, Cook Islands. The purpose of the meeting is to bring about a society in which social conditions and natural justice enable all women to live in dignity, enjoy their human rights, achieve their full potential and contribute to the development and the wellbeing of the society.

### **Education Ministers Forum**

As a member of the Pacific Islands Forum (PIF), the Minister of Education will be hosting the Pacific Education Ministers' meeting early in 2014. This event will also include hosting the USP council meeting with in country costs to be met by the host.

Hosting of this event will enable the Cook Islands to fulfil its regional obligations as a PIF member and contribute to dialogue on shared education related challenges and strategies.

This is a co-funded activity with in-country costs related to hosting the event to be covered by the PIFS and Cook Islands government. Diplomatic, technical and logistical functions and tasks will be coordinated by the MoE in partnership with PIFS, MFAI, OPM and MFEM. It is intended that the event will be held in Rarotonga (main meeting) and Aitutaki (Ministers Retreat) with liaison with Aitutaki stakeholders required.

### **SOPAC Conference 2013**

The hosting of the 30th Assembly of the Secretariat of the Pacific Community - Applied Geoscience and Technical Division (SPC\_AGTD-SOPAC3) will be held in Rarotonga, Cook Islands from the 5th – 11th October 2013. SPC\_AGTD-SOPAC3 is a regional technical support organization motivated and driven to advise, modify, assist and support the Pacific islands in 3 Program Intervention Areas:

- Ocean and Islands Program;
- Water and Sanitation Program; and
- Disaster Reduction Program.

Given our national priority to develop our infrastructure the conference is a platform to attract suppliers, developers and donors at a regional level.

Hosting the conference will provide opportunities for promoting the Cook Islands and best practices in the water and waste sectors, Renewable Energy programmes, Risk Reduction and Resource Management. SOPAC and STAR brings to the fore, the latest technology and scientific knowledge and affords the opportunity to share research and development.

In the recent Assembly held in New Caledonia, Noumea, the Prime Minister accepted to host and supports the SPC SOPAC3 Conference in October 2013. The potential theme of the conference is "Water Challenges in Pacific Communities".

### **Pacific Water and Waste Association (PWWA) Conference 2013**

Pacific Water and Waste Association is a regional association of organization operating in the water and waste water sector whose mission is the delivery of quality water related services that enhance the wellbeing of people throughout the region. The membership comprises Pacific Island Water and Wastewater utilities as well as international water authorities, private sector, equipment and service supplier companies, contractors and consultants. In 2011, the PWWA held in Suva, Fiji nominated the Cook Islands as the next hosting country for 2013,

The conference is a platform to attract suppliers, developers and donors at this regional forum.

### **8.7.6 Minor Adjustments to POBOC's**

- CISNOC Operational Support for Policy Implementation, \$0.100 million;
- To finalise the Operation Eagle prosecution case in August 2013, \$0.030 million;
- For the Hosting of the NZ Governor General in October 2013, \$0.010million;
- Swearing in of the new Queens Representative in July 2013, \$0.010 million;
- Increase in Standard and Poor's Subscription, \$0.005 million;
- Increase in Subsidy of audio/visual Broadcasting in the Pa Enea, \$0.020 million;
- Special Court sitting for Operation Eagle and Pokoinu Land Inquiry, \$0.040 million;
- Tertiary Education Sector Strategy, \$0.050 million;
- Supporting House of Ariki by increasing traditional leader salaries, \$0.020 million;
- In recognition of the services provided by our return servicemen, Government has allocated \$0.005 million as its contribution towards ANZAC day remembrance activities; and
- For Advisory services in Cook Islands Seabed Mineral Authority, \$0.050 million.

### **8.7.7 Minor Savings to POBOC items:**

- Reduction in Vaka Maintenance POBOC, \$0.050 million;
- Cease the MFEM Insurance POBOC, \$0.040 million ; and
- Reduction in NSF contribution POBOC, \$0.008 million.

**Table 8.17 Regional and International Organisation Contributions 2013/2014**

<b>Organisation</b>	<b>Currency</b>	<b>Foreign Amount</b>	<b>Exchange Rate *</b>	<b>NZD Equivalent</b>
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
Commonwealth Fund for Technical Cooperation (CFCT)	GBP	5,431	0.36799	14,758.51
Comprehensive Nuclear-Test-Ban Treaty (CTBTO)	USD	1,466	0.82800	1,770.53
Comprehensive Nuclear-Test-Ban Treaty (CTBTO)	EUR	79	0.54211	145.73
Comprehensive Nuclear-Test-Ban Treaty (CTBTO)	USD	5,463	0.82800	6,597.83
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	1,765	0.82800	2,132.02
FAO (Rotterdam Convention)	EUR	1,768	0.54211	3,260.99
FAO (Rotterdam Convention)	USD	402	0.82800	485.51
Forum Fisheries Agency (FFA)	USD	14,962	0.82800	18,070.05
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 Seabed Authority	USD	487	0.82800	588.16
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
South Pacific Regional Environment Programme (SPREP)	USD	10,184	0.82800	12,299.52
United Nations Convention to Combat Desertification (UNCCD)	EURO	373.00	0.54211	688.05
United Nations Convention to Combat Desertification (UNCCD)	USD	67.00	0.82800	80.92
United Nations Development Programme (UNDP)	USD	34,502	0.82800	41,669.08
UNEP (Convention on Biological Diversity)	USD	418	0.82800	504.83
United Nations Educational Scientific & Cultural Organisation	USD	6,584	0.82800	7,951.69
UNESCO	EUR	2,968	0.54211	5,474.92
United Nations Framework Convention on Climate Change (UNFCCC)	USD	777	0.82800	938.41
UNFCCC (Climate Change)	USD	486	0.82800	586.96
United Nations Population Fund (UNFPA)	NZD	1,500	1.00000	1,500.00
Western and Central Pacific Fisheries Commission (WCPFC)	USD	16,087	0.82800	19,428.74
World Health Organisation	USD	8,940	0.82800	10,797.10
WHO (Framework Convention on Tobacco Control) FCTC	USD	124	0.82800	149.76
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
TCI- Maritime Shipping Service	NZD	79,191	1.00000	79,191.00
<b>TOTAL</b>			<b>\$</b>	<b>536,112</b>

## 9 TAX EXPENDITURES

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.<sup>4</sup>In 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 1913; 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. A reduced secondary rate of tax for individuals working two or more jobs.

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<sup>4</sup>Swift, 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/Rendered/PDF/wps3927.pdf](http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2006/05/23/000016406_20060523092056/Rendered/PDF/wps3927.pdf) Accessed 17 May 2012

- Where an individual has more than one employment, that income may be subject to a reduced rate of tax of 20 cents in the dollar. This applies to incomes not exceeding \$30,000 per annum, which would otherwise be taxable at 25 cents in the dollar.
2. 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.
  3. Income derived by international airlines operating in the Cook Islands.
    - All income derived by an international airline is exempt of tax.
  4. Income of Queen's Representative.
    - The income of the Queen's Representative is exempt.
  5. 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.
  6. Pensions and allowances paid out under the Welfare Act 1989.
    - Old age pensions and allowances paid under the Welfare Act 1989 are exempt of tax.
  7. 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.
  8. Income derived by charitable organisations.
    - All income derived by charitable organisations is exempt of tax.
  9. Income derived by promoters of amateur sports.
    - All income derived in the promotion of amateur sport is exempt of tax.
  10. 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.
  11. 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.
  12. 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.
  13. 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.
  14. Exemptions from withholding tax.

- Where income has been exempted under the Income Tax Act 1997, withholding income will also be exempt from tax.

15. Partial exemption on interest paid by banks.

- Interest paid by the local banks is subject to a 15 cents per dollar of interest final withholding tax. The tax on what would have been payable at the person's marginal tax rate, less the withholding tax deducted, is exempted.

**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. Zero rated supplies.

- Goods entered for export from the Cook Islands are subject to VAT at the rate of 0 per cent. Services performed in the transportation of goods and passengers into and out of the Cook Islands are subject to VAT at the rate of 0 per cent.

4. 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.

5. 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 AND NET WORTH

### 10.1 Gross Debt owed by the Crown

Total gross borrowing by the Crown is estimated to reach \$100.1 million by 30 June 2014, an increase of \$15.5 million from \$84.6 million initially estimated during the June 2012 budget. The reconciliation of the change is summarised in table 10.1;

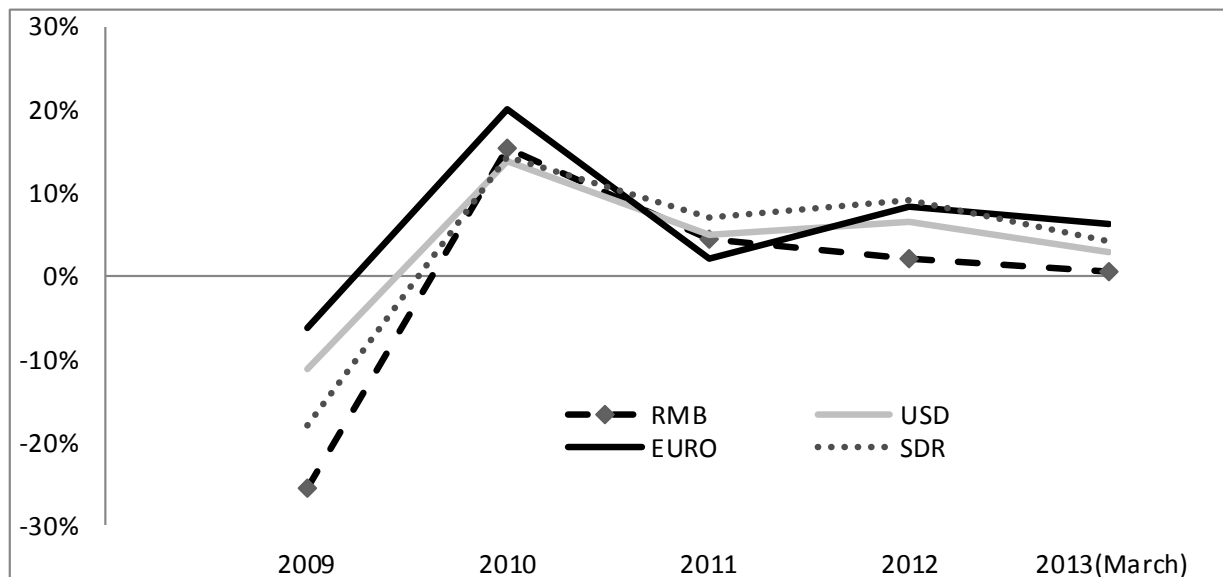
**Table 10.1 Reconciliation on 2013/14 Loan restatement (\$ millions)**

<b>Movement Reconciliation</b>	<b>\$</b>
Initial estimated gross debt as at 30/06/2014	84.6
Movement during the period	
Drawdown - Water/Road loan from China	15.9
Unrealised exchange (gain)/loss	-0.5
<b>Total movement during the period</b>	<b>15.5</b>
<b>Estimated gross debt as at 30/06/2014</b>	<b>100.1</b>

The Crown has committed and signed up to a new borrowing from the People's Republic of China of \$22.8 million (RMB \$118 million) to upgrade the Rarotonga water ring main. Of this amount \$15.5 million is expected to have been drawn down by 30 June 2014.

The exchange rate utilised in the 2013/14 budget reflects the monthly average for the period of March 2013. Past changes in major exchange rates against the New Zealand dollar (NZD) are reflected in Chart 10.1.

**Chart 10.1 Changes in Major Exchange Rates against the New Zealand Dollar (year on year)**



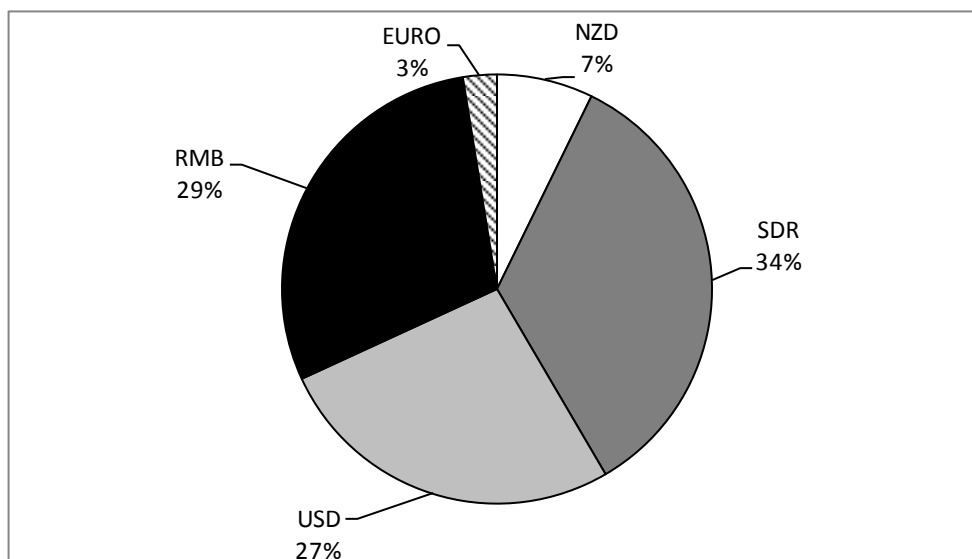
The Budget assumes that the average exchange rate for March 2013 will remain constant in the outer years and all estimates are based on the rates shown in Table 10.2.

**Table 10.2 Average Exchange Rates Assumptions – Budget 2013/14**

Foreign Exchange Currency	March 2012 Average	March 2013 Average	Changes
EURO	0.6212	0.6386	2.8%
USD	0.8208	0.8279	0.9%
YUAN	5.2013	5.1460	-1.1%
SDR	0.5327	0.5506	3.4%

Table 10.2 illustrates that the New Zealand dollar appreciated against all major trading currencies in which Cook Islands debt is denominated, except for the Chinese Renminbi (RMB). The Crown anticipates an overall unrealised foreign currency gain by the end of the 2012/13 fiscal year.

**Chart 10.2 Composition of Crown Debt by currency estimated for 30 June 2014**

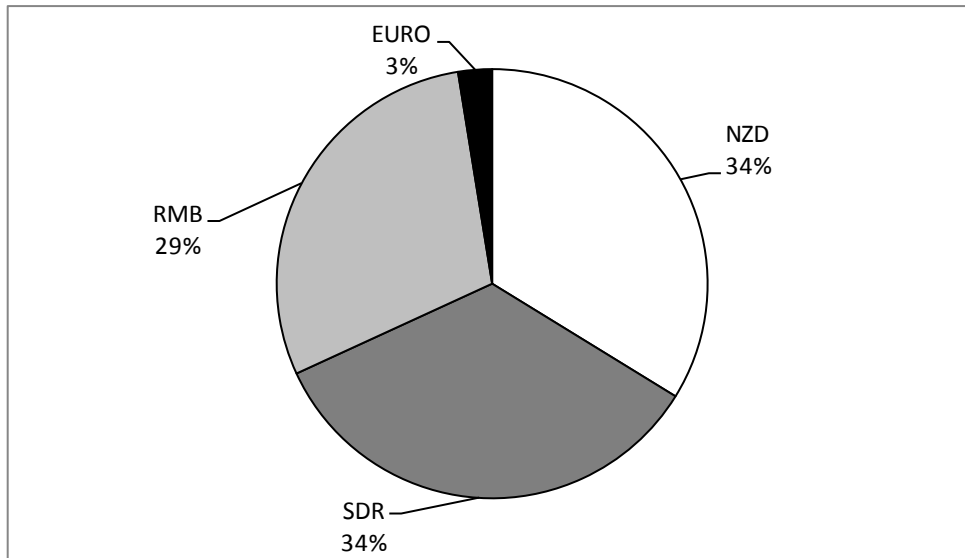


Total Crown debt as reported is mainly denominated in Special Drawing Right (SDR) with 34 per cent followed by the RMB and the United States dollar (USD) at 29 and 27 per cent respectively.

Chart 10.2 also outlines that seven per cent of total debt is now denominated in the local currency (NZD). This was achieved through negotiations with the ADB to convert new loans into the local currency to minimise exposure to exchange rate movement. The Cook Islands is currently in the process of finalising conversion of USD \$23.3 million (Ports Authority loan of USD \$13.3 million and Economic Recovery Support Program (ERSP) tranche 1 of USD \$10 million) into NZD, this will increase the proportion to 34 per cent as illustrated on Chart 10.3.



**Chart 10.3 Proposed Composition of Crown Debt by currency estimated for 30 June 2014**

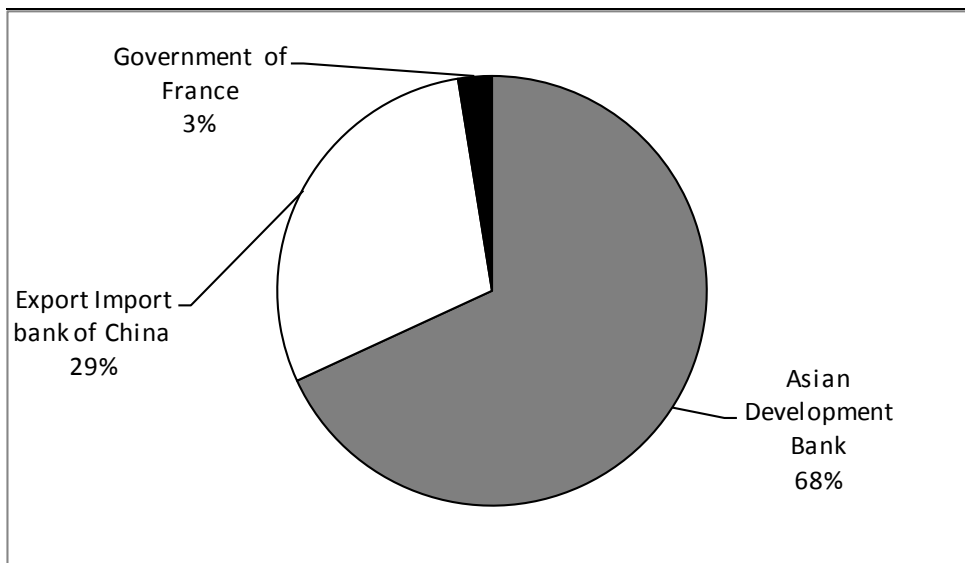


A sensitivity analysis has been prepared to determine the impact of a 5 per cent depreciation and appreciation of the New Zealand dollar against the major currencies in which Crown borrowings are denominated. The corresponding impact on the debt profile and associated debt servicing payments are provided later in the chapter.

**Gross Debt by Lenders**

The estimated gross debt by lenders owed to the Crown for fiscal year ending 30 June 2014 is outlined in Chart 10.4.

**Chart 10.4 Gross Debt Estimates by Lenders for 30 June 2014**



The share of gross debt from the Export Import bank of China has increased by 13 per cent from the time of the 2012/13 budget, this is attributed to Government committing to a new borrowing from the People’s Republic of China of \$22.8 million (RMB \$118.0 million) to upgrade the Rarotonga water ring main. This loan is expected to be drawn down in the second half of 2012/13 early 2013/14.

Also included in the gross debt is the second tranche of the ADB Economic Recovery Support Program loan (ERSP) which will assist in financing the major roadwork and water supply development project from Nikao to Avarua (Project City). This loan has not actually been drawn down but will be utilised in the coming months.

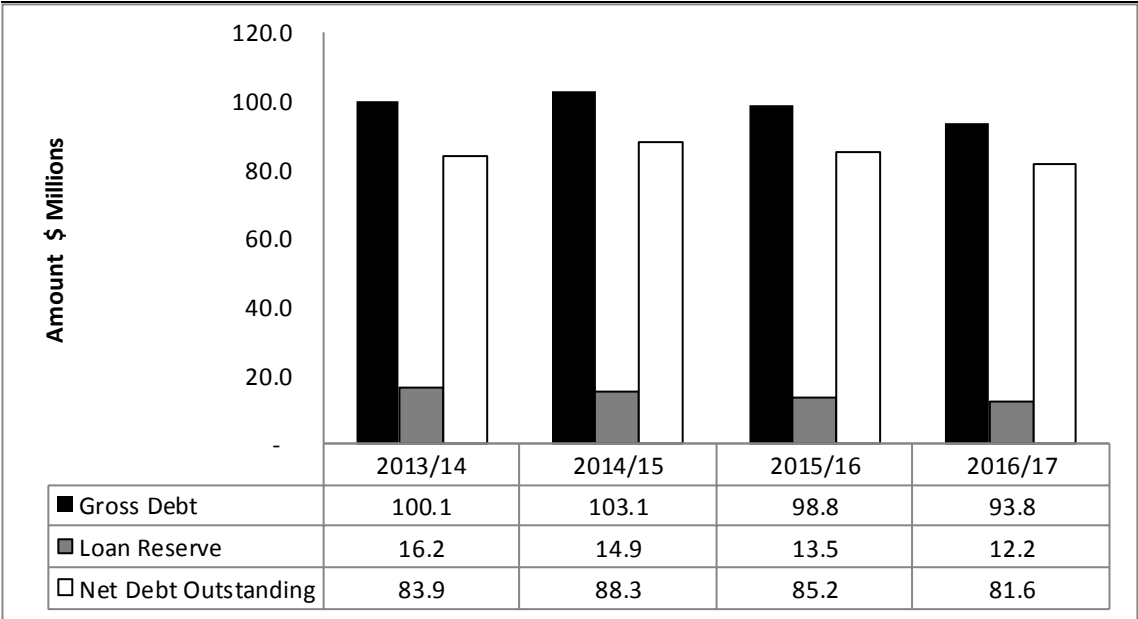
A further breakdown of each loan is provided in Table 10.3 outlining the original amount borrowed and the expected repayment date for each loan.

**Crown Debt burden**

Crown’s total gross debt gradually reduces in the outer years as principle gets repaid, assuming the Government does not take on new loans. Total gross debt is further analysed later on in this chapter in the context of Government’s fiscal responsibility ratios.

The same indication is reflected on the loan reserve fund (LRF) as it continues to reduce as the loans borrowed by the Crown on behalf of State Owned Enterprises (SOEs) are repaid.

**Chart 10.5 Cook Islands overall debt burden**



It should be noted from Table 10.3 below that the amount estimated to be covered by the LRF for 2013/14 fiscal year is \$13.4 million. The LRF is however estimated for the same period with a balance of \$16.2 million, resulting in a net positive balance of \$2.8 million. This favourable variance is mainly attributed to the overall net favourable movement of the NZD against the major trading currencies mentioned earlier in the report. In the event that the NZD weakened against these major exchange rates, the net balance will be used as a buffer to cover for exchange fluctuations in the outer years.

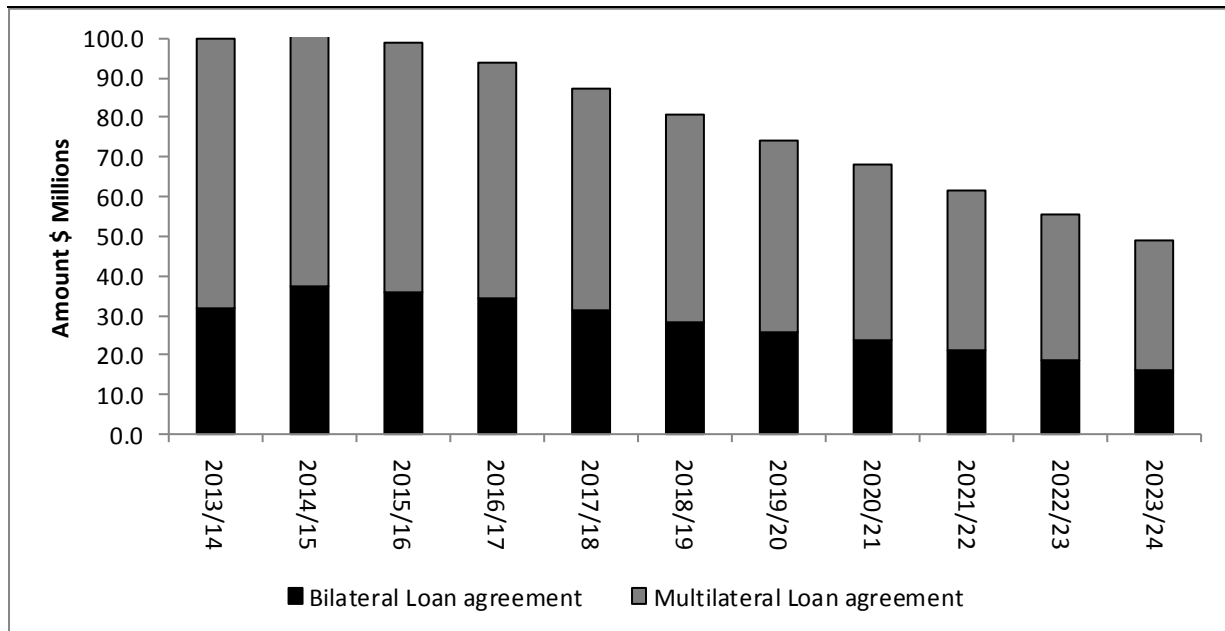
**Table 10.3 Status of Government loans estimated for 30 June 2014**

<b>Loans drawn down</b>	<b>Date loan taken</b>	<b>Original loan amount (000)</b>	<b>Current balance (000) (NZD)</b>	<b>Expected date of repayment</b>	<b>Amount covered by loan reserve</b>
ADB 461 (SF) Multi Project	November, 1980	SDR 1,000	624	August, 2020	-
ADB 567 (SF) CIDB Project	July, 1982	SDR 1,500	563	April, 2022	563
ADB 849 (SF) 2nd Multi-Project	December, 1987	SDR 2,067	1,962	August, 2027	1,962
ADB 1031 (SF) Outer Islands Telecom Project	October, 1990	SDR 3,541	4,584	August, 2030	4,584
ADB 1155 (SF) 2nd CIDB Project	March, 1992	SDR 939	1,151	December, 2031	1,151
ADB 1171 (SF) Emerg. Telecom Rehab Project	August, 1992	SDR 291	396	June, 2032	396
ADB 1309 (SF) Pearl Industry Dev. Project	December, 1994	SDR 336	434	August, 2034	-
ADB 1317 (SF) Educ'n Dev Project	February, 1995	SDR 1,836	2,649	August, 2034	-
ADB 1380 (SF) 3rd CIDB Project	January, 1996	SDR 1,538	2,193	September, 2035	2,193
ADB 1466 (SF) Economic Restructure Program	September, 1996	SDR 3,430	4,843	September, 2036	-
ADB 1588 (SF) Cyclone Emergency Rehab Project	January, 1997	SDR 475	812	January, 2038	-
Restructured French Loans	January, 1999	Euro 5,413	2,543	September, 2018	2,543
ADB 1832 (SF) Waste Mgt Project	December, 2001	SDR 1,695	2,276	June, 2033	-
ADB 2174 (SF) Cyclone Emergency Assist Project	June, 2005	SDR 1,895	3,667	June, 2045	-
China - Multi-Functional Indoor Sports Stadium	August, 2008	RMB 74,100	13,440	August, 2028	-
ADB 2472 (OCR) Avatiu Port Development Project	September, 2009	USD 8,630	10,338	November, 2033	-
ADB 2473 (SF) Avatiu Ports Development project	September, 2009	SDR 8,346	8,216	November, 2040	-
ADB 2565 OCR Economic Recovery Support Program 1	January, 2010	USD 10,000	10,569	October, 2024	-
ADB 2739 (OCR) Amendment Avatiu Port project	December, 2011	USD 4,700	5,677	November, 2035	-
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB 118,000	15,927	December, 2032	-
ADB 2565 OCR Economic Recovery Support Program 2	December, 2012	NZD 7,250	7,250	December, 2028	-
<b>Total loans drawn down</b>			<b>100,112</b>		<b>13,391</b>
<b>Loans committed to but not yet disbursed</b>					
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB 118,000	6,946	December, 2032	-
<b>Total loans committed to but not yet disbursed</b>			<b>6,946</b>		<b>-</b>
<b>Total loans commitment</b>			<b>107,059</b>		<b>13,391</b>

### Gross debt by agreement type

Chart 10.6 outlines the bilateral and multilateral classification of Crown debt for the next 10 years from 2013/14 to 2023/24. Multilateral loan agreements are from the ADB and make up 68 per cent of total debt compared to 80 per cent during the time of the 2012/13 budget. This shift is explained by Government taking up new borrowing from the People’s Republic of China of \$22.8 million, a bilateral partner.

**Chart 10.6 Current Bilateral and Multilateral Estimate Loans Outstanding Next 10 Years**



The Crown debt burden forecast for the next 10 years is expected to again increase with the probability that further loan funds will be sought from the European Investment Bank (EIB) to finance public works associated with water and sanitation estimated at around \$10 million.

## 10.2 Crown Loan Reserve Fund (LRF)

The Crown LRF was established in 2001 to enable Government to access to concessional loans and provide these on to State Owned Enterprises (SOEs).

The payment terms with the external lenders which included a grace period of (normally five years) was not extended on to SOEs. SOEs have paid the full debt servicing cost from the initial drawdown of the loan.

In 2001 these funds were put aside into a debt reserve.

The overall objective of the trust fund is to build the total amount to a stage where it fully covers the outstanding amount owed to lenders from the SOE's.

As at the time of this publication, the objective was met with all SOE loans with Government being fully covered. These SOEs include the Bank of the Cook Islands, Te Aponga Uira, and Cook Islands Telecommunication.

The new loan approved for the Cook Islands Port Authority will be treated as a loan to Government from the ADB. The Cook Islands Port Authority is expected to repay and honour the same loan repayment schedule and terms agreed between the ADB and Government.

It is anticipated that the principle objective of the LRF will be extended beyond the SOE's to incorporate all Crown debt. The Government is currently investigating options to legislate the LRF and formalise the current debt management approach.

**Table 10.4 Debt reserve transactions (\$millions)**

<b>Debt Reserve Working</b>	<b>Transfer In</b>	<b>Transfer Out</b>	<b>Balance</b>	<b>SOEs Debt</b>
Budgets 2005-2006			17,018	
2006-07 transfer to reserve	1,529	-	18,547	22,390
2007-08 transfer to reserve	1,287	-	19,834	23,497
2008-09 transfer to reserve	1,100	-	20,934	21,018
2009-10 transfer to reserve	1,100	-	22,034	18,465
2010-11 loan repayment	-	1,529	20,505	17,365
2011-12 loan repayment	-	1,429	19,076	16,177
2012-13 loan repayment	-	1,529	17,547	14,591
2013-14 loan repayment	-	1,335	16,212	13,391
2014-15 loan repayment	-	1,324	14,887	12,192
2015-16 loan repayment	-	1,340	13,547	10,966
2016-17 loan repayment	-	1,356	12,191	9,714

## 10.3 Net Debt

Table 10.5 Estimated net debt to 2016/17

Current Statement	2013/14	2014/15	2015/16	2016/17
	Proj	Proj	Proj	Proj
Statement of Borrowings	\$m	\$m	\$m	\$m
Gross Crown Debt, End of FY	100.1	103.1	98.8	93.8
Net Crown Debt, End of FY	83.9	88.3	85.2	81.6
as percentage of GDP	19.8%	20.9%	19.5%	18.7%
Loan Repayment Reserves Held	16.2	14.9	13.5	12.2
Gross Debt Servicing	5.7	6.0	6.4	7.0
Net Debt Servicing	4.1	4.2	4.6	4.9
as percentage of Total Revenue	3.9%	3.7%	4.0%	4.2%

Net debt is the difference between the gross debt and monies held in the Crown LRF. Net debt is estimated to be \$83.9 million (19.8 per cent of GDP) by 30 June 2014.

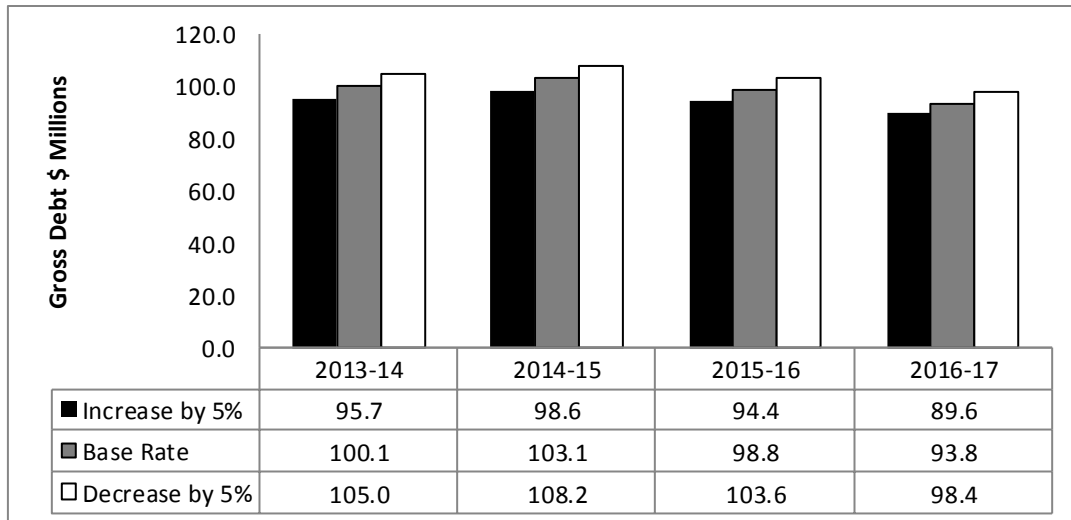
## 10.4 Crown Debt Sensitivity Analysis

The sensitivity analysis demonstrates the impact of a five per cent appreciation or depreciation in the New Zealand dollar. This is prepared to determine the impact on the gross borrowings and the debt servicing costs to identify future burdens on the operational budget as a result of exchange rate fluctuations.

Table 10.6 Base rate used for budget assumption with +/- five per cent

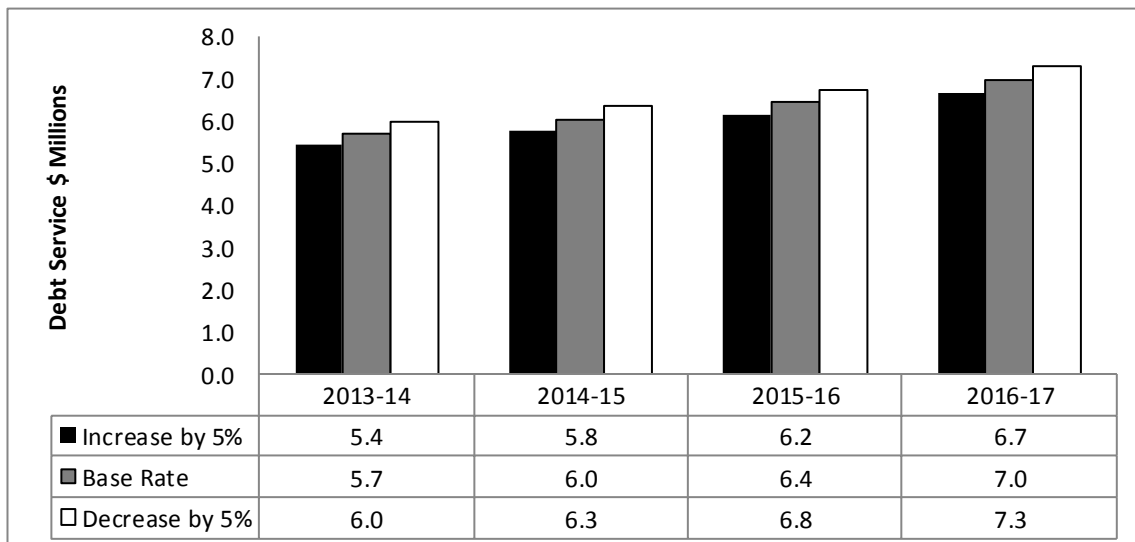
Foreign Exchange Currency	-5%	Budget	+5%
		assumption base rate	
EURO	0.6067	0.6386	0.6705
USD	0.7865	0.8279	0.8693
YUAN	4.8887	5.1460	5.4033
SDR	0.5231	0.5506	0.5781

**Chart 10.7 Impact on Government Gross Debt Estimates assuming a 5 per cent is Added or Deducted from the Based rate.**



Total Crown debt increased by \$5.1 million compared to a reduction of \$4.5 million in 2014/15 as the impact of a five per cent depreciation/appreciation of the NZD. The same trend follows on to the outer years which indicate that our loan portfolio is more sensitive to depreciation than appreciation in the NZD.

**Chart 10.8 impact on Government Net Debt Servicing Estimates assuming a 5 per cent is Added or Deducted from the Based rate**



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

Any decision to commit to further borrowings should be assessed carefully due to the sensitivity of the New Zealand dollar. A continued depreciation of the New Zealand dollar (NZD) beyond the five per cent scale reduces the opportunity for further borrowings and increasing debt servicing costs.

## 10.5 Future Borrowings and Fiscal Responsibility Ratios

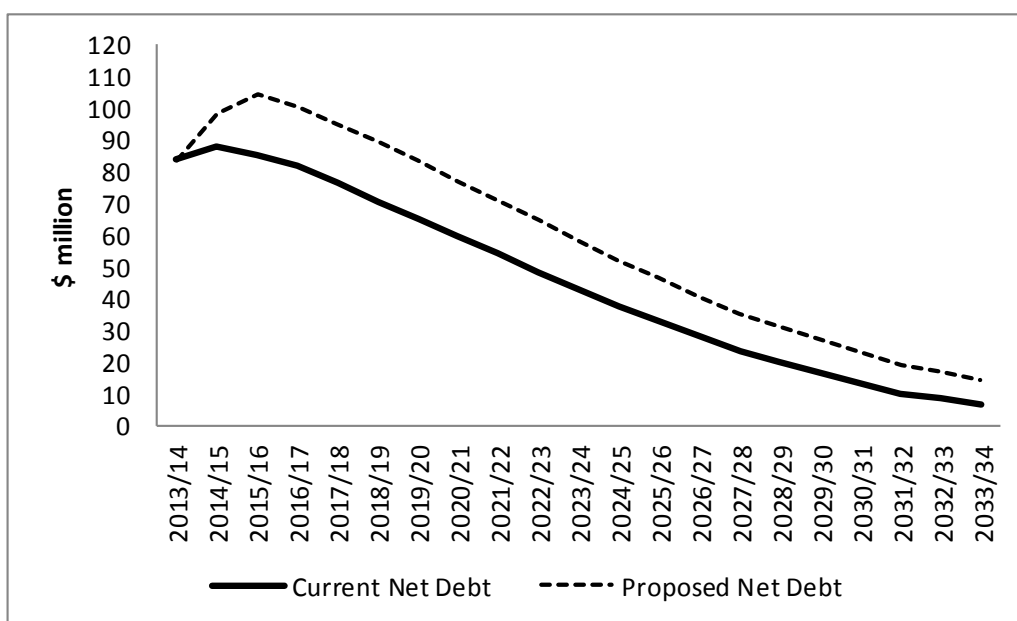
Proposals to take on new loans must be treated under transparent processes as required by the MFEM Act 1995-96. The fiscal responsibility ratios will prudently assist Government to manage the growth of its future borrowing plan.

The current net borrowing level is at 19.8 per cent of GDP by end of 2013/14. This is estimated to be 20.9 per cent and 19.5 per cent of GDP for 2013/14 and 2014/15 fiscal year respectively, still within the fiscal responsibility ratio threshold of 35 per cent.

Government is anticipating taking on further borrowing of \$19 million to finance various renewable energy projects in Rarotonga. A program of renewable energy projects has been prepared with the target of achieving renewable penetration of 50 per cent of the energy consumption in Rarotonga within three years. Total reduction in fossil fuel generation including the effective implementation of Energy Efficiency and Conservation measures is targeted as 16GWH.

For the purpose of this analysis, the proposed loan has been forecasted on general terms of 25 years inclusive 5 years grace period at 3 per cent interest rate per annum.

**Chart 10.9 Total estimated Net Debt for the next 20 Years**

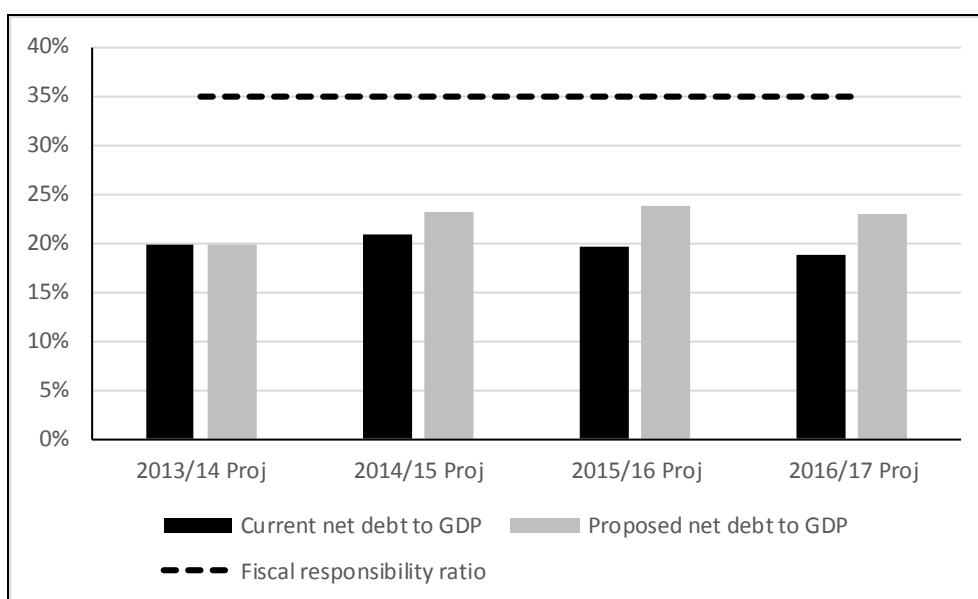


### Net Debt to GDP

Net debt is the difference between the gross debt and monies held in the Crown LRF.



**Chart 10.10 Net Debt as a proportion of GDP**



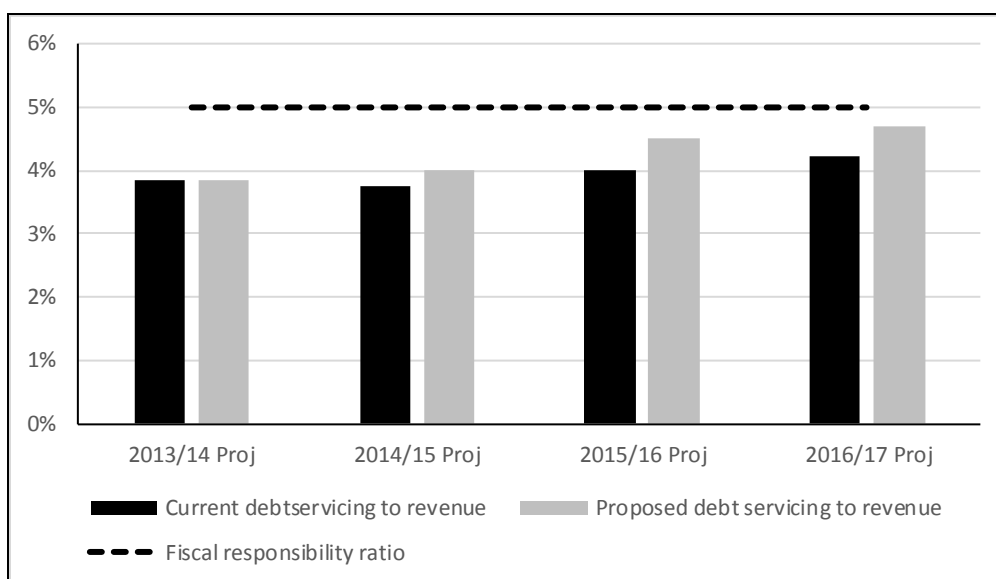
If the Crown decides to take on the proposed new loan from the ADB, the level of net debt as shown on Chart 10.10, will shift upwards pushing the total net debt to GDP ratio to 23.2 and 23.9 per cent for 2014/15 and 2015/16 respectively.

The benchmark for total net debt to GDP is not to exceed 35 per cent, although the proposed ratio are still within the carrying capacity of Government to borrow, attention needs to be drawn to the operating cash flow requirement to meet debt repayment given other Government priorities.

**Net debt service as a proportion of total revenue**

This ratio has been updated to include the LRF portion on the gross debt servicing. The ratio is used to highlight the burden of debt servicing on the operating budget. Taken together with the tax revenue envelope, this ratio measures how much debt servicing is crowding out other components of government spending. Debt servicing includes interest and principal payments.

**Chart 10.11 Net Debt servicing as a proportion of total revenue**



The benchmark for net debt servicing to total revenue ratio is not to exceed five per cent. This ratio is currently estimated at 3.9 per cent by end of 2013/14 year. If Government decides to take on the

proposed new borrowing from the ADB, this ratio is estimated to increase to 4.0 and 4.5 per cent by end of 2014/15 and 2015/16 years respectively and will be at 4.7 per cent by 2016-17 when the grace period for new borrowings passed and principle falls due.

**Chart 10.12 Estimated net debt service for next 20 Years**

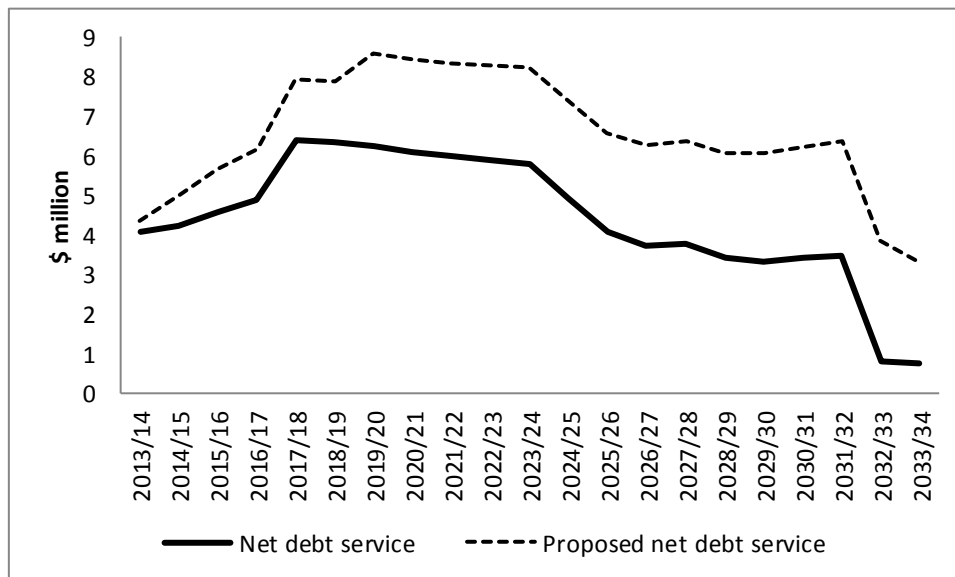


Chart 10.2 shows the current debt service level with indicative shift to show the impact if Government is taking on the proposed renewable energy loan from ADB.

## 10.6 Other State Owned Enterprise Debt

The analysis provided in this chapter excludes debt held by the Airport Authority.

The Airport Authority reported that it had recently financed its loan with a new provider. The terms of the loan was for \$8.1 million which was 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 instalments of \$0.07 million which is inclusive of interest and is based on a 15 year amortisation 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 of approximately \$11 million to invest in electricity generation and supply assets including infrastructure aimed at improving renewable energy distribution and supply. This is part of Government's renewable energy projects which is proposed to be funded from the ADB \$19 million new loan.

# 11 CIIC and State Own Enterprises

## 11.1 CIIC

### Brief overview on CIIC's role in relation to SOEs

- **Section 5 of CIIC Act 1998**

Functions of Corporation – The functions of the Corporation shall be:

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

- **Section 6 of CIIC Act 1998**

Objectives of Corporation – The principal objectives of the Corporation are:

- (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
- (c) not to compete or be engaged in trading activities unless private enterprise is unable or unwilling to do so

CIIC accordingly manages the assets and liabilities of the Cook Islands Government Property Corporation (CIGPC). CIIC also has oversight of the performances of four of its subsidiaries that are more commonly referred to as State Owned Enterprises (SOEs): 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 CIGPC Act 1969.

### **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 by approximately six months.

### **Developments and future plans**

#### *Asset Management*

For the first time asset management plans for government properties began to be developed by island in 2012 commencing with Rarotonga, Mauke and Pukapuka. Similar plans will be developed for all islands over the next two years in cooperation with the Island Councils with the dual objective of developing a central registry for all government infrastructure-related assets in cooperation with all government agencies and ministries as well as local governments.

#### *Conversion to International Financial Reporting Standards (IFRS)*

As required by the Financial Secretary, CIIC and the SOEs have begun working towards a full conversion of their financial reports to the IFRS over the next three years.

## 11.2 Airport Authority

### Brief overview on SOE and its functions

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

### Developments and investments

Developments for the 2013/14 financial year includes providing for a covered pick up and drop off area at Rarotonga international airport and the acquisition of a major fire tender.

Investments in renewable energy and terminal expansions are planned for the next three years.

### Social contributions costs and Dividends

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

• The Provision of Fire Service to the Rarotonga Community	-	\$67,323
• The provision of a VIP lounge to government	-	\$48,246
• The provision of the Cool Store building on the airport	-	\$15,000.
<b>Total</b>	<b>-</b>	<b>\$130,569</b>

### DIVIDEND

At the time of this submission the Airport Authority is still working through impairment of its assets and has not completed this work yet. Best estimates expect the Airport Authority to reduce its net loss from \$950,809 to \$378,000 in the 2012/13 year. A small profit is expected in the 2013/14 year and dividend payment is projected at a minimum of \$20,000 2014/15 increasing to \$30,000 in the following year and \$40,000 in 2015/16

## 11.3 Bank of the Cook Islands (BCI)

### Brief overview on SOE and its functions

The Bank of the Cook Islands Holding Corporation (the Corporation) was established on 1 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:

- (a) 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.
- (b) 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*).
- (c) 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.
- (d) To manage any assets vested in the Corporation.
- (e) To undertake any other matters prescribed in the Act.

The Bank of the Cook Islands Limited was registered under the Companies Act 1970-71 on 15 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 was \$13.3M as at 30 June 2011, and \$14.1M at 30 June 2012.

### 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 all island communities. 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.

BCIs medium and long term fixed asset investment programme, includes maintenance and upgrading of core operating assets and investment in new products and services all the 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 technology developments.

**Table 11.1 Social contributions costs and Dividends**

	Budget 2013/14	Budget 2014/15	Budget 2015/16
Dividend	465,679	557,053	557,053
Social Obligation Costs	181,000	181,000	181,000

## 11.4 Ports Authority

### Brief overview on SOE and its functions

The Ports Authority is a Crown owned Statutory Corporation established by Act of the Cook Islands Parliament in 1995. The objectives of the Ports Authority is to provide commercially viable port facilities and develop growth opportunities from its assets which include Crown Land and Buildings, Wharves, Port Facilities, Tug Boats, Barges, Plant and Equipment, Storage Sheds and Open Storage Space.

Cook Islands Ports Authority (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.

### Developments and investments

To complete the current major redevelopment of the Avatiu Port in Rarotonga, the tender berth at Arorangi, and to advance the proposed development project at Aitutaki through to committed funding, and then construction.

### Social contributions costs and Dividends

#### Community Service Obligations:

The Ports Authority continues to accommodate Governments community service obligation responsibilities;

The following Community Service Obligations (Social Responsibility) costs were incurred for the year end 30 June 2012 for Rarotonga and Aitutaki:

**Table 11.2**

<b>Rarotonga</b>	Amount
Reoccurring	\$48,717
Approved Waived Port Charges	\$11,627
<i>Total</i>	<i>\$60,344</i>
<b>Aitutaki</b>	
Approved waived Charges	\$4,571
<i>Total</i>	<i>\$4,571</i>
<b>Overall Total Community Service Obligation Cost at year end 30 June 2012</b>	<b>\$64,915</b>

The total community service obligation as at 30 June 2012 \$64,915.00 was absorbed into the Ports operations costs instead of Government appropriation in the national budget.

The on-going community service obligations are of concern to the on-going viability of the Ports operations unless funding is appropriated in the Government national budget.

### Dividends

Ports Authority 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.

Budget Support Group recommendations for the 2013/14 budget direct ALL SOE's to provide dividends based on 35 per cent of Net Profit after Tax. CIPA's need to retain those dividend amounts to meet its loan commitment to pay for the improved infrastructure to improve services to the Cook Island's supply chain.

**Table 11.3**

	<b>Budget 2013/14</b>	<b>Budget 2014/15</b>	<b>Budget 2015/16</b>
Revenue	2,720,094	2,845,637	2,920,143
Expenses	2,267,019	2,234,847	2,272,942
Operating Profit Before Finance Charges	453,075	610,790	647,201

## **11.5 Te Aponga Uira**

### **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. The generation of electricity is predominantly diesel based with the objective of increasing the contribution by renewable energy means by 50 per cent in 2015 and 100 per cent by 2020. There will be a transition from diesel based to renewable based system and this may include a transformation of the business model of TAU.

### **Developments and investments**

There will be investment in both conventional and renewable generation systems including augmentation of the distribution system over the years. The projected investment over the next 10years is significant with an estimated \$11.6m in 2013/14. There are uncertainty surrounding the RE investments beyond 2014/15.

**Table 11.4 Social contributions costs and Dividends**

	<b>Budget 2013/14</b>	<b>Budget 2014/15</b>	<b>Budget 2015/16</b>
Dividend	\$875,000	\$800,000	\$800,000
Uneconomic Power Lines	\$50,000	\$50,000	\$50,000
Other Social responsibility costs (energy for streetlights, new street lights and street light maintenance)	\$343,800	\$362,200	\$380,810

## 12 PUBLIC SECTOR STAFFING

### 12.1 Public Sector Staffing as at 31 March 2013

Public sector agencies are broadly classified into five categories:

- Public service agencies – Departments under the Public Service Act 2009;
- Islands governments – as outlined in the Island Government Act 2012/13;
- Crown agencies – agencies governed by their own acts; and
- Constitutional agencies.<sup>5</sup>

**Table 12.1 The Cook Islands Public Sector Agencies**

13 Public Service Agencies	14 Crown Agencies and Statutory posts	10 Island Governments
<ul style="list-style-type: none"> <li>• Office of the Public Service Commissioner</li> <li>• Office of the Prime Minister</li> <li>• Ministry of Agriculture</li> <li>• Ministry of Cultural Development</li> <li>• Ministry of Education</li> <li>• Ministry of Finance and Economic Management</li> <li>• Ministry of Foreign Affairs and Immigration</li> <li>• Ministry of Health</li> <li>• Ministry of Infrastructure and Planning</li> <li>• Ministry of Internal Affairs</li> <li>• Ministry of Justice</li> <li>• Ministry of Marine Resources</li> <li>• Ministry of Transport</li> </ul>	<ul style="list-style-type: none"> <li>• Crown Law</li> <li>• Business Trade Investment Board</li> <li>• Cook Islands Tourism Corporation</li> <li>• Cook Islands Investment Corporation</li> <li>• Cook Islands National Superannuation Fund</li> <li>• Cook Islands Pearl Authority</li> <li>• Financial Services Development Authority</li> <li>• National Environment Services</li> <li>• Head of State</li> <li>• Financial Supervisory Commission (no employee data available)</li> <li>• Audit Office</li> <li>• Office of the Ombudsman</li> <li>• Parliamentary Services</li> <li>• Police Department</li> </ul>	<ul style="list-style-type: none"> <li>• Aitutaki</li> <li>• Atiu</li> <li>• Mauke</li> <li>• Manihiki</li> <li>• Mangaia</li> <li>• Mitiaro</li> <li>• Rakahanga</li> <li>• Pukapuka/Nassau</li> <li>• Palmerston</li> <li>• Penrhyn</li> </ul>

<sup>5</sup>Note: The following are not included in this analysis:

- Seabed Minerals Authority
- Prime Minister's Support Office and Ministerial Support Offices
- Office of the Leader of Opposition
- State Owned Enterprises



## 12.2 Employee Data

In preparation for the introduction of the Human Resources Management Information System (HRMIS), which will be implemented during 2013, all agencies have provided OPSC with details of their staffing. The data collected has been used to produce a profile of public sector employees as at 31 March 2013.<sup>6</sup>

**Table 12.2 Positions and Employees**

<b>Name and type of agency</b>	<b>Total Appropriated Positions</b>	<b>Appropriated Vacant Positions</b>	<b>Total Employees</b>	<b>Female</b>	<b>Male</b>
<b>Public Service Agencies</b>					
Ministry of Agriculture	30	0	30	6	24
Ministry of Cultural Development	23	2	21	11	10
Ministry of Education	351	8	343 <sup>7</sup>	258	85
Ministry of Foreign Affairs and Immigration	25	1	24	17	7
Ministry of Health	294	3	291 <sup>8</sup>	191	100
Ministry of Internal Affairs	40	1	39	23	16
Ministry of Justice	67	2	65	34	31
Ministry of Marine Resources	45	3	42	13	29
Ministry of Finance and Economic Management	94	10	84	50	34
Ministry of Infrastructure and Planning	54	0	54	6	48
Office of the Prime Minister	42	1	41	14	27
Office of the Public Service Commissioner	11	1	10	9	1
Ministry of Transport	22	2	20	6	14
	<b>1,098</b>	<b>34</b>	<b>1,064</b>	<b>638</b>	<b>426</b>
<b>Island Governments</b>					
Aitutaki	52	2	50	8	42
Atiu	46	0	46	5	41
Mangaia	49	1	48	4	44
Manihiki	35	1	34	7	27
Mauke	43	5	38	5	33
Mitiaro	42	1	41	12	29
Palmerston	14	2	12	6	6
Penrhyn	37	1	27	2	25
Pukapuka/Nassau	30	0	30	5	25

<sup>6</sup> Some discrepancies exist between data provided to OPSC by some agencies and the actual situation. Lack of reliable data is one of the drivers behind the introduction of the HRMIS.

<sup>7</sup> Includes 258 Teaching Staff - (principals, basic teachers, deputy principals, ECE teachers, PA/Trainee teachers, teacher aides)

<sup>8</sup> Includes 105 Nursing Staff –(charge nurses, compassionate care-givers, enrolled nurses, midwife, nurse aide, nurse practitioner, public health nurses and registered nurses; and 23 Medical Officers (doctors))

<b>Name and type of agency</b>	<b>Total Appropriated Positions</b>	<b>Appropriated Vacant Positions</b>	<b>Total Employees</b>	<b>Female</b>	<b>Male</b>
Rakahanga	28	0	28	7	21
	<b>380</b>	<b>13</b>	<b>354</b>	<b>61</b>	<b>293</b>
<b>Crown Agencies and Statutory Agencies</b>					
Business Trade and Investment Board	12	0	12	6	6
Cook Islands Investment Corporation	20	0	20	9	11
Cook Islands National Superfund	6	0	6	6	0
Cook Islands Pearl Authority	6	1	5	4	1
National Environment Services	28	2	26	10	16
Cook Islands Tourism Corporation	21	0	21	15	6
Financial Services Development Authority	2	0	2	2	0
Head of State	5	0	5	3	2
Parliamentary Services	19	0	19	8	11
Audit Office	19	3	16	11	5
Crown Law	10	1	8	7	1
Office of the Ombudsman	4	0	4	3	1
Police Department	117	13	104 <sup>9</sup>	28	76
	<b>269</b>	<b>20</b>	<b>248</b>	<b>112</b>	<b>136</b>
<b>All Agencies</b>	<b>1,747</b>	<b>67</b>	<b>1,666</b>	<b>811</b>	<b>855</b>
	<b>100 per cent</b>	<b>4 per cent</b>	<b>100 per cent</b>	<b>49 per cent</b>	<b>51 per cent</b>

<sup>9</sup> Includes sworn 97 Police Officers

**Table 12.3 Government employees not Cook Islanders or Permanent Residents**

Agency	Junior	Intermediate	Senior	Executive	Professional	Total
Audit office	1	1				2
Crown Law				1		1
Ministry of Education	3	1	6	7	36	53
Ministry of Health	1	22	13	1	1	38
Ministry of Marine Resources		1				1
Office of the Public Service Commissioner			1			1
Ministry of Finance and Economic Management		2	5	1	1	9
Cook Islands Tourism Corporation			1	1		2
Palmerston Island Government					1	1
<b>Total</b>	<b>5</b>	<b>27</b>	<b>26</b>	<b>11</b>	<b>39</b>	<b>108*</b>

\*6.4 per cent of total employees

## 12.3 Heads of Ministries and Chief Executives

There are currently 36 Heads of Ministries and Chief Executives throughout the agencies of government. The table below shows the salary distribution for Heads of Ministries, Island Government Secretaries (Acting) and Chief Executives.

**Table 12.4**

Actual Salary	HOM and CEOs
\$50,000 – \$69,999	Cultural Development, Infrastructure and Planning, Cook Islands National Superfund, Parliamentary Services, Cook Islands Pearl Authority, Head of State, Transport
\$70,000 – \$89,999	Office of the Ombudsman, Business Trade and Investment Board, Office of the Prime Minister, National Environment Services, Agriculture, Internal Affairs, Marine Resources, Office of the Public Service Commissioner, Health
\$90,000 – \$109,999	Foreign Affairs and Immigration, Justice, Audit Office, Education, Police
\$110,000 – \$129,999	Cook Islands Investment Corporation
\$130,000+	Finance and Economic Management, Cook Islands Tourism, Financial Services Development Authority, Crown Law

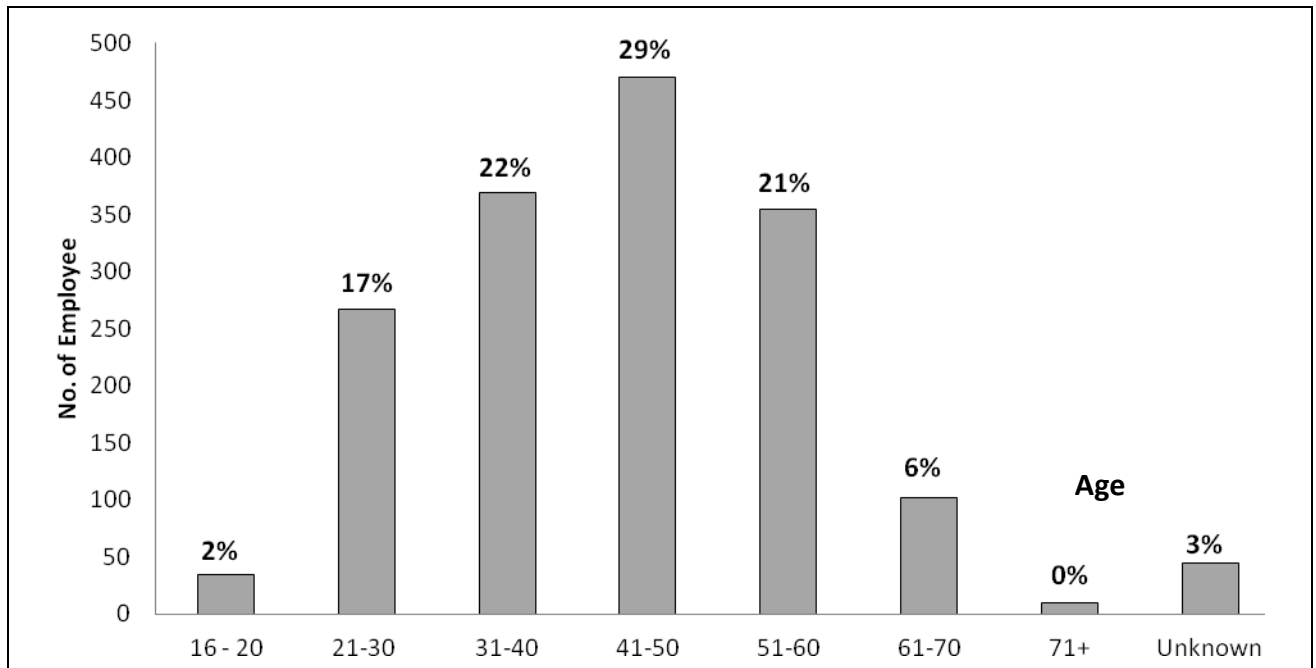
## 12.4 Employee Remuneration

The table below shows the salary/wage distribution for all employees in government excluding HOMs and CEOs

**Table 12.5**

<b>Actual Salary</b>	<b>Total</b>
\$4,000-\$9,999	60
\$10,000-\$19,999	730
<b>Actual Salary</b>	<b>Total</b>
\$20,000-\$29,999	422
\$30,000-\$39,999	261
\$40,000-\$49,999	72
\$50,000-\$59,999	33
\$60,000-\$69,999	11
\$70,000-\$79,999	5
\$80,000-\$89,999	2
\$90,000-\$99,999	3
\$100,000-\$109,999	0
\$110,000-\$119,999	0
\$120,000+	1

**Chart 12.1 Age Profile of Employees**



## 12.5 Cook Islands Technical Assistance Fund

The Cook Islands Technical Assistance Fund (CITAF) was established to be a flexible mechanism for responding to capacity and capability development needs of the Cook Islands Government in order to help improve financial management, service delivery and administration.

CITAF is a donor funded program by the New Zealand Ministry of Foreign Affairs and Trade and is administered by the Cook Islands Office of the Public Service Commissioner. Up to \$3,000,000 is available for CITAF for the period 15 December 2011 to 30 June 2014 to support priority technical assistance projects and training. The overall goal of CITAF is “for the Cook Islands Public Service to deliver high quality services, underpinned by sound financial management”. To date CITAF has provided support to 26 priority technical assistance and training projects across the Cook Islands Government. These are outlined below:

**Table 12.6 CITAF Positions in Government**

<b>Agency</b>	<b>CITAF Project or Position</b>
Cook Islands Audit Office	Audit Financial Statements Catch-Up
Cook Islands Audit Office	Government Financial Statements Catch-Up Project
Cook Islands Investment Corporation	Quality Assurance of Government Properties
Cook Islands Investment Corporation	Conversion to IFRS
Crown Law	Solicitor General Salary Top-Up
Financial Services Development Authority	Financial Services Legislative Drafting 2012
Ministry of Internal Affairs	Cook Islands Employment Bill Drafting Service
Ministry of Internal Affairs	Dangerous Goods Installation Inspections on Triad Pacific Petroleum Ltd
Ministry of Justice	Justice Land Titles ICT
Ministry of Finance and Economic Management	Financial Secretary Salary Assistance
Ministry of Finance and Economic Management	Senior Tax Auditor Salary Assistance
Ministry of Finance and Economic Management	Government Annual Accounts Catch-Up
Ministry of Finance and Economic Management	Review of Underwrite for Sydney and LA to Rarotonga
Ministry of Finance and Economic Management	Economic Policy Advisor Salary Assistance
Ministry of Education	Five Year Strategy for Tertiary Continuing and Community Education
Ministry of Education	Review of Curriculum Framework
Ministry of Education	Completion of HRD 2010/11, 2011/12 Statutory Accounts
Ministry of Health	Health Clinical Audit

<b>Agency</b>	<b>CITAF Project or Position</b>
Ministry of Health	Surgeon Salary Top-Up
Ministry of Infrastructure and Planning	Working Group for establishment of Solid Waste Management Financing
Ministry of Transport	Aviation Met Service
Office of the Prime Minister	ICT Consultation
Office of the Public Service Commissioner	Public Sector Strengthening
Office of the Public Service Commissioner	HRMIS Technical Assistance Element
Office of the Public Service Commissioner	CITAF Management Costs
Office of the Public Service Commissioner	Capability Analysis of public sector

## **12.6 Future Directions in OPSC**

### **Human Resource Information Management System**

Through the funding assistance of the Cook Islands Government and the New Zealand Government through CITAF, OPSC in partnership with MFEM is in the process of signing off the contract for the implementation of a new HRMIS and Payroll system. This project will progress the centralising and improvement of human resource information and payroll management in the Public Sector and will provide the basis for future work in the areas of workforce planning.

### **Reviewing the Remuneration Strategy, Policy and Framework**

Plans are progressing within OPSC to review the remuneration strategy, policy and framework including the existing government job evaluation system. Given the specialist nature of this work, OPSC will involve development partners to provide technical and/or funding assistance.

### **Reviewing the Machinery of Government**

OPSC is currently preparing a concept proposal for work to be undertaken to review the machinery of government. This is a core function of the Public Service Commissioner under the Public Service Act 2009. This work will entail a comprehensive review of the following:

- functions of government (completed by the Functional Analysis);
- distribution of functions and how they are delivered;
- overall structure of agencies and entities accountable for functions;
- governance structures;
- relationships between entities;
- operating systems, policies, processes and frameworks that make government work; and
- legislations and regulations that support the delivery of government mandates and functions.

## 13 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
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. In December 2012, a monitoring and review process was undertaken across the machinery of government to ensure that the implementation of the NSDP was central to the business of all government ministries and agencies. Ministries and agencies were asked to specify how their agency and ministry business plans target the implementation of actions allocated to them under the NSDP; any capital budget requirements and use, progress made in implementation, constraints and challenges impacting on delivery, avenues to overcome constraints and challenges, capacity gaps that may hamper delivery and any additional comments linked to implementation issues.

Responses received have been compiled into a report entitled *Monitoring our Progress – NSDP 2011-2015*. The report summarises progress made against the NSDP strategies by analysing relevance of Business Plans to NSDP implementation, the efficiency of implementation, impact of implementation to date and potential sustainability of implementation.

This process highlighted that compared to the early days of NSDP 2007-2010, there is a vast improvement of directing resources and efforts at the agency and sector levels to NSDP implementation.

The following is a summary of progress for each of the strategies of the NSDP as of December 2012:

Progressing well	Progressing but with some problems	No progress	
<b>GOAL 1: A vibrant Cook Islands economy</b>			
Ensure our tourism excellence	Unlock our potential from our marine resource	Unlock our potential from our agricultural production	Identify and exploit trade opportunities
Build our financial services	Ensure that our cultural and creative industries are a key force in job and wealth creation and nation building	Sustain macro-economic stability	Ensure proactive economic development policies

<b>GOAL 2: Infrastructure for economic growth, sustainable livelihoods and resilience</b>			
Improve access to water for our communities	Improve our facilities for waste management	Improve our transport infrastructure	Improve telecommunications
Strengthen our asset management	Ensure robust construction	Build capacity in the infrastructure	

<b>GOAL 3: Energy Security</b>		
Strengthen the institutional framework of the energy sector	Utilise only proven technology	Provide incentives for renewable energy
Upgrade existing energy infrastructure	Promote energy efficiency and conservation	Build our capacity in the energy sector

<b>GOAL 4: Opportunities for all people who reside in the Cook Islands</b>			
Ensure that parents and communities have confidence in our education system and support quality learning and development for the very young	Ensure that every child is literate and numerate by the end of year 8 and that literacy and numeracy skills for continuing education are provided	Enable every young person to have the opportunity to develop knowledge and skills to gain qualifications that they need to contribute to the development of the Cook Islands	Ensure equitable access to all learners to quality education programmes
Ensure that the education sector is responsive to the training needs of the wider community through collaboration and partnerships with other agencies	Ensure optimum health for our children and young people	Provide quality health services for all	A multi sectoral approach to combat NCDs
Ensure gender equality and empower our women	Guarantee that our children are safe and well cared for; our youth are given opportunity to grow as valuable members of society; our persons with disabilities are valued and included in our development and our elderly are acknowledged for their contributions to society and are looked after	Ensure we have strong families and communities	Our people can access an adequate range different opportunities for leisure, recreation and competitive sports
Ensure the promotion and preservation of our unique culture, languages and heritage			



<b>GOAL 5: Resilient and sustainable communities</b>			
Ensure strong governance arrangements for DRM and CCA	Ensure that high quality risk information is available to inform planning and implementation	Enhance effective preparedness, response and recovery	Build resilience through effective risk reduction and CC adaptation

<b>GOAL 6: Environment for living</b>			
Improve the management and quality of our water resources through an integrated approach	Improve water quality through better sanitation measures	Implement waste minimisation programmes and provide appropriate facilities and incentives to support these with the purpose of achieving zero waste	
Implement an ecosystem approach to the management of marine resources	Develop and implement interventions to ensure that land use is sustainable	Protect our biodiversity and ecosystems	

<b>GOAL 7: Good governance</b>			
Strengthen the role of parliament to hold managers to account for performance	Strengthen electoral systems and processes	Ensure that government service delivery is efficient and effective	Promote partnerships with civil society and the private sector
Strengthen the information and data collection, analysis and management for informed decision making	Ensure access to information	Improve accountability and transparency of public financial management	Establish and strengthen external relations that will benefit the Cook Islands

<b>GOAL 8: A safe, secure, just and stable society</b>			
Ensure that legislative and regulatory frameworks reflect our sustainable development goals and objectives	Ensure quality enforcement of our laws	Improve access to justice	Improve our land management and land information systems
Reduce reoffending through offender rehabilitation	Ensure that our communities and visitors are safe, secure and stable through the provision of quality policing	Ensure our border security both in respect to the movement of goods and persons through the introduction and operation of effective laws and systems	

The summary of progress indicates that the implementation of the NSDP is progressing satisfactorily. Where implementing is making good progress this must maintained and where progress has not progressed well, the reasons why must be ascertained and addressed. It is anticipated that some of the issues hampering progress will be addressed by the Budget for the 2013/2014 and beyond.

The Central Policy and Planning Office of the Office of the Prime Minister will continue to monitor progress on an annual basis to ensure that Government is on track in its implementation of the NSDP.

## 14 PA ENUA

This chapter outlines spending in the Pa Enea. It is envisaged that this chapter will provide clarity on financing appropriated to the Pa Enea not only in relation to funding appropriated through the use of the Outer Islands funding formula but also those absorbed in the budgets of key Ministries operating in the Pa Enea.

### 14.1 Pa Enea Governance

The Island Government Act was passed by Parliament on the 20 February 2013. This new law represents the most thorough and comprehensive review of and reform of the system of governance for the Pa Enea (outer islands) of the Cook Islands since the enactment of the Outer Islands Local Government Act 1987.

The reforms build upon the current system and preserve features of current island governance that have been found to work effectively. The core objectives of the reforms are to resolve known deficiencies in the governance arrangements, to remove obstacles to the effective administration and operation of the island governments, to clearly state roles and responsibilities of Island Governments, and to provide more flexibility in the foundation law to ensure that this process of reform can be on-going and can meet needs that arise in the future. The reforms empower Island Governments to determine development priorities for their respective islands.

The Island Government Act provides clear and revised process dealing with the financial affairs of Island Governments. All budget allocations to Island Governments must be based upon approved Plans and Budgets and must be managed and reported accordingly to ensure accountability. In line with their increased responsibilities, Mayors, Deputy Mayors, and Councillors have been provided a pay increase; at a cost of \$0.156 million for the whole Pa Enea. This extra funding is in addition to the Funding Formula net appropriations for each island set out below.

In addition to the budgets provided for the Island Governments by National Government, Island Governments are empowered and encouraged to generate local revenues for development and service delivery purposes. Revenues collected and generated directly by island governments as stipulated by the Island Government Act do not result in a reduction of budgeted entitlements from the National Government. This serves as an incentive for Island Governments to pursue avenues for generating income that will assist in progressing development on their respective islands within the parameters of the Island Government Act 2013. It also encourages savings behaviour, as islands will have greater flexibility and discretion to allocate savings across their various outputs.

### 14.2 Funding the Pa Enea

The Outer Island Funding Formula aims to determine the appropriate level of funding to each of the Outer Islands<sup>10</sup>. The system was first introduced to ensure a fair and more transparent allocation of financial resources across the Pa Enea and ensure the provision of basic levels of service delivery at a comparable level. The remoteness and low levels of population in the Pa Enea can challenge the capacity of governments to deliver public services, and it is important that each island is adequately funded to overcome these challenges.

The formula determines two things. Firstly, it estimates the minimum level of funding required to administer each island. This provides a 'floor' on the amount each island receives, and ensures that

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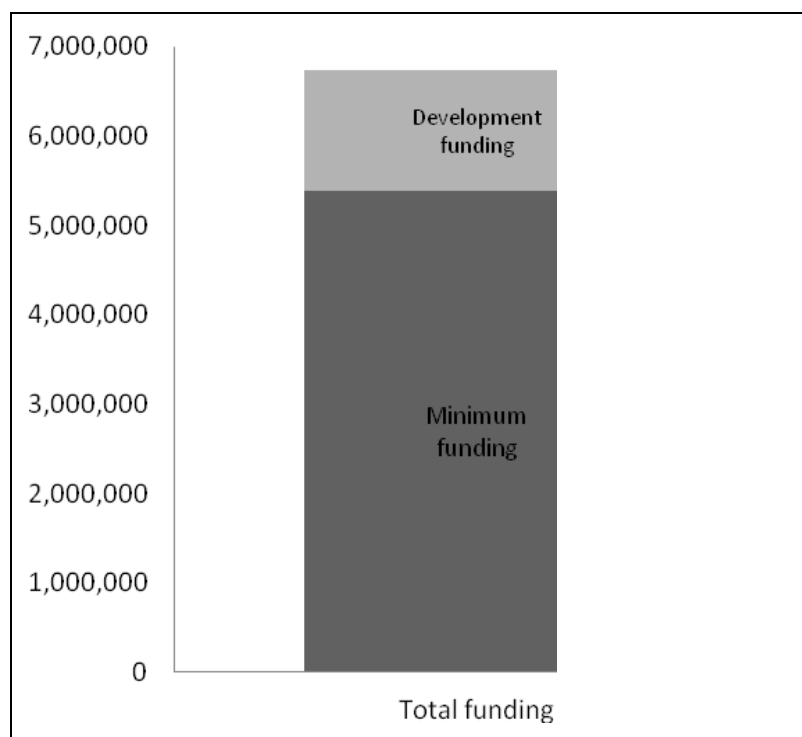
<sup>10</sup> 'Operational funding' is defined as the cash funding allocation in each island's appropriation. This is the amount of cash funding to each island, and therefore excludes depreciation (which is a non-cash item) and capital allocations, which will follow the regular Budget process.

Island Administrations have adequate funding to meet their basic responsibilities. The formula treats each island uniquely, taking into account local circumstances. Currently, the total funding pool is comfortably above the minimum levels required.

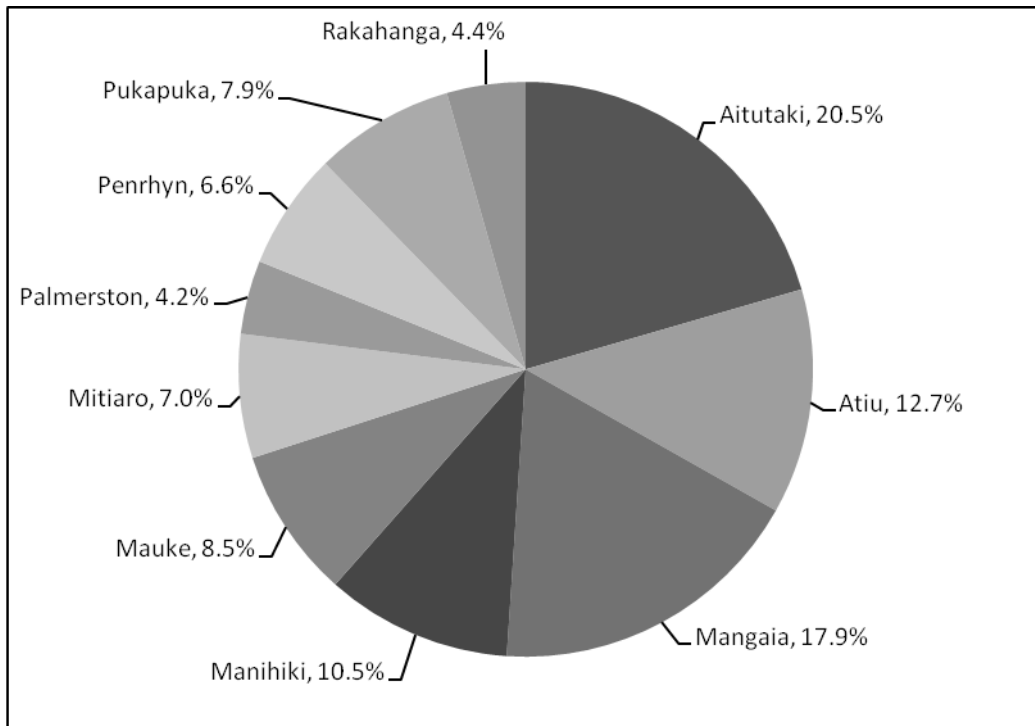
Each area of spending for island administrations is estimated using different factors. For example, the maintenance required for roads will depend on the kilometres of road on the island – physically larger islands will likely require more funding to meet their expenses. Another example is back office support. The larger an island administration is, the more back office support that administration will require (administrative staff, finance staff and management), but on a sliding scale – less additional support will be required as administrations grow. Trading revenue from electricity generation has been estimated for each island, with the implication that if the Island Administration receives trading revenue from other sources, they are able to incorporate this extra revenue into their development funding allocations. The electricity tariff applied to each island is the same – the average electricity price on Rarotonga, which results in an energy subsidy on every island except Aitutaki. If an Island Government chooses to subsidise electricity below the Rarotongan rate, it does so at its own cost; if an Island Government charges what it costs for electricity, it can use this additional revenue for other development activity.

Table 14.1 summarises the major cost drivers in each area of spending. These cost drivers were determined based on relevance and reliability. The formula does not include depreciation as this is a non-cash item and is not appropriated to agencies or Island administrations.

**Chart 14.1 Minimum funding and development funding split**

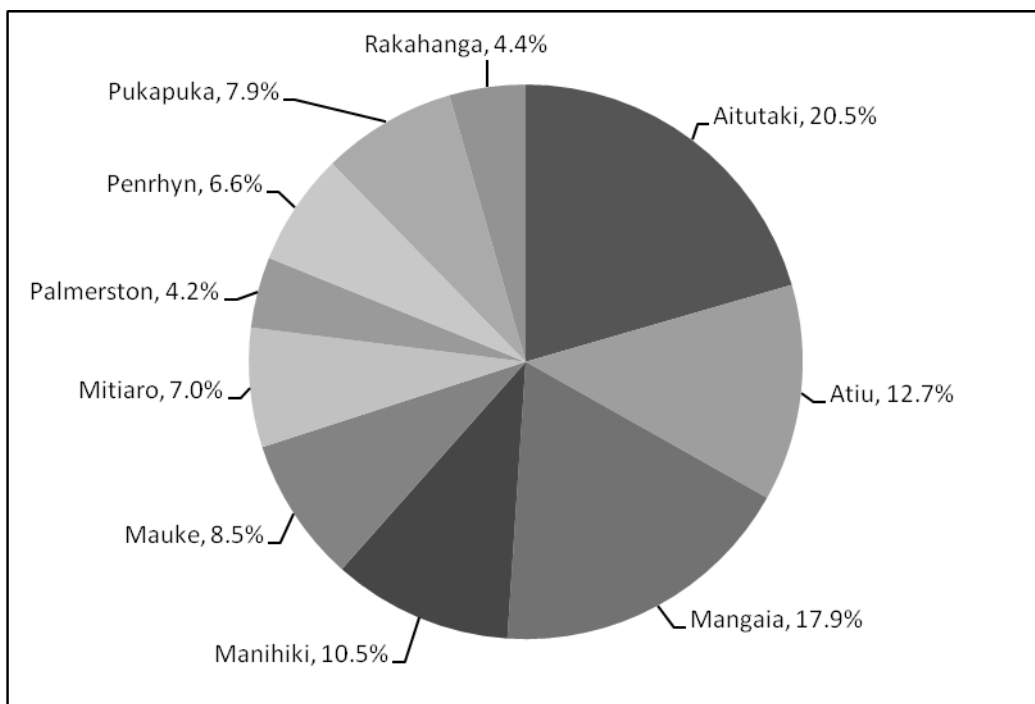


**Chart 14.2 Allocation of minimum funding across islands**



Secondly, the formula allocates the funding pool that is in excess of minimum needs. This additional funding can be used by each island for development purposes as they see fit. Currently, all islands have programs in this area which range from tourism development to gender issues or local sports.

**Chart 14.3: Allocation of development funding across islands**



Each area of spending for island administrations is estimated using different factors. For example, the maintenance required for roads will depend on the kilometres of road on the island – physically larger islands will likely require more funding to meet their expenses. Another example is back office support. The larger an island administration is, the more back office support that administration will require (administrative staff, finance staff and management), but on a sliding scale – less additional support will be required as administrations grow. Trading revenue from electricity generation has been estimated for each island, with the implication that if the Island Administration receives trading revenue from other sources, they are able to incorporate this extra revenue into their development funding allocations.

Table 14.1 summarises the major cost drivers in each area of spending. These cost drivers were determined based on relevance and reliability. The formula does not include depreciation as this is a non cash item and is not appropriated to agencies or Island administrations.

**Table 14.1: Cost factors of the 2013 Outer Island Funding Formula**

Factor/Output	What determines the amount of funding for the relevant factor
Administration	Population as per the Census
Councils	The number and wages of councillors, Ui Ariki and Aronga Mana as per the <i>Outer Islands Local Government Act 2012/13</i>
Infrastructure	
Water	Fixed amount per person / household
Road maintenance	
<i>Sealed</i>	Per km of road
<i>Unsealed</i>	Per km of road
Maintenance (of machinery and vehicles)	Per cent 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
Energy (electricity generation)	Estimation of generation cost (varies between Northern and Southern Group)  Estimated trading revenue from appropriate usage charges
Other costs <sup>1</sup>	varies by island

<sup>1</sup> “Other costs” include island specific costs not factored into the general formula

Each year the formula is updated to reflect changes in local circumstances, such as new capital or infrastructure, with these updates occurring at the following Budget. Every five years, following the conclusion of the Population Census, there will be a more substantial update to recalibrate the formula.

The formula 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.

For example:

The 2013/14 formula application will use the 2011 Census and other information to determine the minimum and target allocations for Mitiaro. Mitiaro's current allocation is above the minimum, but below the target allocation. Mitiaro will adjust towards its target allocation by a maximum of three per cent each year until that allocation is achieved. The formula would then be updated and reapplied next Budget year to create the new target allocation for 2014/15, and so on. The next recalibration (substantial adjustment) in the target allocation would not occur until 2018/19, when the next population census is finalised.

A summary of the formula results are provided in Table 14.2.

**Table 14.2**

	<b>Formula Results</b>					
	<b>2012/13 Cash Funding</b>	<b>Current per cent of total Cash Funding</b>	<b>Minimum Cash Funding</b>	<b>Target per cent of total Cash Funding</b>	<b>Adjustment towards target</b>	<b>2013/14 Cash Funding</b>
Aitutaki	1,311,676	19.5 per cent	1,104,414	20.5 per cent	23,716	1,335,392
Aitutaki Power	251	n/a	n/a	n/a	-251	0
Atiu	791,135	11.7 per cent	681,586	12.7 per cent	14,304	805,439
Mangaia	964,345	14.3 per cent	962,915	17.9 per cent	17,436	981,781
Manihiki	610,513	9.1 per cent	564,419	10.5 per cent	11,038	621,551
Mauke	709,454	10.5 per cent	456,244	8.5 per cent	-21,284	688,170
Mitiaro	456,182	6.8 per cent	374,893	7.0 per cent	8,248	464,430
Palmerston	284,673	4.2 per cent	223,540	4.2 per cent	-4,909	279,764
Penrhyn	464,765	6.9 per cent	353,934	6.6 per cent	-13,943	450,822
Pukapuka	776,664	11.5 per cent	423,213	7.9 per cent	-23,300	753,365
Rakahanga	368,520	5.5 per cent	238,860	4.4 per cent	-11,056	357,464
<b>Total</b>	<b>6,757,930</b>	<b>100 per cent</b>	<b>5,384,018</b>	<b>100 per cent</b>	<b>0</b>	<b>6,757,930</b>

### **14.3 Other funding support targeting the Pa Enea**

The funding provided for Pa Enea is not only limited to that calculated and dispersed according to the outer islands funding formula. The Capital Plan Book 3 of the budget outlines the allocation of capital investments for the Pa Enea financed through a mix of resources from international development partners and Cook Islands Government. In addition, general funding support for the Pa Enea has in the past and will be incorporated into the Budgets of key ministries operating in the Pa Enea for the 2013/2014 financial year.

#### *Ministry of Education*

The Ministry Education estimates expending \$0.271 million on operational and \$3.1 million on personnel to deliver services to the Pa Enea in the 2012/2013 financial year. It anticipates that it will expend \$0.271million for operational and \$3.5 million for personnel costs to deliver various programmes across the Pa Enea in 2013/2014. Costs for operations include text books, stationery, property, corporate services and other expenses.

#### *Ministry of Health*

The Ministry of Health estimates funding for 2012/2013 for the Pa Enea at \$0.235 million for operational costs, \$1.6 million for personnel and \$0.118 million for capital expenditure. It has budgeted \$0.235 million for operational costs, \$1.5 million for personnel and \$0.226 million for capital expenditure for the 2013/2014 financial year.

#### *Police*

The Police estimates spending targeting the Pa Enea for 2012/2013 at \$0.335 million This is split as \$0.011 for operational and \$0.324 million for personnel costs. It is anticipated that \$0.013 million for operational and \$0.408 million for personnel costs will be expended in the Pa Enea in the 2013/2014 financial year.

#### *Ministry of Internal Affairs*

The Ministry of Internal Affairs has welfare officers in the Pa Enea. The personnel cost associated with these welfare officers are incorporated into the Ministry's budget. In 2012/2013, the total estimate personnel cost for the welfare officers in the Pa Enea is \$0.169 million plus \$0.024 million for operating costs for the island of Aitutaki. The Ministry anticipates that in 2013/2014 it will maintain the \$0.024 million operating cost for Aitutaki and reduce the personnel cost for Pa Enea welfare officers to \$0.162 million.

Also administered by the Ministry of Internal Affairs are public transfers of welfare benefits. For the 2012/2013 financial year this is estimated to total \$5.8 million. It is envisaged that in 2013/2014, this will increase to \$6.2 million. These amounts 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.

The welfare benefits administered by the Ministry of Internal Affairs and received by beneficiaries in the Pa Enea are as follows:



The combination of the resources budgeted for Island Governments and key Ministries operating in the Pa Enea for the 2013/2014 financial year is presented in the table below:

**Table 14.3 Total Public Spending in the Pa Enea (\$ millions)**

<b>Island</b>	<b>Island Government Net Appropriation</b>	<b>Ministry total</b>	<b>Welfare transfers</b>	<b>Trading revenue</b>	<b>Total public spending</b>
Aitutaki	1.52	2.27	3.08	0.05	<b>6.12</b>
Atiu	0.96	0.70	0.64	0.22	<b>2.60</b>
Mangaia	1.21	0.94	0.76	0.30	<b>3.40</b>
Manihiki	0.73	0.33	0.18	0.14	<b>1.54</b>
Mauke	0.79	0.44	0.44	0.11	<b>1.79</b>
Mitiaro	0.52	0.26	0.26	0.06	<b>1.11</b>
Palmerston	0.33	0.05	0.18	0.02	<b>0.46</b>
Penrhyn	0.51	0.29	n/a	0.08	<b>1.19</b>
Pukapuka/Nassau	0.91	0.85	0.56	0.07	<b>2.70</b>
Rakahanga	0.42	0.14	0.18	0.10	<b>0.81</b>
<b>Total Pa Enea</b>	<b>7.91</b>	<b>0.11</b>	<b>1.96</b>	<b>3.77</b>	<b>0.16</b>

*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 and therefore has to be extrapolated from the overall Rarotonga data. Also note that Aitutaki does not gain trading revenue from electricity sales, as this is collected by Aitutaki Power Supply, which receives no operational funding.*

The data presented above when combined with the spending on capital as outlined in Capital Plan Book 3 presents a more holistic view of the resources allocated by Government for the Pa Enea.

## **15 OFFICIAL DEVELOPMENT ASSISTANCE (ODA) BUDGET 2012/13 - 2015/16**

### **15.1 Introduction**

It is estimated that ODA accounts for 14 per cent of the national economy, and 30 per cent of the national Budget in 2013/14.

The Government of the Cook Islands ODA Policy 2011 sets a policy directive towards all known sources of development finance planned for use in the Cook Islands is captured by government systems, appropriated, and reported on in the national budget with a medium term perspective.

Not all development assistance to the Cook Islands is captured by in the Budget, the per cent which has been captured has been increasing over recent years. Further policies and procedures will be established and implemented to ensure that all ODA spent on the Cook Islands behalf is captured improving the accuracy of these estimates.

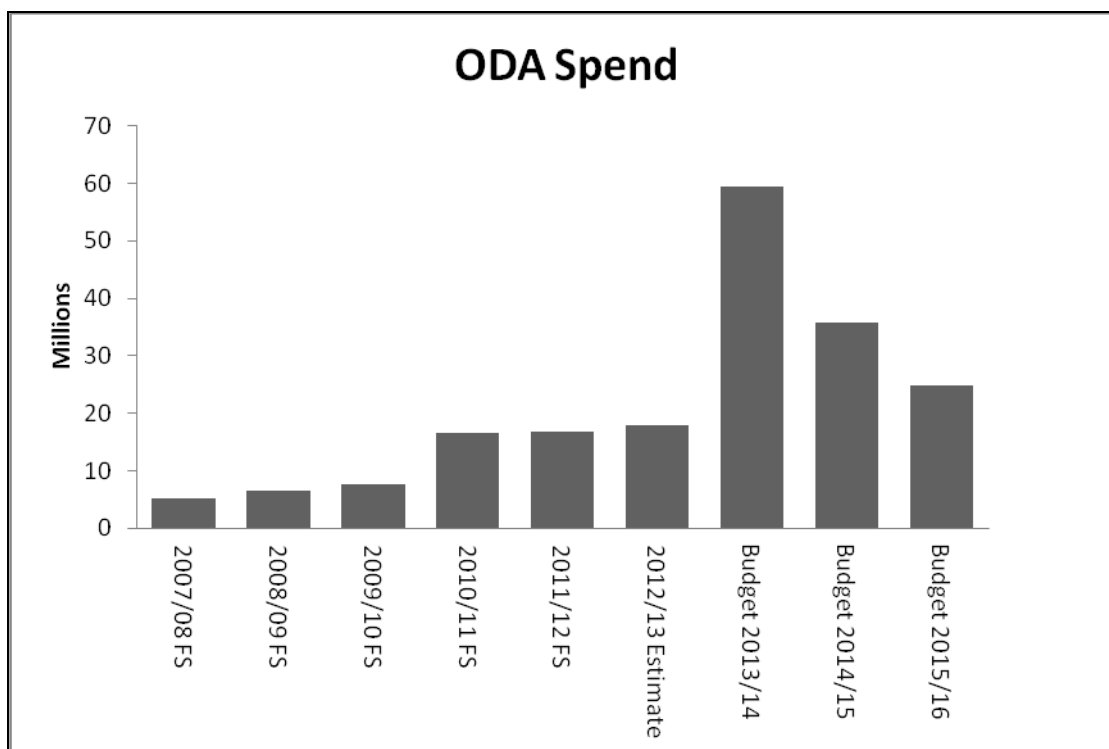
The estimates of ODA incorporate the information available to MFEM as at April 2013.

A newly integrated accounting and activity management system for ODA operational in 2013 has been used to generate the financial information reported in this chapter.

ODA estimates are intended to represent total costs, these being costs paid in the Cook Islands (including provisions for committed contracts), as well as spending on programmes to the Cook Islands by third parties such as foreign governments development banks and regional organisations.

Additional information included this year is the New Zealand/Australia (representing over 50 per cent of ODA) Forward Aid Programme which is a tool used by officials to programme assistance over the coming years and is overseen by the National Sustainable Development Commission.

Reductions in the ODA profile in 2014/15 and 2015/16 detract 5.5 per cent and 3.0 per cent from GDP in 2014/15 and 2014/15 respectively.



## 15.2 Variances

Estimated expenditure for 2012/13 is expected to approach \$18 million by year end, significantly below the 2012/13 Appropriation Amendment allocation of \$48.5 million, representing a 37 per cent under spend.

The variance between the budget and estimated spend in 2012/13 is due to:

- spend estimate including only costs paid by the Cook Islands up to April 2013, whereas the other figure includes all ODA activity;
- a lack of information on programme spending managed by regional partners on behalf of the Cook Islands;
- draw down delays with grant funds from the People’s Republic of China as outer islands heavy machinery and a delay in grant funds for pearl farming equipment which is now scheduled to be delivered in 2013/14;
- a timing difference in the scheduling of payments of \$4 million of European Union (EU) funds which are now agreed to be provided under a sector reform contract over the period 2012 to 2015 for sanitation;
- lower than anticipated spending from the \$2.2 million which was allocated through the Japan Pacific Environment Community Funds for Renewable Energy;
- adjustments to the harmonised New Zealand and Australian forward aid program as follows:
  - \$2 million reprogrammed for the renewable energy program in the Northern Cook Islands has progressed slower than planned. Reprogramming is expected to reduce total mobilisation costs and provide the necessary quality assurances going forward. As such, program expenditures have been adjusted over the forward years;

- \$0.65 million will be re-programmed into 2013/14 for Northern Group community water infrastructure;
  - timing of the provision of \$4 million for Water Sector support (Te Mato Vai) is expected to be paid over in part before 30 June 2013 with the balance coming through in the forward years, this does not reduce the total NZ/AUS agreed contribution of \$15 million;
  - deferral of the pearl revitalisation program pending new plans;
  - slower than anticipated dispersal of the Cook Islands Technical Assistance Fund (CITAF) and Social Impact Funds' (SIF). Funds are reprogrammed with no change to total activity budget; and
- \$1.5 million of water activities funded by the United Nations (UN) Adaptation Fund under '*Strengthening Resilience of our Island Communities*' is spread over 2013 to 2015 after 2012 mobilisation of office staff and planning reviews.

There are also some projects that were allocated funds in the 2012/13 Appropriation Amendment that were later not approved by the development partner, these were:

- web tax lodgment system MFEM;
- AusAID climate change funding programmed for Mangaia water was reallocated to a sanitation program. Mangaia water is being reviewed and funding needs will be a priority.

**Table 15.1 OFFICIAL DEVELOPMENT ASSISTANCE BUDGET 2012/12 – 2015/16**

	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
<b>A. 2012/13 Budget</b>	<b>48,465,680</b>	<b>43,878,900</b>	<b>26,251,260</b>	<b>0</b>
Chinese Grant	(7,220,000)	5,000,000	7,700,000	0
Water and Sanitation (EU)	(4,080,000)	1,600,000	(2,480,000)	1,600,000
Waste and Sanitation	0	0	0	4,000,000
Water Facility Grant	0	(8,000,000)	0	0
Renewable Energy program support	(2,500,000)	2,280,000	(600,000)	4,000,000
Te Mato Vai (Water Project)	(8,000,000)	7,500,000	1,500,000	5,000,000
PV Mini Grids	(1,260,000)	0	3,500,000	0
Strengthening Resilience of Island Communities	(2,660,000)	0	0	0
Cook Islands Technical Assistance Fund	(1,300,000)	0	0	0
Pearl Industry Revitalisation	0	2,237,000	0	0
Cook Islands Tourism Corporation	0	0	(1,000,000)	0
Education Sector Partnership	0	0	0	3,375,000
Ridge to Reef	0	0	0	2,200,000
Estimated Regional Spending on behalf of the Cook Islands	(1,000,000)	0	0	0
Other Projects under spend	(2,445,680 )	0	0	0
Other Projects Regional	0	2,500,000	0	0
Other Projects	0	2,367,262	913,060	2,675,000
<b>B. 2013/14 Budget</b>	<b>18,000,000</b>	<b>59,363,162</b>	<b>35,784,320</b>	<b>22,850,000</b>

### Balance of Funds on Hand 31 March 2013

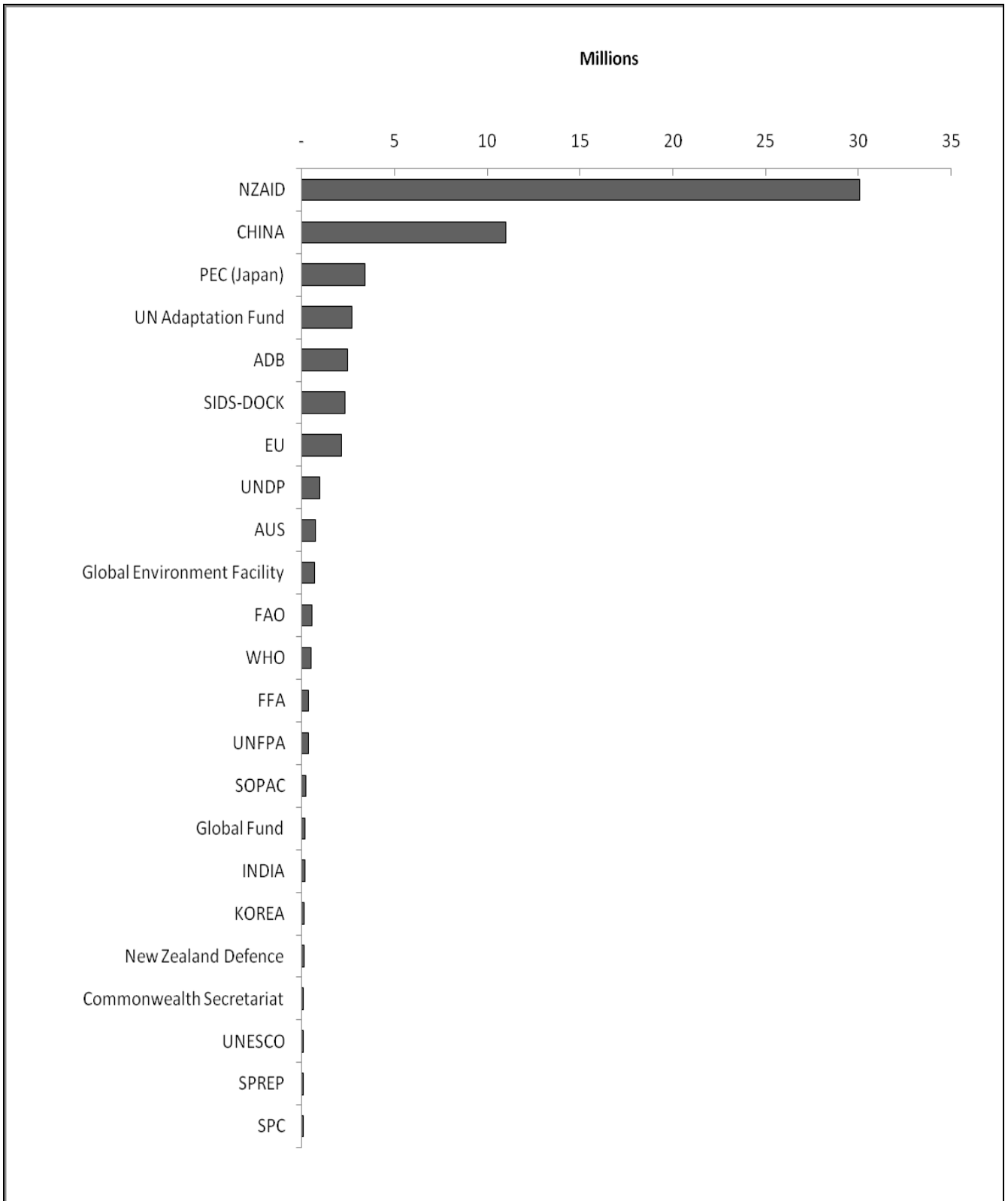
This represents the bank accounts that are held by the Government of the Cook Islands for various partners. These take the following form:

- NZ dollar accounts NZD \$7,087,819
- US dollar accounts USD \$60,569 @0.8279 NZD \$73,268

**Table 15.2 ODA allocation by National Sustainable Development Goal**

<b>NSDP</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
<b>Key Priority Areas</b>	<b>Appropriation Amendment</b>	<b>Budget</b>	<b>Forecast</b>	<b>Forecast</b>
Ecological Sustainability	742,000	2,973,300	2,529,900	2,342,000
Energy	4,300,000	13,388,347	3,512,150	4,000,000
Governance	1,713,354	1,948,000	1,080,000	680,000
Infrastructure	17,143,000	18,719,000	14,750,000	5,600,000
Resilience	14,058,312	12,677,985	6,833,700	6,382,000
Social Development	339,176	1,074,530	466,570	351,000
Law and Order	995,838	855,000	855,000	120,000
Economic Development	9,174,000	7,727,000	5,757,000	3,375,000
<b>Total</b>	<b>48,465,680</b>	<b>59,363,162</b>	<b>35,784,320</b>	<b>22,850,000</b>

Chart 15.1 ODA Application by Partner 2013/14



**Table 15.3 Cook Islands ODA by Sector**

<b>Sector</b>	<b>2012/13 Appropriation Amendment</b>	<b>2013/14 Budget</b>	<b>2014/15 Budget</b>	<b>2015/16 Budget</b>
Agriculture	223,200	572,200	38,500	0
Climate Change	3,605,500	3,233,585	2,138,500	732,000
Civil Society	851,258	765,000	600,000	600,000
Community services	558,000	150,000	150,000	150,000
Education	4,124,200	3,541,200	3,646,200	3,375,000
Energy	4,300,000	13,388,347	3,512,150	4,000,000
Environment	345,500	466,300	291,400	142,000
Health	1,052,912	1,401,530	1,035,570	746,000
Infrastructure	17,143,000	18,719,000	14,750,000	5,600,000
Local government	249,000	0	0	0
Law and Order	995,838	855,000	855,000	120,000
Marine Resources	1,021,000	2,794,000	2,582,000	2,200,000
Multi sector	189,176	85,000	85,000	85,000
Public Administration	1,953,096	2,240,000	480,000	80,000
Social welfare	854,000	652,000	120,000	20,000
Tourism	3,000,000	3,000,000	2,000,000	0
Transport	0	0	0	0
Water and Sanitation	8,000,000	7,500,000	3,500,000	5,000,000
<b>Total</b>	<b>48,465,680</b>	<b>59,363,162</b>	<b>35,784,320</b>	<b>22,850,000</b>

## 15.3 ODA Activity Detail

This section be read in conjunction with the capital plan (budget book three) as detail of ODA funded infrastructure projects are not repeated in this chapter.

The aid effectiveness implementation plan 2012 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 administration, foster cooperative effort and incentivise action that furthers agreed 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.
- Deepening cooperative approaches between New Zealand/Australia and the European Union in the sanitation sector.
- Cook Islands working with the Asian Development Bank (ADB) and Pacific Finance Ministers to improve access to Climate Change financing.
- UNDP initiative to make more project data publicly accessible on the internet. Visit [http://open.undp.org/#2012/filter/operating\\_unit-COK](http://open.undp.org/#2012/filter/operating_unit-COK) to see the data showing for the 5 UNDP projects for CI for 2012.



### Improved planning and tools:

- New activity management system for the Development Coordination Division (MFEM) being implemented in 2013/14. Asian Development Bank and New Zealand aid program assistance strengthening activity cycle management and national sustainable development plan results monitoring.
- The medium term 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 (CIIC) to improve asset management systems.
- Hosting an annual development partners meeting seeking to orient partner funding towards Cook Islands programs rather than project level interventions that duplicates national systems.
- Developing a road map to achieve National Implementing Entity (NIE) 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 (NZ/AUS). E.g. Education, Tourism, Water, Sanitation and Health.
- Continuing the public financial management road map that seeks to build capacity of the Parliamentary oversight committee, government procurement and financial accountability systems.
- A review<sup>11</sup> by Pacific peers and a development partner of our financial systems and other key aspects of the Cairns Compact planned for November 2013.

## 15.4 Office of the Prime Minister (OPM)

### 15.4.1 Joint National Adaptation Program

Implementation of the Joint National Action Plan (JNAP) on climate change and disaster risk management involves the following four main programs coordinated by the Government of the Cook Islands through the Office of the Prime Minister. This program aims to improve collaboration across Ministries, local government, civil society and the private sector.

**Table 15.4 Strengthening the Resilience of our Island Communities to Climate Change (SRIC)**

	<b>Total cost</b>	<b>2012/13 Estimate</b>	<b>2013/14 Budget</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>
Recurrent expenses	3,032,500	798,000	751,000	921,500	562,000
Capital	4,866,500	1,862,000	1,957,585	1,047,000	0
<b>Total</b>	<b>7,899,000</b>	<b>2,660,000</b>	<b>2,708,585</b>	<b>1,968,500</b>	<b>562,000</b>

<sup>11</sup> <http://www.forumsec.org/pages.cfm/strategic-partnerships-coordination/pacific-principles-on-aid-effectiveness/peer-reviews.html>

Strengthening the Resilience of our Islands and our Communities to Climate Change (SRIC) is funded by the United Nation Adaptation Fund. The project commenced in 2012 with the development of a five year plan and the drafting of a Climate and Disaster Compatible Development Policy. Even though water Infrastructure improvements in the Pa Enea were delayed from 2012/13, water remains a large part of the allocated budget for 2013/14. A Pa Enea small grants programme will support the implementation of Island Sustainable Development Plan climate change and disaster risk reduction priorities, while the Cook Islands Meteorological Services will upgrade the weather observing network and management system for all islands.

#### 15.4.2 Pacific Adaptation Strategic Assistance Programme

**Table 15.5 Pacific Adaptation Strategic Assistance Programme**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	504,000	497,000	0	0	0
<b>Total</b>	<b>504,000</b>	<b>497,000</b>	<b>0</b>	<b>0</b>	<b>0</b>

Pacific Adaptation Strategic Assistance Programme (PASAP) is funded by AusAid and is planned to complete an Extreme Weather Event Vulnerability Assessment for Avarua Foreshore and Pa Enea Vulnerability Assessments by the end of the 2013.

**Table 15.6 Global Climate Change Alliance: Pacific Small Islands States regional project**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	560,000	4,000	280,000	280,000	0
Capital	209,000	0	209,000	0	0
<b>Total</b>	<b>769,000</b>	<b>4,000</b>	<b>489,000</b>	<b>280,000</b>	<b>0</b>

The regional project Global Climate Change Alliance: Pacific Small Islands States (GCCA) managed by the South Pacific Commission and funded by the European Union has several funding streams. The Cook Islands has planned activities in the following areas:

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.
2. TA to assist the Cook Islands to develop a road map to achieve **National Implementing Entity** status with the UN adaptation fund to reduce reliance on regional organisations (e.g. UNDP, SPC, SPREP) to administer for climate change funding.

More information can be found at [www.pmooffice.gov.ck/portal](http://www.pmooffice.gov.ck/portal).

**Table 15.7 National Report to the United Nations Framework Convention on Climate Change**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	400,000	0	60,000	170,000	170,000
<b>Total</b>	<b>400,000</b>	<b>0</b>	<b>60,000</b>	<b>170,000</b>	<b>170,000</b>

The Third National Communication Report is a requirement of the United Nations Framework Convention on Climate Change (UNFCCC). This is a global project with United Nations Environment Programme and the Global Environment Facility to assist twelve countries, including the Cook Islands to prepare their reports. The main goals are<sup>12</sup>:

- establishing an inventory of greenhouse gases emissions;
- developing programmes containing measures to facilitate adequate adaptation to, and mitigation of climate change;
- developing programmes and national action plans that are considered relevant for the achievement of the objectives of the UNFCCC;
- disseminating the importance of the 2010 Biological Diversity Targets signed by the Cook Islands in Rio 1992 for the progressive implementation of the Convention on Biological Diversity at country level; and
- linking reporting on progress towards the 2010 target with progress in achieving other related global goals such as Millennium Development Goals.

**Table 15.10 : Community Centered Sustainable Development Programme**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	190,000	40,000	0	0	0
<b>Total</b>	<b>190,000</b>	<b>40,000</b>	<b>0</b>	<b>0</b>	<b>0</b>

This United Nations Development Program (UNDP) commenced in 2008 to build the capacity of local governance systems to effectively and sustainably manage their natural and cultural resources to support livelihoods in a manner that promotes gender equality and the achievement of the Millennium Development Goals. Overall objectives were to:

- build gender-sensitive community capacity;
- contribute to sustainably managed environmental and income-generating initiatives (example: fences for farming);
- promote community-led planning processes; and
- build an eco-friendly economy that incorporates climate change adaptation and risk-reduction measures.

The programme worked on island and village sustainable development plans with communities, marginalized groups (e.g. youth, women, elderly, disabled, etc.) and supported community-led climate change adaptation activities in Mitiaro and Mauke. This project ends in June 2013.

**Table 15.8 Promoting Energy Efficiency in the Pacific – Phase 2 (PEEP) TA 7798 (Regional)**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent and capital expenses	1,061,497	540,000	409,347	112,150	0
<b>Total</b>	<b>1,061,497</b>	<b>540,000</b>	<b>409,347</b>	<b>112,150</b>	<b>0</b>

<sup>12</sup> Reports are available from the National Environment Service.

PEEP is a regional project for five Pacific Developing Member Countries – the Cook Islands, Papua New Guinea, Samoa, Tonga and Vanuatu promoting energy efficiency. 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 (GEF) and other sources. The second phase is about implementing energy efficiency measures including:

- developing a regional “ energy use” database;
- national energy policies with implementable energy efficiency targets;
- large scale implementation of energy efficiency projects in residential, commercial and government sectors and public lighting (detailed below);
- established government policies and procedures for use of energy efficiency appliances, best practice energy efficiency in building codes and capacity building of service providers;
- information dissemination and public awareness for all stakeholders;
- leveraging other regional energy programmes to maximize benefits to all PDMC’s;

The following energy efficiency programs have been approved for implementation:

- Airport lighting (by September 2013) - supply and Installation of stand-alone solar-LED lighting in the airport car park in Rarotonga
- Punanga Nui Night Market Lighting (by September 2013) - supply and installation of stand-alone solar LED fixtures in the Punanga Nui Market in Rarotonga;
- Fridge/freezer Replacement Programme (2013) - Rebates to consumers across the Cook Islands when purchasing energy efficient fridges and freezers in exchange for old units and safe disposal of old units;
- Public Sector Energy Efficiency Measures (2013/14) - supply and Installation of energy efficient fluorescent tube lights (T5 type) as a replacement of existing T8 lamps; and the installation of timers for Air Conditioners in twenty one Government Agencies;
- Ports Authority marina and wharf lighting (2013/14) - supply and installation of stand-alone solar LED lighting in the marina and wharf area;
- Private Sector Energy Efficiency - Edgewater Hotel (2013/14) - installation of high efficiency ACs, energy saving key tags, energy efficient lighting, ceiling insulation and draught excluders in seventy five rooms under renovation.

The regional database is established, draft building guidelines and the establishment of targets for energy efficiency are now in place. See the following website for further information <http://www.ee-pacific.net/>.

**Table 15.9 Renewable Energy Technical Assistance (Project No: 46453-001)**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	570,000	0	570,000	0	0
<b>Total</b>	<b>570,000</b>	<b>0</b>	<b>570,000</b>	<b>0</b>	<b>0</b>

This technical assistance is seeking to complete a project preparatory phase to enable a lending programme through the Asian Development Bank (ADB) with the following outputs:

- Implementation of a six MW of solar power capacity facility in the project area;
- operation and maintenance knowledge transfer programs; and
- efficient project management services.

The impact of the project will be reduction of the Cook Islands' dependence on imported diesel for power generation. The outcome will be that customers within the project area have access to a higher share of electricity generated by solar power.

## 15.5 Office of the Public Service Commissioner

**Table 15.10 Cook Islands Technical Assistance Facility (CITAF)**

	<b>Total cost</b>	<b>Spend est. 2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	3,000,000	1,300,000	1,000,000	0	0
<b>Total</b>	<b>3,000,000</b>	<b>1,300,000</b>	<b>1,000,000</b>	<b>0</b>	<b>0</b>

This programme is funded by New Zealand and Australia 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. The outcomes anticipated are improved efficiencies, service delivery quality and skill transfer. In June 2012 a public service capability assessment was completed to inform decision-making.

Since CITAF's launch in 2011/12 the Facility Coordinating Committee have approved over \$2.3 million projects with over \$2 million committed and an overall estimated spend up to April 2013 of \$1.3 million.

The following table presents beneficiaries of CITAF funding, projects and total funding approved over the years.

**Table 15.11 CITAF activities funded.**

<b>Ministry</b>	<b>Project</b>	<b>Total Funding Approved</b>
CIAO	Audit Government Financial Statements Catch-Up	163,600
CIAO	Government Financial Statements Catch-Up Project	34,440
FSDA	Financial Services Legislative Drafting 2012	116,000
INTAFF	Follow-Up Audit of Dangerous Goods Installation	22,400
INTAFF	Cook Islands Employment Bill Drafting Service	14,400
MFEM/ Crown Law	Government Officials Salary Top-ups	568,023
MFEM	CIs Government Annual Accounts Catch-Up	47,110
MFEM	Review of Underwrite for Sydney and LA to Rarotonga	39,500
MOA	Compost Technician Support	18,800
MOE	Five Year Strategy for Tertiary Continuing and Community Education	165,000
MOE	Review of Curriculum Framework	70,575
MOH	Health Clinical Audit	11,810
OPSC	Public Sector Strengthening	170,000

Ministry	Project	Total Funding Approved
OPSC	HRMIS Technical Assistance Element	152,392
OPSC	CITAF Management Cost	150,000
Police <sup>13</sup>	Police Intelligence Analyst Training for Cook Islands Police	0
INTAFF	Dangerous Goods Installation Inspections on Triad Pacific Petroleum Ltd	54,880
Justice	Stenographer TA	10,314
MOE	Completion of HRD 2010/11, 2011/12 Statutory Accounts	6,000
MOIP	Working Group for establishment of Solid Waste Management financing	40,000
OPM	ICT Consultation	30,556
OPSC	Capability Analysis of public sector	50,000
CIIC	Conversion to IFRS	133,435
CIMS	Aviation Met Service	40,000
<b>TOTAL APPROVED FUNDING BY FCC</b>		<b>2,314,750</b>
<b>TOTAL COMMITTED FUNDS</b>		<b>2,098,920</b>
<b>TOTAL CITAF FUNDS THROUGH GFA</b>		<b>3,000,000</b>
<b>TOTAL TO BE SPENT FROM COMMITTED FUNDS as at 30 April 2013</b>		<b>1,379,365</b>

## 15.6 Ministry of Finance and Economic Management

Table 15.12 Public Sector Reforms (including TA7646/7958)

	Total cost	Est. spend 2012/13	2013/14	2014/15	2015/16
Recurrent expenses	1,300,000	300,000	900,000	400,000	0
<b>Total</b>	<b>1,300,000</b>	<b>300,000</b>	<b>900,000</b>	<b>400,000</b>	<b>0</b>

The Asian Development Bank (ADB) Country Operations Business Plan provides on average \$0.5 million per annum 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 Strategic Development Plan. This project forms part of a staged approach to implement public sector reforms to meet the goals of the NSDP ([www.adb.org](http://www.adb.org)).

The \$0.9 million will be allocated across the Technical Assistance (TA) requirements agreed as part of ADB Country Operations Business plan. Following on from the functional review of the Cook Islands public sector in 2011, technical assistance was provided in 2012 to:

<sup>13</sup> The Police Department project Police Intelligence Analyst Training for Cook Islands has been approved but requires revised proposal and budget estimates.

- implement new public service functional and organisational structures for four sectors. (*partially completed*);
- implement changes to outer Island administration (*completed*); and
- develop an effective public services policies and procedures manual (*completed aimed for end of 2012/13*).

Through a combination of regional technical assistance and project technical assistance, the work in 2013/14 will include;

- support to the telecommunications regulatory framework changes;
- a five year Infrastructure plan to support CIIC and MOIP;
- corporatisation of WATSAN unit of MOIP which will become the public operator for Rarotonga's water and sanitation services;
- developing capacity for welfare cost modeling to enable comparison of different welfare policy options (MFEM/INTAFF);
- results Based Management (RBM) framework to support Office of the Prime Minister (OPM) measure progress towards National Sustainable Development Plan goals; and;
- continuation of agreed Public Sector Reforms.

### European Development Fund

The European Union provides its bilateral ODA assistance via the European Development Fund (EDF) process currently at the end of its tenth cycle (EDF 10 €5 million). Cycle 11 (EDF 11) is planned using an innovative incentive approach which provides sector budget support to the Cook Islands over the calendar years 2014 to 2020. EDF 11 funding is proposed to continue funding the Technical Co-operation Facility and provide the initial 2.5 million euros to the Sanitation sector.

In addition to EDF bilateral funds, the EU also provides opportunities via regional funds such as the Pacific Investment Facility (€10 million). Pacific countries can apply to blend loans, grants and existing resources to support national programs. The Cook Islands plans to make an application to support activities aligned to the National Sustainable Development Plan such as sanitation, climate change or renewable energy.

**Table 15.13 Technical Co-operation Facility (TCF)**

	Total cost	2012/13 est. spend	2013/14	2014/15	2015/16
Recurrent expenses	320,000	61,500	80,000	80,000	80,000
<b>Total</b>	<b>320,000</b>	<b>61,500</b>	<b>80,000</b>	<b>80,000</b>	<b>80,000</b>

The Cook Islands proposed this facility in 2009 which is funded from the EDF 10 (\$226,400). Activities support MFEM to implement the ODA program and foster aid effectiveness. Costs include funding a Programme Manager in the Development Coordination Division, technical studies and small activities.

**Table 15.14 EDF 11 Water and Sanitation General Budget Support**

	Total cost	2012/13 est. spend	2013/14	2014/15	2015/16
Capital	6,011,450	0	1,600,000	2,400,000	1,600,000
<b>Total</b>	<b>6,011,450</b>	<b>0</b>	<b>1,600,000</b>	<b>2,400,000</b>	<b>1,600,000</b>

In 2011/12 EDF 10 funds (€2.4 million) were mainly spent on the Pukapuka Cyclone Shelter which is now completed except for the back-up generator, verandahs, kitchen and laundry facilities.

No EDF funds were received in the 2012/13 period however work progressed in planning a shift in EU funding from project level intervention to sector based support for sanitation. At the time of developing the 2013/14 budget the EU had not made a decision on the EDF11 program funds however it has been assumed that funds will continue support to the sanitation upgrades at the same rate as for EDF 10.

**Table 15.15 India Grant Fund**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	1,008,000	558,000	150,000	150,000	150,000
<b>Total</b>	<b>1,008,000</b>	<b>558,000</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>

Since 2006, the Indian Government has granted the Cook Islands USD100,000 annually for Socio-Economic Sustainable Development community based projects. This was increased in 2009 to USD125,000 annually between 2006 to 2011, eight projects (USD151,800) were completed. A further fifteen (460,000) projects have been approved for funding this year and are currently being implemented. For more information refer to web page below. [http://www.mfem.gov.ck/index.php?option=com\\_content&id=134&Itemid=89](http://www.mfem.gov.ck/index.php?option=com_content&id=134&Itemid=89)

**Table 15.16 United Nations Development Programme TRAC Funding**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	242,000	0	242,000	0	0
<b>Total</b>	<b>242,000</b>	<b>0</b>	<b>242,000</b>	<b>0</b>	<b>0</b>

The United Nations Development Programme have offered the Cook Islands assistance from a fund called Targeted Resource Allocation from the Core (TRAC). This is proposed to be allocated to gender development and the six key outcomes identified by the Cook Islands and formalised in the United National Development Assistance Framework.

## 15.7 Ministry of Foreign Affairs and Immigration

**Table 15.17 China Grant Fund**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses		1,208,875	0	0	0
Capital	33,200,000	270,480	11,000,000	7,700,000	0
<b>Total</b>	<b>34,200,000</b>	<b>1,478,355</b>	<b>11,000,000</b>	<b>7,700,000</b>	<b>0</b>

In 2012/13 furniture was received for the new Ministry of Education building and a cash grant of \$1,000,000 USD was received to assist with Forum costs.

Also in 2012, the People's Republic of China agreed to the Cook Islands proposal to prepare a three year strategy and revised process for the use of remaining and future grant funding. Investigations report the last decade an estimated \$14.2 million of projects had been completed and that the unutilized grant balance is approximately \$20 million.

The review found that the majority of projects were product or services provided in kind after completing a procurement process in China. The tendency had been to utilize the fund for buildings and equipment not necessary aligned to the National Sustainable Development Plan. The remaining grant



funds have been aligned to the Cook Islands Government's three year plan and are now reflected in Budget Capital Book 3 as follows.

<b>PRC Grant fund</b>	<b>LEAD AGENCY</b>	<b>Financial Year expected</b>	<b>ESTIMATED COST (NZ\$)</b>
<b>Balance May 2013</b>			<b>20,286,520</b>
<b>Confirmed Projects by the Cook Islands Government</b>			
Pearl farming equipment	MMR	2013/14	1,200,000
Chinese Building Repairs	CIIC	2013/14	800,000
Outer Island Heavy Machinery	MOIP	2013/14	6,000,000
Northern Group Roofing supplies	MOIP	2013/14	1,500,000
Atiu, Airport Upgrade	Airport Authority	2014/15	2,700,000
Agriculture Equipment	Agriculture	2013/14	1,500,000
Outer Island Plant and Equipment 2 <sup>nd</sup> order	MOIP	2014/15	5,000,000
<b>Proposed projects</b>			<b>18,700,000</b>
Balance estimated			1,586,520

Work is underway to confirm the procurement specifications for pearl farming equipment. After a final review of heavy machinery needs delivery is expected to the Cook Islands in late 2013/early 2014. A follow up order of outer island plant and machinery is being developed from unfunded capital requests accumulated during this year's budget process. The building repairs activity will be managed by CIIC and will address issues at the Telecom Sports Arena, Avarua Police station and Court House.

The following projects are progressing with caveats over the Atiu Airport upgrade (which depends on the findings of the outer islands feasibility study); scoping for the northern water roofing and materials needs and the agricultural equipment proposal. The balance of funds will be allocated using the new process which includes recommendations for capital projects approved by the Infrastructure Committee.

## 15.8 Ministry of Education

**Table 15.18 Education Sector Partnership Arrangement**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	13,873,000	3,853,000	3,270,000	3,375,000	3,375,000
<b>Total</b>	<b>13,873,000</b>	<b>3,853,000</b>	<b>3,270,000</b>	<b>3,375,000</b>	<b>3,375,000</b>

The education sector partnership arrangement funded through the New Zealand and Australia harmonised program includes primary, secondary and tertiary activities, short term training awards and school refurbishments. In July 2012 a new Grant Funding arrangement was signed between the Government of New Zealand and the Cook Islands for a funding of up to \$9.525 million for the three years 2012/13 to 2014/15. It is assumed that this funding stream will continue after this date at the same rate.

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 table below shows the Categories of Costed Outputs for the term of the Arrangement.

**Table 15.19**

No	Output to be produced	Start		Total indicative cost of Outputs NZ\$	Year 1 1-Jul-12 to 30-Jun-13	Year 2 1-Jul-13 to 30-Jun-14	Year 3 1-Jul-14 to 30-Jun-15
		date	End date				
1	Taku Ipukarea Kia Rangatira	1-Jul-12	30-Jun-15	492,000	147,000	170,000	175,000
2	Learning and Teaching	1-Jul-12	30-Jun-15	4,595,000	1,375,000	1,560,000	1,660,000
3	Learning and Community	1-Jul-12	30-Jun-15	585,400	105,400	240,000	240,000
	Human Resources and	1-Jul-12	30-Jun-15	3,852,600	1,252,600	1,300,000	1,300,000
	4 Infrastructure Support						
<b>MAXIMUM FUNDING</b>				<b>9,525,000</b>	<b>2,880,000</b>	<b>3,270,000</b>	<b>3,375,000</b>

**Table 15.20 Scholarships and Training Awards**

	Total cost	2012/13	2013/14	2014/15	2015/16
Recurrent expenses	2,452,000	613,000	613,000	613,000	613,000
<b>Total</b>	<b>2,452,000</b>	<b>613,000</b>	<b>613,000</b>	<b>613,000</b>	<b>613,000</b>

Scholarships are also part of the New Zealand and Australia assistance to the education sector. The programme is managed by the Ministry of Education with the New Zealand Ministry of Foreign Affairs and Trade managing funding payments to recipients and service providers. The current New Zealand reform initiative "reverse scholarships" is designed whereby a student loan can be redeemed by the student returning and working within the home country.

The table below shows scholarships provided/awarded during the periods 2008 - 2013

**Table 15.21**

Year	NZAID- NZDS/N ZPS	NZAID- RDS	NZAID – STTA	CIGOV – ICTA Scholarship	CIGOV - Scholarship	CIGOV - In Country Student Assistance Fund	CIGOV - Overseas Student Assistance Fund
2012/2013	6	3	18	(TBC)	3	58	31
2011/2012	6	3	23	15	4	0	19
2010/2011	6	3	13	12	5	0	14
2009/2010	4	2	21	10	1	0	21
2008/2009	2	1	10	16	4	0	21

**Table 15.22 UNESCO - Participation Programme**

	Total cost	2012/13	2013/14	2014/15	2015/16
Recurrent expenses	0	189,176	85,000	85,000	85,000
<b>Total</b>	<b>444,176</b>	<b>189,176</b>	<b>85,000</b>	<b>85,000</b>	<b>85,000</b>

As the focal point for UNESCO, the Ministry of Education, appointed as the National Commission, undertakes facilitation the 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.

Three have been approved with an estimated budget of USD 25,000 each. Successful programme's include:

- participation at the International Institute for Educational Planning (IIEP) by a Ministry of Education Director USD 26,000 with the study currently being undertaken and due to be completed April/May 2013;
- digitization of the audio visual collections of the national archives (Ministry of Culture), USD 25,000;
- development of marine related education resources (Turtles), USD 25,000.

## 15.9 Ministry of Health

**Table 15.23 Health Specialists Visits**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	2,040,000	540,000	500,000	500,000	500,000
<b>Total</b>	<b>2,040,000</b>	<b>540,000</b>	<b>500,000</b>	<b>500,000</b>	<b>500,000</b>

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. A review of the HSV program has been scheduled for June/July 2013.

An indicator of this programme success is a reduction of patient referrals to New Zealand by 0.5 per cent per year until 2013/14. Number of patients referred to New Zealand by years is as follows:

**Table 15.24**

<b>Year</b>	<b>Number</b>
2008/09	31
2009/10	69
2010/11	40
2011/12	36

Ref to link for more program detail <http://www.mfem.gov.ck/docs/AMD/Developmentper cent20Programmes/Ministryper cent20ofper cent20Healthper cent20HSVper cent20Programme.pdf>

**Table 15.25 United Nations Population Fund (UNFPA) Strengthening Reproductive Health**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses		150,000	345,000	0	0
<b>Total</b>	<b>600,000</b>	<b>150,000</b>	<b>345,000</b>	<b>0</b>	<b>0</b>

This project commenced in 2008 and is a component of the United Nations Development Assistance Framework (UNDAF) for the Pacific. Assistance focuses on three outcome areas:

- addressing population, gender, and sexual and reproductive health issues in our national policies, development frameworks and sector-wide approach programmes;
- increasing the availability of high-quality, comprehensive sexual and reproductive health information and services, including HIV prevention services, particularly for most at risk populations, including young people; and
- advancing gender equality and contributing to the empowerment of women and girls, to enable them to exercise their reproductive rights and to be free of discrimination and violence, through the provision of policy.

The partnership between the Ministry of Health, Ministry of Internal Affairs and UNFPA emphasises technical assistance, commodities and the completion of the Family Health and Safety Study.

**Table 15.26 Strengthening the Management Prevention of Tuberculosis in the Cook Islands**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	249,212	93,212	78,000	78,000	0
<b>Total</b>	<b>249,212</b>	<b>93,212</b>	<b>78,000</b>	<b>78,000</b>	<b>0</b>

The Global Fund support to continue strengthening management and prevention of tuberculosis (TB) in the Cook Islands by strengthen TB/HIV co-infection preparedness and training.

**Table 15.27 Management and Prevention of HIV and Sexual Transmitted Infections (STI)**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	271,200	79,200	96,000	96,000	0
<b>Total</b>	<b>271,200</b>	<b>79,200</b>	<b>96,000</b>	<b>96,000</b>	<b>0</b>

Global Fund support to continue strengthening the management, prevention of HIV and STI's in the Cook Islands and achieve the following outcomes:

- strengthened capacity to develop, implement, monitor and evaluate multi sectoral national strategic plans in relation to HIV and STI;
- access to evidence-based treatment, care and support, e.g. Effective counseling in relation to HIV and other STI's including counseling and testing;
- access to the information and commodities required to prevent the transmission of blood-borne viruses; and
- access to male and female condoms and lubricants and the information on their use.

**Table 15.28 Small Grants Prevention and Control of Non Communicable Diseases**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	60,000	0	20,000	20,000	20,000
<b>Total</b>	<b>60,000</b>	<b>0</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>

The small grants scheme is 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 15.29 World Health Organisation Technical Cooperation**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	738,000	0	246,000	246,000	246,000
<b>Total</b>	<b>738,000</b>	<b>0</b>	<b>246,000</b>	<b>246,000</b>	<b>246,000</b>

The World Health Organisation (WHO) technical cooperation operates from the country office in Samoa, Apia and focuses on human resources development (fellowships), non-communicable diseases, healthy promotion, 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 WHO.

## 15.10 Ministry of Infrastructure and Planning

The majority of assistance to MOIP is provided through capital spending, readers should refer to the capital initiatives plan in Budget Book 3.

## 15.11 Ministry of Internal Affairs

**Table 15.30 Social Welfare System Review**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	1,344,000	854,000	390,000	100,000	0
<b>Total</b>	<b>1,344,000</b>	<b>854,000</b>	<b>390,000</b>	<b>100,000</b>	<b>0</b>

The ADB approved a grant of USD 0.9 million which is financed by the Japan Fund for Poverty Reduction (JFPR) for the Government of Cook Islands.

Delayed by nearly a year from the original implementation schedule to July 2012 the Ministry of Internal Affairs signed contracts with four NGOs 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 Atu O Te Ra (Mauke) Disabilities.

2013/14 will see the increase of an additional NGO, totalling five NGO's. Additionally, TA support has been given to provide expertise on legislative drafting, quantitative analysis and Monitoring and Evaluation. This project has a no cost extension until September 2014.

**Table 15.31 Social Impact Fund (SIF)**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	2,816,258	821,258	765,000	600,000	600,000
<b>Total</b>	<b>2,816,258</b>	<b>821,258</b>	<b>765,000</b>	<b>600,000</b>	<b>600,000</b>

Funded by the New Zealand and Australia, SIF provide grants for community projects (\$5,000 – \$20,000) for income generating initiatives that focus on organisational strengthening, community development and awareness. Internal Affairs aims to foster coordination with wider government and other development partner resources and to facilitate alignment of funding for Non-Government Organisation and community services with national policy inclusive of gender issues.

**Table 15.32 Disability Inclusive Development**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	252,100	0	136,530	115,570	0
<b>Total</b>	<b>252,100</b>	<b>0</b>	<b>136,530</b>	<b>115,570</b>	<b>0</b>

The Cook Islands is regarded as a regional leader on disability-inclusive development in the Pacific. It was one of the first Pacific Island Forum member 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 Government to implement responsibilities under the convention and to monitor and report on progress.

While the situation of people with disability in the Cook Islands, particularly in the Pa Enua, is not fully documented and understood, there is sufficient evidence to confirm that to achieve the full promotion and protection of the rights of people with disability, considerable changes in attitudes are required, and legislation, policies and programs would benefit further review and strengthening. It is acknowledged that these are long-term processes, which require multiple and sustained interventions and support, led by the Cook Islands Government, its Disabled Persons Organizations and supported by donors.

## 15.12 Ministry of Marine Resources (MMR)

**Table 15.33 Marine Resources Cook Islands Fisheries Incentive**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	226,000	226,000	0	0	0
<b>Total</b>	<b>226,000</b>	<b>226,000</b>	<b>0</b>	<b>0</b>	<b>0</b>

The Fisheries Incentive Project is funded by an Australian Aid initiative with allocations linked to project performance. The funding is to provide resources for national fisheries development.

**Table 15.34 US Fisheries Treaty - Fisheries Project Development Fund**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	1,086,000	362,000	362,000	362,000	0
<b>Total</b>	<b>1,086,000</b>	<b>362,000</b>	<b>362,000</b>	<b>362,000</b>	<b>0</b>

As a part of the US Fisheries Treaty within the region, governments are allocated funds to support special projects. The Treaty is currently being re-negotiated and funding from this project beyond June 2013 is assumed to continue.

## 15.13 Seabed Mining Authority

**Table 15.35 Seabed Minerals Programme**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	285,000	170,000	95,000	20,000	0
<b>Total</b>	<b>285,000</b>	<b>170,000</b>	<b>95,000</b>	<b>20,000</b>	<b>0</b>

This funding is provided by the Commonwealth Secretariat Technical Cooperation Facility to support the establishment of the Seabed Minerals Advisor's position in the Ministry of Marine Resources also includes 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.

## 15.14 Ministry of Agriculture

**Table 15.36 FAO Agriculture Census and Statistics Project**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	446,400	223,200	223,200	0	0
<b>Total</b>	<b>446,400</b>	<b>223,200</b>	<b>223,200</b>	<b>0</b>	<b>0</b>

The Food and Agriculture Organisation funding supports informed policy by sourcing timely and reliable information, promoting benefits of healthy eating from the consumption of leafy greens, fruits, and local crops through education and community awareness programmes and, strengthened internal bio-security with the provision of training and equipment. Local partners include Statistics Office, Ministry of Health and the Ministry of Education. Activities include;

Activities include;

- agriculture Census and Statistics project to strengthen the capability to develop a sustainable Food and Agriculture Statistics System;
- food and ornamental crop production to enhance the capacity of commercial agricultural production enhance home gardening activities in the communities; and
- strengthen the capacities of agriculture and extension officers.

**Table 15.37 Assistance to Enhance Crop Production and Improve Soil Resources Management for Sustainable Livelihoods**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	0	0	236,000	0	0
<b>Total</b>	<b>236,000</b>	<b>0</b>	<b>236,000</b>	<b>0</b>	<b>0</b>

This Food and Agriculture Organization (FAO) funded 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 Taro project will be conducted on the main six islands of the southern Cooks namely Rarotonga, Aitutaki, Atiu, Mangaia, Mauke, and Mitiaro and the island of Pukapuka where most of the Taro is cultivated in the northern Cook group of islands. Initially the project will look at improving sustainable production to cater for the needs of the island population and later to supply the increasing demands of the resident and visitors population on the main island of Rarotonga.

**Table 15.38 Forestry Assessment Project**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	0	0	83,000	0	0
<b>Total</b>	<b>83,000</b>	<b>0</b>	<b>83,000</b>	<b>0</b>	<b>0</b>

The Food and Agriculture Organization (FAO) is funding this assessment of the socio-economic and environmental impact of expanding exotic tree communities in Atiu, Mauke, Mangaia and Rarotonga.

Specific objectives of the project include:

- carrying out a detailed field assessment on the status of the expanding exotic tree communities in the four islands and determining their impact on the well-being of native flora and fauna, on quality and quantity of surface and under-ground water-flow, on island micro-climatic conditions and in natural ecosystems.
- assess the economic status of the expanding exotic tree communities in the four islands and identify potential products that could be developed locally utilising the trees; and
- assess status and map the extent of maire plants on Mauke makatea sites and investigate the progress of the recently released bio-agents for scale insects or whiteflies and plant snails affecting the maire plant species.

**Table 15.39 Water-logging Project**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	0	0	30,000	38,500	0
<b>Total</b>	<b>68,500</b>	<b>0</b>	<b>30,000</b>	<b>38,500</b>	<b>0</b>

Funding is administered through South Pacific Commission and this project 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 total project cost over two years is estimated at AUD 55,000. The specific project 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.

**Table 15.40 SPC – Taro Improvement Project**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	0	0	9,300	0	0
<b>Total</b>	<b>9,300</b>	<b>0</b>	<b>9,300</b>	<b>0</b>	<b>0</b>

Another SPC administered project which will be conducted in three Pacific Islands in the region namely; Fiji, Cook Islands, and Tonga.

The purpose of the project is to assist the Cook Islands with developing new cultivars of taro through conventional cross-breeding activities using selected local and introduced cultivars of taro as parents.

Thirteen cultivars were introduced from the SPC Centre for Pacific Crops and Trees. These cultivars were selected from the on-going Samoa Taro Breeding Programme. Ten cultivars of local taro were selected



based on growth, yield, tolerance to pest and disease, and eating quality while the Samoa cultivars were also selected on the same parameters but more importantly tolerance to the Taro Leaf Blight Disease which is one of the most important disease of taro.

The cross-breeding programme is expected to last for several years and it is expected that farmers will be involved in the selection of the progenies (off-springs) from the crosses, which is currently practiced in Samoa. The outcomes of the project are to develop cultivars that will tolerate the disease in the event it is introduced to the Cooks as none of our cultivars will tolerate the disease. The Ministry of Agriculture has invested training in technical staff to ultimately implement the programme.

## 15.15 Cook Islands Tourism Corporation

**Table 15.41 Tourism Sector Support**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent and capital expenses	8,000,000	3,000,000	3,000,000	2,000,000	0
<b>Total</b>	<b>8,000,000</b>	<b>3,000,000</b>	<b>3,000,000</b>	<b>2,000,000</b>	<b>0</b>

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's 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.

## 15.16 National Environment Service

**Table 15.42 Island Biodiversity Programme**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	0	168,000	225,000	135,800	0
<b>Total</b>	<b>528,800</b>	<b>168,000</b>	<b>225,000</b>	<b>135,800</b>	<b>0</b>

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 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.

**Table 15.43 Prevention, control and management of Invasive Alien Species**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	0	126,000	162,000	85,600	72,000
<b>Total</b>	<b>445,600</b>	<b>126,000</b>	<b>162,000</b>	<b>85,600</b>	<b>72,000</b>

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 expected to continue till 2016. Activities are located in Rarotonga, Mangaia, Mitiaro and Mauke. Funded from Global Environment Fund resources and managed by South Pacific Regional Environment Program through the United Nations Environmental Programme. The long-term goal of the project is to conserve ecosystems, species and genetic diversity in the Cook Islands.

**Table 15.44 United Nations Convention to Combat Desertification Data Reporting Project**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	57,000	0	57,000	0	0
<b>Total</b>	<b>57,000</b>	<b>0</b>	<b>57,000</b>	<b>0</b>	<b>0</b>

This project funded by the Global Environment Facility supports the implementation of the United Nations Convention to Combat Desertification Ten Year Strategy. The Cook Islands choose to access this funding through the United Nations Environment Programme (UNEP) provision of training and help-desk services at the sub-regional level (through reference centers), as well as global support (such as provisions of updated templates and reporting guidelines, and on-line reporting facility through the PRAIS portal [www.unccd-prais.com](http://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 Performance Review and Assessment of Implementation System (PRAIS) for the next two reporting cycles (2013/14 and 2014/15).

**Table 15.45 Persistent Organic Pollutants**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	0	21,500	0	0	0
<b>Total</b>	<b>358,000</b>	<b>21,500</b>	<b>0</b>	<b>0</b>	<b>0</b>

United Nations Development Program funded project has been completed with final payment arrangements for the removal of identified and stockpiled chemicals off Rarotonga. A completion report has been furnished to UNDP and this project is completed.

**Table 15.46 Ozone Depleting Substances**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	210,000	0	70,000	70,000	70,000
<b>Total</b>	<b>210,000</b>	<b>0</b>	<b>70,000</b>	<b>70,000</b>	<b>70,000</b>

This is a new 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 trans boundary movement of ODS.

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

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	4,500,000	0	100,000	2,200,000	2,200,000
<b>Total</b>	<b>4,500,000</b>	<b>0</b>	<b>100,000</b>	<b>2,200,000</b>	<b>2,200,000</b>

This new regional programme is funded by Global Environment Fund and managed by the United National Development Programme. It is at inception stage the three year programme involves the Ministry of Marine Resources, Ministry of Agriculture, Infrastructure and Planning and Tourism. The goals 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.

## 15.17 Cook Island Police Service

**Table 15.48 Police Development Programme**

	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	1,200,000	0	600,000	600,000	0
<b>Total</b>	<b>1,200,000</b>	<b>0</b>	<b>600,000</b>	<b>600,000</b>	<b>0</b>

This funding is part of a regional Police programme. 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.

This support includes a one off contribution (\$60,000, 2012/13) from the Australian Federal Police for human resource development in the Cook Islands Police Service.

**Table 15.49 Pacific Patrol Boat Project Te Kukupa**

<b>Pacific Patrol Boat Project Te Kukupa</b>					
	<b>Total cost</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Recurrent expenses	560,000	200,000	120,000	120,000	120,000
<b>Total</b>	<b>560,000</b>	<b>200,000</b>	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>

The Australian defence force (ADF) continues with the on-going investment into the Pacific Patrol Boat Project by contributing \$120,000 in support of operation and patrol costs and an additional \$80,000 towards boat maintenance in the 2012/13 appropriation. Scheduled to conclude in 2018 with one final refit for the Kukupa planned for March 2014.

## 15.18 Cook Islands Pearl Authority (CIPA)

**Table 15.50 Pearl Revitalization Program**

	<b>Total cost</b>	<b>Est. spend 2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Remaining funds transferred to MFEM for re-allocation to capital grants and production activities.	2,000,000		2,000,000	0	0
Recurrent	500,000	263,000	237,000	0	0
<b>Total</b>	<b>2,500,000</b>	<b>263,000</b>	<b>2,237,000</b>	<b>0</b>	<b>0</b>

The New Zealand and Australian funded program was put on hold after a review sparked by disbursement delays and funding questions over the appropriateness of a loan approach and coordination issues with development partners. As at May 2013, \$2 million dollars was held in trust by Bank Cook Islands (BCI) and negotiations of a new arrangement are in progress. This is expected to be reallocated to activities which may include;

- Procurement of Pearl farming equipment (\$1 million) in coordination with the China Grants Fund on the basis of an 80 per cent subsidy on materials and equipment, with farmers funding the remaining 20 per cent;
- Closing BCI loan scheme. To promote equity between this scheme and the former New Zealand funded loans and CIPA emergency float loans, the plan is to write-off 80 per cent of these loans following contribution of 20 per cent by respective farmers;

- Lagoon clean up and support to the Ministry of Marine Resources production activities coordinated with an industry wide approach.

## 15.19 Cook Islands Investment Corporation

Table 15.51 ADB Asset Management Technical Assistance

	Total cost	Est. spend 2012/13	2013/14	2014/15
Recurrent expenses	0	129,000	200,000	200,000
<b>Total</b>	<b>720,000</b>	<b>129,000</b>	<b>200,000</b>	<b>200,000</b>

This technical assistance (TA) previously sat under the Ministry of Infrastructure and Planning, but as of 13/14 will sit under Cook Islands Investment Corporation.

This Asian Development Bank managed technical assistance grant has been utilised to strengthen infrastructure sector governance, build capacity, and improve financial and operational management of assets. Institutional adjustments and reforms for ensuring sector sustainability through regulatory reviews of tariff regimes and private sector participation have been on-going and will continue under CIIC operations.

Implementation of a new Asset Management System is imminent. AECOM on 28 March 2013 prepared "Infrastructure Services Delivery Improvement Project – Final Report" whose recommendations will inform the furthering Asset Management in the Public Sector (including SOE's).

## 15.20 New Zealand and Australia harmonised Forward Aid Program (FAP)

INDICATIVE ALLOCATIONS	2012/13	2013/14	2014/15	Total
<b>ECONOMIC GROWTH</b>				
Renewable Energy	845,000	6,280,000	3,400,000	10,525,000
Pearl Industry Revitalisation	0	0	0	0
Tourism Sector Support	1,500,000	3,000,000	2,000,000	6,500,000
Automated Border Management System	735,838	135,000	135,000	1,005,838
Mauke and Mitiaro Harbours	260,000	0	0	260,000
Arorangi Jetty	74,133	0	0	74,133
Manihiki Harbour Upgrade	0	0	0	0
<b>Sub-total</b>	<b>3,414,971</b>	<b>9,415,000</b>	<b>5,535,000</b>	<b>18,364,971</b>
<b>HUMAN DEVELOPMENT</b>				
Waste and Sanitation	2,435,000	2,955,000	4,000,000	9,390,000
Water	4,000,000	2,500,000	1,000,000	7,500,000
Northern Water II	0	630,000	0	630,000
Education Sector Partnership	2,880,000	3,270,000	3,375,000	9,525,000
Scholarships, Training Awards	396,000	0	0	396,000
Health Specialist Visits Programme	540,000	500,000	500,000	1,540,000
<b>Sub-total</b>	<b>10,251,000</b>	<b>9,855,000</b>	<b>8,875,000</b>	<b>28,981,000</b>
<b>GOVERNANCE</b>				
Technical Assistance (CITAF)	1,355,020	1,000,000	0	2,355,020
Social Impact Fund (NGOs)	600,000	600,000	600,000	1,800,000
<b>Sub-total</b>	<b>1,955,020</b>	<b>1,600,000</b>	<b>600,000</b>	<b>4,155,020</b>
<b>Bilateral Subtotal</b>				
<b>Budget</b>	17,400,000	16,750,000	16,750,000	50,900,000
<b>Actual</b>	15,620,991	20,870,000	15,010,000	51,500,991
<b>Difference (under or over programmed)</b>	<b>1,779,009</b>	<b>(4,120,000)</b>	<b>1,740,000</b>	<b>(600,991)</b>
<b>TRANSFORMATIONAL FUNDING</b>				
Water Supply	0	5,000,000	2,500,000	7,500,000
<b>Sub-total</b>	<b>0</b>	<b>5,000,000</b>	<b>2,500,000</b>	<b>7,500,000</b>
<b>REGIONAL</b>				
Scholarships, Police	600,000	900,000	900,000	2,400,000
Regional activities	2,500,000	2,500,000	2,500,000	7,500,000
Regional Agencies (USP, SPC, FFA, SPREP, PIFS)	1,200,000	1,200,000	1,200,000	3,600,000
<b>Sub-total</b>	<b>4,300,000</b>	<b>4,600,000</b>	<b>4,600,000</b>	<b>13,500,000</b>
<b>TOTAL</b>	<b>19,920,991</b>	<b>30,470,000</b>	<b>22,110,000</b>	<b>72,500,991</b>

**STATEMENT OF FISCAL RESPONSIBILITY**  
**Operating Revenue and Expenditure Statement for the year ended 30 June 2014**  
All Values (\$'000)

	2012/13 Supplementary Estimates	2013/14 Budget Estimates	2014/15 Forecast	2015/16 Forecast	Variance
<b>Operating Revenue</b>					
Taxation Revenue	94,971	99,653	101,342	103,020	4,681
Other Crown Revenue	6,780	9,092	9,189	9,175	2,312
Trading Revenue	5,209	5,452	6,014	6,051	243
Interest on Loans to Subsidiaries	203	335	323	310	132
Dividends	2,240	2,561	2,415	2,396	321
Interest on Balances	1,824	1,812	1,848	1,885	(12)
<b>Total Operating Revenue</b>	<b>111,227</b>	<b>118,905</b>	<b>121,130</b>	<b>122,837</b>	<b>7,677</b>
<b>Operating Expenditure</b>					
Ministry Outputs	61,533	63,591	65,812	65,867	2,058
<i>Personnel</i>	<i>42,545</i>	<i>45,039</i>	<i>45,596</i>	<i>45,592</i>	<i>2,494</i>
<i>Operating</i>	<i>15,503</i>	<i>14,666</i>	<i>16,254</i>	<i>16,258</i>	<i>(837)</i>
<i>Depreciation</i>	<i>3,485</i>	<i>3,887</i>	<i>3,963</i>	<i>4,018</i>	<i>402</i>
Payments on Behalf of the Crown	42,389	43,229	43,483	43,698	840
Airport Authority	1,704	1,998	1,998	1,998	294
Airport Authority Capital	344	0	0	0	0
Bank of the Cook Islands	181	181	181	181	0
Ports Authority - Infrastructure	200	1,110	50	50	910
Te Aponga Uira	350	350	350	350	0
Debt Servicing Interest	1,368	1,429	1,520	1,283	61
Asset Management	1,800	1,800	1,800	1,800	0
Crown Infrastructure Depreciation	3,478	5,070	6,904	6,904	1,591
Disaster/ Contingency Operating Expenses	184	100	100	100	(84)
<b>Total Operating Expenses</b>	<b>113,724</b>	<b>118,858</b>	<b>122,198</b>	<b>122,231</b>	<b>5,135</b>
Re-appropriated Capital Expenditure from Previous Year	3,125	425	0	0	(2,700)
<b>Fiscal Operating Surplus/(Shortfall)</b>	<b>629</b>	<b>46</b>	<b>-1,069</b>	<b>606</b>	<b>-582</b>

**STATEMENT OF FISCAL RESPONSIBILITY**  
**Financing and Applications Statement for the year ended 30 June 2014**  
All Values (\$'000)

	2012/13 Supplementary Estimates	2013/14 Budget Estimates	2014/15 Forecast	2015/16 Forecast	Variance
<b>Reductions in Net Borrowings</b>					
Loan Disbursements	(16,399)	(6,946)	(16,946)	(9,000)	9,453
Loan Repayments	3,416	2,995	3,034	4,984	(421)
Loan Repayments by Subsidiaries	0	1,286	1,481	1,537	1,286
	<b>(12,982)</b>	<b>(2,665)</b>	<b>(12,431)</b>	<b>(2,479)</b>	<b>10,317</b>
<b>Capital Expenditures</b>					
Ministries and Outer Islands (Including CIIC Capital) <i>Infrastructure Capital Investment in SOEs</i>	6,150	9,371	7,237	5,063	3,221
Airport Authority	344	150	150	150	(194)
Te Aponga Uira	800	0	0	0	(800)
Contingency	50	50	50	50	0
	<b>7,344</b>	<b>9,571</b>	<b>7,437</b>	<b>5,263</b>	<b>2,227</b>
<b>Foreign Aid</b>					
Receipts	(48,465)	(59,363)	(35,784)	(22,350)	(10,898)
Expenditure	48,465	59,363	35,784	22,350	10,898
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other Committed Considerations</b>					
Expenditure of ADB Loan	7,550	0	10,000	9,000	(7,550)
Expenditure of China Loans	8,849	6,946	6,946	0	(1,903)
Increase in Reserve Trust Fund	475	498	507	515	23
Emergency Response Trust Fund	268	0	0	0	(268)
ADB Share Capital	27	27	27	27	0
	<b>17,168</b>	<b>7,471</b>	<b>17,479</b>	<b>9,542</b>	<b>(9,697)</b>
<b>Total</b>	<b>11,530</b>	<b>14,377</b>	<b>12,485</b>	<b>12,326</b>	<b>2,847</b>
<b>To be Funded by</b>					
Operating Surplus	(2,496)	46	(1,069)	606	2,543
Depreciation	6,963	8,956	10,867	10,921	1,993
Loan Reserve Financing	1,529	1,335	1,324	1,340	(194)
Emergency Response Trust Fund	268	0	0	0	(268)
Drawdown from Government Reserves	5,266	4,039	1,363	(542)	(1,227)
<b>Total Funding Items</b>	<b>11,530</b>	<b>14,377</b>	<b>12,485</b>	<b>12,326</b>	<b>2,847</b>
<b>Net Surplus/Shortfall</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



**Schedule 1 (a)**  
**Comparative Analysis of Ministry Appropriations**

Ministry	Supplementary Estimates 2012/13			Budget Estimates 2013/14			Gross Operating Variance	
	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Amount	Per cent
Agriculture	878,330	90,535	787,795	915,331	140,535	774,796	37,001	5per cent
Audit (PERCA)	1,023,422	178,700	844,722	1,025,298	178,700	846,598	1,876	0per cent
Crown Law	614,932	0	614,932	645,137	0	645,137	30,205	5per cent
Cultural Development	861,683	175,000	686,683	847,038	175,000	672,038	(14,645)	-2per cent
Business Trade and Investment Board	679,002	0	679,002	702,721	102,250	600,471	23,719	3per cent
Education	9,957,271	0	9,957,271	10,961,555	0	10,961,555	1,004,284	10per cent
Environment	1,025,001	20,000	1,005,001	990,788	35,000	955,788	(34,213)	-3per cent
Finance and Economic Management	3,090,111	453,500	2,636,611	3,314,008	503,500	2,810,508	223,897	8per cent
Financial Services Development Authority	433,415	0	433,415	421,894	0	421,894	(11,521)	-3per cent
Foreign Affairs	1,644,985	0	1,644,985	1,775,473	8,000	1,767,473	130,488	8per cent
Head Of State	210,281	8,000	202,281	234,305	0	234,305	24,024	12per cent
Health	10,092,313	0	10,092,313	10,775,401	400,000	10,375,401	683,088	7per cent
Infrastructure and Planning	2,408,733	400,000	2,008,733	2,006,034	245,626	1,760,408	(402,699)	-20per cent
Internal Affairs	1,146,955	183,326	963,629	1,084,457	6,000	1,078,457	(62,497)	-6per cent
Justice	1,875,183	6,000	1,869,183	1,976,623	467,765	1,508,858	101,440	5per cent
Marine Resources	1,264,748	467,765	796,983	1,456,276	15,000	1,441,276	191,528	24per cent
Ombudsman	239,141	15,000	224,141	270,044	0	270,044	30,903	14per cent
Parliamentary Services	599,345	0	599,345	580,866	8,419	572,447	(18,480)	-3per cent
Pearl Authority	482,026	8,419	473,607	466,411	0	466,411	(15,616)	-3per cent
Police	3,588,856	0	3,588,856	3,588,024	69,360	3,518,664	(832)	0per cent
Prime Minister's Office	1,116,194	69,360	1,046,834	1,170,556	0	1,170,556	54,362	5per cent
Public Service Commission	419,057	0	419,057	500,737	0	500,737	81,680	19per cent
Tourism Corporation	4,179,446	0	4,179,446	4,151,446	0	4,151,446	(28,000)	-1per cent
Transport	675,626	36,000	639,626	667,476	36,000	631,476	(8,150)	-1per cent
Cook Islands Investment Corporation	0	0	0	0	0	0	0	0per cent
Cook Islands Seabed Minerals Authority	0	0	0	0	0	0	0	0per cent
<b>Total Ministries</b>	<b>48,506,056</b>	<b>2,111,605</b>	<b>46,394,451</b>	<b>50,527,897</b>	<b>2,391,155</b>	<b>48,136,742</b>	<b>2,021,841</b>	<b>4per cent</b>
Outer Islands (Refer Schedule 1 (b))	11,215,302	3,097,635	8,117,667	11,310,325	3,061,097	8,249,228	95,023	1per cent

**Ministerial Support**

Prime Minister	375,250	0	375,250	425,382	0	425,382	50,132	13per cent
Deputy Prime Minister	310,000	0	310,000	223,000	0	223,000	(87,000)	-28per cent
Minister Mark Brown	285,000	0	285,000	275,870	0	275,870	(9,130)	-3per cent
Minister Teariki Heather	205,000	0	205,000	193,000	0	193,000	(12,000)	-6per cent
Minister Nandi Glassie	205,000	0	205,000	193,000	0	193,000	(12,000)	-6per cent
Minister Teina Bishop	205,000	0	205,000	193,000	0	193,000	(12,000)	-6per cent
Leader Of Opposition	205,000	0	205,000	205,000	0	205,000	0	0per cent
Capital Distribution Fund - Administered by MFEM	21,420	0	21,420	45,000	0	45,000	23,580	110per cent
<b>Gross Total</b>	<b>61,533,028</b>	<b>5,209,240</b>	<b>56,323,788</b>	<b>63,591,474</b>	<b>5,452,252</b>	<b>58,139,222</b>	<b>2,058,446</b>	<b>4per cent</b>

Schedule 1 (b)

Comparative Analysis of Outer Islands Appropriations

Ministry	Supplementary Estimates 2012/13			Budget Estimates 2013/14			Gross Operating Variance	
	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Amount	Per cent
Aitutaki	1,517,774	48,250	1,469,524	1,573,208	48,250	1,524,958	55,435	4per cent
Autitaki Power Supply	2,213,333	1,864,293	349,040	2,211,333	1,900,943	310,390	(2,000)	-1per cent
Atiu	1,194,315	264,620	929,695	1,188,803	224,318	964,485	(5,512)	-1per cent
Mangaia	1,556,569	387,522	1,169,047	1,512,969	301,000	1,211,969	(43,600)	-4per cent
Manihiki	821,912	119,200	702,712	865,550	136,300	729,250	43,638	6per cent
Mauke	932,907	142,576	790,331	901,378	113,853	787,525	(31,529)	-4per cent
Mitiaro	577,032	65,650	511,382	583,529	58,899	524,630	6,497	1per cent
Palmerston	348,773	22,100	326,673	349,019	20,599	328,420	246	0per cent
Penrhyn	592,672	75,500	517,172	594,526	83,904	510,622	1,854	0per cent
Pukapuka-Nassau	965,687	48,471	917,216	987,105	73,695	913,410	21,418	2per cent
Rakahanga	480,578	59,453	421,125	515,405	99,336	416,069	34,827	8per cent
Outer Island Capital Fund - Administered by MFEM	13,750		13,750	27,500		27,500	13,750	100per cent
<b>Gross Total</b>	<b>11,215,302</b>	<b>3,097,635</b>	<b>8,117,667</b>	<b>11,310,325</b>	<b>3,061,097</b>	<b>8,249,228</b>	<b>95,023</b>	<b>113per cent</b>

**Schedule 2**  
**Benefits and Other Unrequited Expenses**

Category of Benefit	Supplementary	Budget	Variance	
	Estimates	Estimate	Amount	Per cent
	2012/13	2013/14		
Welfare Payments	13,095,800	13,583,800	488,000	3.7%
Parliamentary Superannuation	180,000	180,000	0	0.0%
<b>Total Benefits and Other Unrequited Expenses</b>	<b>13,275,800</b>	<b>13,763,800</b>	<b>488,000</b>	<b>3.7%</b>

**Schedule 3**  
**Borrowing Expenses and Debt Repayment**

	Supplementary	Budget	Variance	
	Estimates	Estimate	Amount	Per cent
	2012/13	2013/14		
Gross Debt Servicing (see Schedule 9)	4,784,433	5,710,000	925,567	19.3%
<b>Total Borrowing Expenses and Debt Repayment</b>	<b>4,784,433</b>	<b>5,710,000</b>	<b>925,567</b>	<b>19.3%</b>

**Schedule 4**  
**Other Expenses**

Category of Expense	Supplementary	Budget	Variance	
	Estimates	Estimates	Amount	Per cent
	2012/13	2013/14		
Airport Authority	1,704,000	2,047,997	343,997	20%
Airport Authority - Capital	343,997	0	(343,997)	-100%
Airport Authority - Outer Island Airport Upgrades - Feasibility Study	206,000	0	(206,000)	-100%
Airport Authority - Upgrade Government VIP Lounge	330,000	0	(330,000)	-100%
Bank of the Cook Islands	181,000	181,000	0	0%
Ports Authority - Infrastructure	200,000	0	(200,000)	-100%
Te Aponga Uira	350,000	350,000	0	0%
Te Aponga Uira - Capital	800,000	0	(800,000)	-100%
Asset Management	1,800,000	0	(1,800,000)	-100%
Contingency Funds - Capital Expenditure	50,000	50,000	0	0%
Contingency Funds - Operating	184,300	100,000	(84,300)	-46%
Crown Infrastructure Depreciation	3,478,150	5,069,598	1,591,448	46%
Expenditure of ADB Loan	7,550,000	0	(7,550,000)	-100%
Expenditure of Chinese Loans	8,848,519	6,946,000	(1,902,519)	-22%
Foreign Aid	48,465,680	59,363,162	10,897,482	22%
ADB Share Capital	26,600	26,600	0	0%
Transfer to Emergency Response Trust Fund	268,096	0	(268,096)	-100%
Transfer to Reserve Trust Fund	474,857	498,263	23,406	5%
<b>Total Other Expenses</b>	<b>75,261,199</b>	<b>74,632,620</b>	<b>(628,579)</b>	<b>-1%</b>

**Summary**

Category of Payment	Supplementary	Budget	Variance	
	Estimates	Estimates	Amount	Per cent
	2012/13	2013/14		
Schedule 1 - Ministry Outputs (Gross), POBOCs and Capital	96,796,437	102,427,978	5,631,541	6%
Schedule 2 - Benefits and Other Unrequited Expenses	13,275,800	13,763,800	488,000	4%
Schedule 3 - Borrowing Expenses and Debt repayment	4,784,433	5,710,000	925,567	19%
Schedule 4 - Other Expenses	75,261,199	74,632,620	(628,579)	-1%

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<b>TOTAL APPROPRIATION</b>	<b>190,117,869</b>	<b>196,534,398</b>	<b>6,416,529</b>	<b>3%</b>
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**Schedule 5**  
**Analysis of Ministry's by Output**

	Supplementary Estimate 2012/13			Budget Estimate 2013/14			Gross Change
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	
<b>AGRICULTURE</b>							
Administration	108,292	0	108,292	101,971	0	101,971	(6,321)
Crop Research and Development	305,801	30,000	275,801	351,601	50,000	301,601	45,800
Bio-Security Management	328,454	59,535	268,919	330,889	89,000	241,889	2,435
Policy and Projects	74,790	0	74,790	70,877	0	70,877	(3,913)
Livestock Development	60,993	1,000	59,993	59,993	1,535	58,458	(1,000)
	<b>878,330</b>	<b>90,535</b>	<b>787,795</b>	<b>915,331</b>	<b>140,535</b>	<b>774,796</b>	<b>37,001</b>
<b>AUDIT (PERCA)</b>							
Crown Audit	159,302	15,000	144,302	159,302	30,000	129,302	0
Ministries, Crown Agencies and SOE Audits	493,296	148,700	344,596	498,462	143,700	354,762	5,166
Special Reviews and Investigations	332,912	15,000	317,912	330,719	5,000	325,719	(2,193)
Corporate Services	37,912	0	37,912	36,815	0	36,815	(1,097)
	<b>1,023,422</b>	<b>178,700</b>	<b>844,722</b>	<b>1,025,298</b>	<b>178,700</b>	<b>846,598</b>	<b>1,876</b>
<b>CROWN LAW</b>							
Legal Advisory	270,571	0	270,571	315,818	0	315,818	45,247
Litigation	202,927	0	202,927	200,112	0	200,112	(2,815)
Legislative Drafting	141,434	0	141,434	129,207	0	129,207	(12,227)
	<b>614,932</b>	<b>0</b>	<b>614,932</b>	<b>645,137</b>	<b>0</b>	<b>645,137</b>	<b>30,205</b>
<b>CULTURAL DEVELOPMENT</b>							
Corporate Services	322,790	6,000	316,790	121,452	6,000	115,452	(201,338)
Cultural National Identity	272,366	158,000	114,366	321,638	158,000	163,638	49,272
Cultural Heritage	132,168	6,000	126,168	277,963	6,000	271,963	145,795
Public Records and National Bibliography	134,359	5,000	129,359	125,985	5,000	120,985	(8,374)
	<b>861,683</b>	<b>175,000</b>	<b>686,683</b>	<b>847,038</b>	<b>175,000</b>	<b>672,038</b>	<b>(14,645)</b>

**BUSINESS TRADE and INVESTMENT BOARD**

Business Support	159,451	0	159,451	186,628	100,000	86,628	27,177
Maximising Trade Opportunities	114,451	0	114,451	111,628	2,250	109,378	(2,823)
Foreign Direct Investment (FDI) Participation	98,451	0	98,451	96,878	0	96,878	(1,573)
Regulation and Compliance	46,237	0	46,237	45,664	0	45,664	(573)
Finance and Administration Support	260,410	0	260,410	261,920	0	261,920	1,510
	<b>679,000</b>	<b>0</b>	<b>679,000</b>	<b>702,720</b>	<b>102,250</b>	<b>600,470</b>	<b>23,720</b>

**EDUCATION**

Taku Ipukarea Kia Rangatira	290,108	0	290,108	278,162	0	278,162	(11,946)
Learning and Teaching	713,116	0	713,116	800,677	0	800,677	87,561
Learning and the Community	432,700	0	432,700	411,574	0	411,574	(21,126)
Infrastructure and Support	8,257,300	0	8,257,300	9,183,970	0	9,183,970	926,670
Corporate Services	264,046	0	264,046	287,172	0	287,172	23,126
	<b>9,957,270</b>	<b>0</b>	<b>9,957,270</b>	<b>10,961,555</b>	<b>0</b>	<b>10,961,555</b>	<b>1,004,285</b>

**ENVIRONMENT (TU'ANGA TAPOROPORO)**

Advisory and Compliance	354,812	10,000	344,812	376,003	25,000	351,003	21,192
Island Futures	310,761	10,000	300,761	281,744	10,000	271,744	(29,017)
Corporate Services	359,429	0	359,429	333,041	0	333,041	(26,388)
	<b>1,025,001</b>	<b>20,000</b>	<b>1,005,001</b>	<b>990,788</b>	<b>35,000</b>	<b>955,788</b>	<b>(34,213)</b>

**FINANCE AND ECONOMIC MANAGEMENT**

Fiscal Advice	113,754	0	113,754	106,959	0	106,959	(6,795)
Fiscal and Economic Management	808,509	3,500	805,009	849,674	3,500	846,174	41,165
Taxation	1,280,855	450,000	830,855	1,485,983	500,000	985,983	205,128
Statistics	282,532	0	282,532	294,733	0	294,733	12,201
Development Coordination	279,487	0	279,487	291,214	0	291,214	11,727
Corporate Services	304,974	0	304,974	285,445	0	285,445	(19,529)
	<b>3,070,111</b>	<b>453,500</b>	<b>2,616,611</b>	<b>3,314,008</b>	<b>503,500</b>	<b>2,810,508</b>	<b>243,897</b>

**FOREIGN AFFAIRS AND IMMIGRATION**

Enhancing Cook Islands relations with New Zealand and the Pacific	165,193	0	165,193	124,244	0	124,244	(40,949)
Promoting Cook Islands interests in the Broader International community	129,376	0	129,376	124,427	0	124,427	(4,949)
Promoting Cook Island regional and International trade Policy Interests	82,693	0	82,693	77,744	0	77,744	(4,949)
Enhance Participation in Global Institutions	98,471	0	98,471	140,865	0	140,865	42,394
Responsible and Effective Management of Immigration Service	253,945	0	253,945	209,511	0	209,511	(44,434)
Administration, Protocol and Overseas Representation	935,308	8,000	927,308	1,098,683	8,000	1,090,683	163,375
	<b>1,664,985</b>	<b>8,000</b>	<b>1,656,985</b>	<b>1,775,474</b>	<b>8,000</b>	<b>1,767,474</b>	<b>110,489</b>
<b>HEAD OF STATE</b>							
Administrative Support	210,281	0	210,281	234,305	0	234,305	24,024
	<b>210,281</b>	<b>0</b>	<b>210,281</b>	<b>234,305</b>	<b>0</b>	<b>234,305</b>	<b>24,024</b>
<b>HEALTH</b>							
Community Health Services	1,727,216	90,000	1,637,216	1,818,881	90,000	1,728,881	91,665
Hospital Health Services	5,608,747	300,000	5,308,747	8,303,656	310,000	7,993,656	2,694,909
Outer Islands Health Services	2,029,571	10,000	2,019,571	652,864	0	652,864	(1,376,707)
Funding and Planning	726,779	0	726,779				(726,779)
	<b>10,092,313</b>	<b>400,000</b>	<b>9,692,313</b>	<b>10,775,401</b>	<b>400,000</b>	<b>10,375,401</b>	<b>683,088</b>
<b>INFRASTRUCTURE and PLANNING</b>							
Policy and Programmes	449,565	0	449,565	461,676	10,000	451,676	12,111
Regulatory Services	141,907	36,010	105,897	139,589	50,000	89,589	(2,318)
Civil Works	1,389,992	147,316	1,242,676	1,013,141	185,626	827,515	(376,851)
Funding and Planning	427,269	0	427,269	391,628		391,628	(35,641)
	<b>2,408,733</b>	<b>183,326</b>	<b>2,225,407</b>	<b>2,006,034</b>	<b>245,626</b>	<b>1,760,408</b>	<b>(402,699)</b>
<b>INTERNAL AFFAIRS</b>							
Welfare Payments	285,197	0	285,197	286,996		286,996	1,799
Social Policy	262,121	0	262,121	259,925	0	259,925	(2,196)
Labour and Employment	117,783	6,000	111,783	111,149	6,000	105,149	(6,634)
Consumer	72,287	0	72,287	69,897	0	69,897	(2,390)



Civil	143,601	0	143,601	124,147	0	124,147	(19,454)
Censorship	68,493	0	68,493	64,103	0	64,103	(4,390)
Corporate Services	197,473	0	197,473	168,241	0	168,241	(29,232)
	<b>1,146,955</b>	<b>6,000</b>	<b>1,140,955</b>	<b>1,084,458</b>	<b>6,000</b>	<b>1,078,458</b>	<b>(62,497)</b>
<b>JUSTICE</b>							
Court and Tribunal Services	470,810	110,000	360,810	469,197	110,000	359,197	(1,613)
Land Administration	320,828	142,730	178,098	338,925	142,730	196,195	18,098
Registry Services	134,532	151,335	(16,804)	221,847	151,335	70,512	87,316
Prison Services	507,361	63,700	443,661	510,151	63,700	446,451	2,791
Probation Services	217,866	0	217,866	215,912	0	215,912	(1,954)
Corporate and ICT Services	223,788	0	223,788	220,592	0	220,592	(3,196)
	<b>1,875,183</b>	<b>467,765</b>	<b>1,407,418</b>	<b>1,976,624</b>	<b>467,765</b>	<b>1,508,859</b>	<b>101,441</b>
<b>MARINE RESOURCES</b>							
Offshore Fisheries	198,578	0	198,578	335,782	0	335,782	137,204
Pearl Industry Support	271,579	5,000	266,579	268,783	5,000	263,783	(2,796)
Inshore Fisheries and Aquaculture	393,658	10,000	383,658	390,862	10,000	380,862	(2,796)
Policy and Legal Services	92,400	0	92,400	99,604	0	99,604	7,204
Corporate Services	308,533	0	308,533	361,245	0	361,245	52,712
	<b>1,264,748</b>	<b>15,000</b>	<b>1,249,748</b>	<b>1,456,276</b>	<b>15,000</b>	<b>1,441,276</b>	<b>191,528</b>
<b>OMBUDSMAN</b>							
Receipt and effective investigation of complaints received or instigated by Ombudsman under the Ombudsman Act 1984	71,161	0	71,161	80,431	0	80,431	9,271
Receipt and effective investigation of complaints received by the Ombudsman under the Official Information Act 2008	59,493	0	59,493	67,219	0	67,219	7,726
Receipt and effective investigation of complaints received under the Disability Act 2008	36,162	0	36,162	40,798	0	40,798	4,636
Education and Awareness of the Investigative Regime of the Ombudsman	36,162	0	36,162	40,798	0	40,798	4,636
Establishment of Human Rights Division	36,162		36,162	40,798	0	40,798	4,636

	<b>239,141</b>	<b>0</b>	<b>239,141</b>	<b>270,044</b>	<b>0</b>	<b>270,044</b>	<b>30,904</b>
<b>PARLIAMENTARY SERVICES</b>							
Services to Parliament (Civil list, Legislative Service PLPG and HOA and Koutu Nui	359,608	8,419	351,189	314,750	0	314,750	(44,858)
Finance and Corporate Services	149,836	0	149,836	266,116	8,419	257,697	116,281
Services to House of Ariki	89,902	0	89,902	0	0	0	(89,902)
	<b>599,345</b>	<b>8,419</b>	<b>590,926</b>	<b>580,866</b>	<b>8,419</b>	<b>572,447</b>	<b>(18,479)</b>
<b>PEARL AUTHORITY</b>							
Farm Support	17,000	0	17,000	0	0	0	(17,000)
Pearl Standards and Quality Control	55,535	0	55,535	0	0	0	(55,535)
Marketing Strategy	108,000	0	108,000	105,000	0	105,000	(3,000)
Industry Reform and Development	10,500	0	10,500	135,790	0	135,790	125,290
Management and Support Services	290,992	0	290,992	225,621	0	225,621	(65,371)
	<b>482,026</b>	<b>0</b>	<b>482,026</b>	<b>466,411</b>	<b>0</b>	<b>466,411</b>	<b>(15,615)</b>
<b>POLICE</b>							
Proactive multi agency and community approach to problem solving	575,946	0	575,946			0	(575,946)
Intelligence led approach to Crime and Crash reduction	1,098,246	69,360	1,028,886	2,651,911	69,360	2,582,551	1,553,665
Quality investigations and prosecutions	591,337	0	591,337	0	0	0	(591,337)
Support Services	798,668	0	798,668	460,023	0	460,023	(338,645)
Maritime Policing	524,659	0	524,659	476,089	0	476,089	(48,570)
	<b>3,588,856</b>	<b>69,360</b>	<b>3,519,496</b>	<b>3,588,023</b>	<b>69,360</b>	<b>3,518,663</b>	<b>(833)</b>
<b>PRIME MINISTER'S OFFICE</b>							
Central Policy and Planning Office	204,532	0	204,532	200,374	0	200,374	(4,158)
Cabinet Services and Government Representative	267,603	0	267,603	125,588	0	125,588	(142,015)
Renewable Energy Development Division	95,809	0	95,809	111,755	0	111,755	15,946
Corporate Services	177,735	0	177,735	182,238	0	182,238	4,503
Information and Communication Technology	141,748	0	141,748	135,156	0	135,156	(6,592)
Emergency Management Cook Islands	105,542	0	105,542	98,354	0	98,354	(7,188)
Climate Change Cook Islands	65,500	0	65,500	107,595	0	107,595	42,095
Outer Islands Local Government	57,726	0	57,726	209,496	0	209,496	151,770

	<b>1,116,194</b>	<b>0</b>	<b>1,116,194</b>	<b>1,170,556</b>	<b>0</b>	<b>1,170,556</b>	<b>54,362</b>
<b>PUBLIC SERVICE COMMISSION</b>							
Good Governance	185,252	0	185,252	189,245	0	189,245	<b>3,993</b>
Human Resources	50,281	0	50,281	65,637	0	65,637	<b>15,356</b>
Performance Management	116,522	0	116,522	163,733	0	163,733	<b>47,211</b>
Corporate Services	67,002	0	67,002	82,122	0	82,122	<b>15,120</b>
	<b>419,057</b>	<b>0</b>	<b>419,057</b>	<b>500,737</b>	<b>0</b>	<b>500,737</b>	<b>81,680</b>
<b>TOURISM CORPORATION</b>							
Head Office	1,699,909	0	1,699,909	1,671,909	0	1,671,909	(28,000)
Destination Market	2,151,180	0	2,151,180	2,151,180	0	2,151,180	0
Destination Development	328,357	0	328,357	328,357	0	328,357	0
	<b>4,179,446</b>	<b>0</b>	<b>4,179,446</b>	<b>4,151,446</b>	<b>0</b>	<b>4,151,446</b>	<b>(28,000)</b>
<b>TRANSPORT</b>							
Civil Aviation	84,052	0	84,052	84,552	0	84,552	500
Maritime Transport	122,387	0	122,387	115,426	0	115,426	(6,961)
Meteorological Service	327,408	36,000	291,408	328,019	36,000	292,019	611
Finance and Administration	141,779	0	141,779	139,479	0	139,479	(2,300)
	<b>675,626</b>	<b>36,000</b>	<b>639,626</b>	<b>667,476</b>	<b>36,000</b>	<b>631,476</b>	<b>(8,150)</b>
<b>FINANCIAL SERVICES DEVELOPMENT AUTHORITY</b>							
Develop Cook islands financial Service Industry	433,415	0	433,415	421,894	0	421,894	(11,521)
	<b>433,415</b>	<b>0</b>	<b>433,415</b>	<b>421,894</b>	<b>0</b>	<b>421,894</b>	<b>(11,521)</b>
<b>COOK ISLANDS INVESTMENT CORPORATION</b>							
Asset Management	0	0	0	0	525,000	0	0
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>525,000</b>	<b>(525,000)</b>	<b>0</b>
<b>OUTER ISLANDS</b>							
<b>Aitutaki</b>							
Infrastructure	58,978	0	58,978	977,565	0	977,565	918,587
Waste Facility	233,374	0	233,374	125,265	43,250	82,015	(108,109)
Finance and Administration	933,003	43,250	889,753	241,374	3,000	238,374	(691,629)

Island Council	82,435	3,000	79,435	87,394	0	87,394	4,959
Women, Youth ,Sport, Culture	57,145	0	57,145	59,175	0	59,175	2,030
Agriculture	152,839	2,000	150,839	82,435	2,000	80,435	(70,404)
	<b>1,517,774</b>	<b>48,250</b>	<b>1,469,524</b>	<b>1,573,208</b>	<b>48,250</b>	<b>1,524,958</b>	<b>55,434</b>
<b>Aitutaki Power Supply</b>							
Electricity Supply	2,213,333	1,864,293	349,040	2,211,333	1,900,943	310,390	(2,000)
	<b>2,213,333</b>	<b>1,864,293</b>	<b>349,040</b>	<b>2,211,333</b>	<b>1,900,943</b>	<b>310,390</b>	<b>(2,000)</b>
<b>Atiu</b>							
Agriculture	88,353	11,000	77,353	131,816	8,602	123,214	43,464
Infrastructure	532,322	18,000	514,322	459,511	9,600	449,911	(72,811)
Energy	330,815	197,120	133,695	372,032	182,016	190,016	41,217
Corporate	184,624	3,500	181,124	157,617	1,100	156,517	(27,007)
Island Council	58,201	35,000	23,201	67,827	23,000	44,827	9,626
	<b>1,194,315</b>	<b>264,620</b>	<b>929,695</b>	<b>1,188,803</b>	<b>224,318</b>	<b>964,485</b>	<b>(5,512)</b>
<b>Mangaia</b>							
Agriculture	178,098	6,400	171,698	179,836	3,000	176,836	1,738
Tourism and Community Development	56,012	7,779	48,233	45,715	1,000	44,715	(10,297)
Infrastructure Amenities	585,809	96,530	489,279	508,687	25,000	483,687	(77,122)
Public Utilities	541,760	272,200	269,560	542,250	270,000	272,250	490
Finance and Administration	140,724	1,000	139,724	155,280	500	154,780	14,556
Island Council	54,166	3,613	50,553	81,201	1,500	79,701	27,035
	<b>1,556,569</b>	<b>387,522</b>	<b>1,169,047</b>	<b>1,512,969</b>	<b>301,000</b>	<b>1,211,969</b>	<b>(43,600)</b>
<b>Manihiki</b>							
Gender, Youth and Sports	16,518	200	16,318	14,518	1,500	13,018	(2,000)
Infrastructure	282,855	5,000	277,855	294,359	10,000	284,359	11,504
Energy	294,905	102,000	192,905	297,418	111,600	185,818	2,513
Finance and Administration	160,246	5,000	155,246	153,449	6,200	147,249	(6,797)
Island Council	42,290	5,000	37,290	77,297	5,000	72,297	35,007

Agriculture	25,098	2,000	23,098	28,509	2,000	26,509	3,411
	<b>821,912</b>	<b>119,200</b>	<b>702,712</b>	<b>865,550</b>	<b>136,300</b>	<b>729,250</b>	<b>43,638</b>
<b>Mauke</b>							
Infrastructure	289,008	13,500	275,508	294,555	3,500	291,055	5,547
Energy	306,183	112,500	193,683	248,562	101,300	147,262	(57,621)
Water	67,406	0	67,406	85,922	500	85,422	18,516
Finance and Administration	123,230	12,500	110,730	124,837	3,500	121,337	1,607
Agriculture	79,348	0	79,348	73,771	4,000	69,771	(5,577)
Gender and Development	17,328	0	17,328	14,673		14,673	(2,655)
Island Council	50,404	4,076	46,328	59,058	1,053	58,005	8,654
	<b>932,907</b>	<b>142,576</b>	<b>790,331</b>	<b>901,378</b>	<b>113,853</b>	<b>787,525</b>	<b>(31,529)</b>
<b>Mitiaro</b>							
Island Administration	124,723	350	124,373	114,127	100	114,027	(10,596)
Island Council	50,233	200	50,033	57,643	100	57,543	7,410
Social and Economic Growth	5,674	100	5,574	21,300	0	21,300	15,626
Infrastructure	242,782	9,500	233,282	258,703	3,850	254,853	15,921
Energy	115,433	52,000	63,433	97,016	54,699	42,317	(18,417)
Agriculture	38,187	3,500	34,687	34,740	150	34,590	(3,447)
	<b>577,032</b>	<b>65,650</b>	<b>511,382</b>	<b>583,529</b>	<b>58,899</b>	<b>524,630</b>	<b>6,497</b>
<b>Palmerston</b>							
Island Administration	90,855	1,000	89,855	89,810	1,500	88,310	(1,045)
Agriculture	12,193	0	12,193	12,494		12,494	301
Education	97,152	0	97,152	95,352		95,352	(1,800)
Energy	62,061	20,000	42,061	57,951	17,999	39,952	(4,110)
Infrastructure	55,712	300	55,412	53,412	300	53,112	(2,300)
Island Council	30,800	800	30,000	40,000	800	39,200	9,200
	<b>348,773</b>	<b>22,100</b>	<b>326,673</b>	<b>349,019</b>	<b>20,599</b>	<b>328,420</b>	<b>246</b>
<b>Penrhyn</b>							
Gender, Youth and Sport	14,200	0	14,200	14,200	0	14,200	0
Infrastructure	127,462	6,000	121,462	127,077	10,000	117,077	(385)

Energy	232,680	69,500	163,180	227,319	73,904	153,415	(5,361)
Island Administration and Island Council	192,880	0	192,880	200,480	0	200,480	7,600
Agriculture	25,450	0	25,450	25,450	0	25,450	0
	<b>592,672</b>	<b>75,500</b>	<b>517,172</b>	<b>594,526</b>	<b>83,904</b>	<b>510,622</b>	<b>1,854</b>
<b>Pukapuka and Nassau</b>							
Infrastructure	530,411	10,300	520,111	501,923	13,085	488,838	(28,488)
Energy	91,142	16,000	75,142	107,221	18,510	88,711	16,080
Island Administration	161,067	5,431	155,636	168,066	15,000	153,066	6,999
Island Council	95,674	16,240	79,434	130,570	25,100	105,470	34,896
Women, Culture, Youth and Sport	34,090	0	34,090	27,351	1,000	26,351	(6,739)
Agriculture	53,304	500	52,804	51,975	1,000	50,975	(1,329)
	<b>965,687</b>	<b>48,471</b>	<b>917,216</b>	<b>987,106</b>	<b>73,695</b>	<b>913,411</b>	<b>21,419</b>
<b>Rakahanga</b>							
Agriculture	31,267	1,500	29,767	31,267	1,500	29,767	0
Marine	87,257	27,000	60,257	114,085	66,884	47,201	26,828
Beautification	45,432	1,000	44,432	45,432	1,000	44,432	0
Infrastructure	121,342	3,000	118,342	121,342	3,000	118,342	0
Energy	73,976	20,000	53,976	73,976	20,000	53,976	0
Island Administration	76,415	1,500	74,916	76,415	1,500	74,915	0
Island Council	44,888	5,453	39,436	52,888	5,453	47,435	8,000
	<b>480,577</b>	<b>59,452</b>	<b>421,125</b>	<b>515,405</b>	<b>99,337</b>	<b>416,068</b>	<b>34,828</b>
<b>MINISTERIAL SUPPORT</b>							
Prime Minister	375,250	0	375,250	425,382	0	425,382	50,132
Deputy Prime Minister	310,000	0	310,000	223,000	0	223,000	(87,000)
Minister Mark Brown	285,000	0	285,000	275,870	0	275,870	(9,130)
Minister Teariki Heather	205,000	0	205,000	193,000	0	193,000	(12,000)
Minister Nandi Glassie	205,000	0	205,000	193,000	0	193,000	(12,000)
Minister Teina Bishop	205,000	0	205,000	193,000	0	193,000	(12,000)
Leader of the Opposition	205,000	0	205,000	205,000	0	205,000	0

	<b>1,790,250</b>	<b>0</b>	<b>1,790,250</b>	<b>1,708,252</b>	<b>0</b>	<b>1,708,252</b>	<b>(81,998)</b>
<b>OTHER FUNDING - ADMINISTERED BY MFEM</b>							
Capital distribution fund - depreciation only	21,420	0	21,420	45,000	0	45,000	23,580
Outer Islands small capital fund - depreciation only	13,750	0	13,750	27,500	0	27,500	13,750
	<b>35,170</b>	<b>0</b>	<b>35,170</b>	<b>72,500</b>	<b>0</b>	<b>72,500</b>	<b>37,330</b>
<b>TOTAL APPROPRIATIONS</b>	<b>61,533,023</b>	<b>5,209,239</b>	<b>56,323,784</b>	<b>63,591,477</b>	<b>5,977,253</b>	<b>57,614,224</b>	<b>2,058,454</b>

**Schedule 6  
Capital Schedule**

MINISTRY	2012/13 Supplementary Estimates	2013/14 Budget Estimate	2014/15 Budget Estimate	2015/16 Budget Estimate	Variance
<b>EDUCATION</b>					
Fund to be Prioritised by Education	110,000	110,000	110,000	110,000	0
<b>TOTAL</b>	<b>110,000</b>	<b>110,000</b>	<b>110,000</b>	<b>110,000</b>	<b>0</b>
<b>FOREIGN AFFAIRS</b>					
Furniture for Immigration Office	7,000	0	0	0	(7,000)
Equipment for Forum Leaders	150,000	0	0	0	(150,000)
Auckland Consulate Office Fit out (Manukau)	0	45,000	0	0	45,000
<b>TOTAL</b>	<b>157,000</b>	<b>45,000</b>	<b>0</b>	<b>0</b>	<b>(112,000)</b>
<b>HEALTH</b>					
Fund to be Prioritised by Health for Technical Equipment	275,000	275,000	275,000	275,000	0
Biochemistry Analyser	130,000	0	0	0	(130,000)
X-ray Unit	90,000	0	0	0	(90,000)
Ambulance	0	150,000	0	0	150,000
<b>TOTAL</b>	<b>495,000</b>	<b>425,000</b>	<b>275,000</b>	<b>275,000</b>	<b>(70,000)</b>
<b>INFRASTRUCTURE and PLANNING</b>					
Mangaia Harbour completion	212,000	0	0	0	(212,000)
ICT upgrades	40,000	0	0	0	(40,000)
Nassau Outboard Motor Procurement	24,000	0	0	0	(24,000)
Penrhyn Barge	48,000	0	0	0	(48,000)
Manihiki Generators	78,489	0	0	0	(78,489)
Nassau Power Generators (Lister March 2012)	42,507	0	0	0	(42,507)
Aitutaki Tip Truck	161,499	0	0	0	(161,499)
Mangaia Quarry Machine upgrade	18,000	0	0	0	(18,000)
Mitiaro Tractor and Back Blade Tractor	9,199	0	0	0	(9,199)
Bridges and Drainage	775,000	1,000,000	1,500,000	0	225,000
Road Network Maintenance	680,000	430,000	430,000	680,000	(250,000)
Water Network Maintenance	0	500,000	500,000	1,000,000	500,000
Contribution from home owners to Sanitation Upgrades	(200,000)	0	0	0	200,000
Manihiki Harbour	500,000	2,000,000	300,000	0	1,500,000
Water Equipment for Rarotonga Upgrade	260,000	0	0	0	(260,000)
Vaimaru Water Upgrade	150,000	200,000	0	0	50,000
Capital and Equipment for Mauke Island	190,000	0	0	0	(190,000)
Rakahanga Harbour Improvement	0	120,000	0	0	120,000



Water Pumps	0	26,000	0	0	26,000
Penryhn-Feasibility Coastal Protection	0	20,000	650,000	0	20,000
Tereora/Tepuka Enviro-Flow	0	40,000	0	0	40,000
Pukapuka Bobcat	0	50,000	0	0	50,000
Mangaia Water and Roads	0	180,000	0	0	180,000
<b>TOTAL</b>	<b>2,988,695</b>	<b>4,566,000</b>	<b>3,380,000</b>	<b>1,680,000</b>	<b>1,577,305</b>

#### **Aitutaki Island Council**

Fuel Storage Facility	0	90,000	0	0	90,000
Water Pumps (Vaipeka, Tautu, Vaipae)	0	26,000	26,000	0	26,000
Mini Transformers	0	96,000	0	0	96,000
<b>TOTAL</b>	<b>0</b>	<b>212,000</b>	<b>26,000</b>	<b>0</b>	<b>212,000</b>

#### **JUSTICE**

Computers and IT Equipment	43,000	0	0	0	(43,000)
<b>TOTAL</b>	<b>43,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(43,000)</b>

0

#### **POLICE**

Life Rafts	10,000	10,000	10,000	10,000	0
<b>TOTAL</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>0</b>

#### **OFFICE OF THE PRIME MINISTER**

Rakahanga generator control panels and powerhouse	95,000	95,000	0	0	0
Atiu Power Distribution	480,000	264,000	0	0	(216,000)
Computer Equipment	20,000	0	0	0	(20,000)
Human Resources Information Management System	180,000	0	0	0	(180,000)
Renewable Management Project Management and Support	0	150,000	150,000	150,000	150,000
Energy Upgrade	0	0	800,000	0	0
Community Capital Development Fund	0	150,000	150,000	150,000	150,000
Mitiaro Generator, Powerhouse Relocation	0	280,000	0	0	280,000
<b>TOTAL</b>	<b>775,000</b>	<b>939,000</b>	<b>1,100,000</b>	<b>300,000</b>	<b>164,000</b>

#### **COOK ISLANDS INVESTMENT CORPORATION**

National Education Renewal Programme	373,000	671,000	721,000	2,328,000	298,000
National Health Renewal Program	540,300	840,000	385,000	0	299,700
Parliament Building	20,000	0	0	0	(20,000)
Renovations Cook Islands High Commission (Wellington)	0	53,000	0	0	53,000
Pukapuka Cyclone Centre	0	60,000	0	0	60,000
Nassau Machinery Shelter	0	80,000	0	0	80,000
Mauke Cargo Shed Improvements	0	50,000	0	0	50,000
Mitiaro Cargo Shed Improvements	0	50,000	0	0	50,000

Pa Enea Renewable Energy Projects- Land Acquisition	0	500,000	745,000	0	500,000
Orongo Development Master Plan (Ports Authority)	0	275,000	0	0	275,000
<b>TOTAL</b>	<b>933,300</b>	<b>2,579,000</b>	<b>1,851,000</b>	<b>2,328,000</b>	<b>1,645,700</b>

**MINISTRY OF FINANCE AND  
ECONOMIC MANAGEMENT**

Cabinet Server	5,000	0	0	0	(5,000)
Government IT Network	0	175,000	175,000	0	0
<b>TOTAL</b>	<b>5,000</b>	<b>175,000</b>	<b>175,000</b>	<b>0</b>	<b>(5,000)</b>

**MINISTRY TOTAL**

<b>5,516,995</b>	<b>9,061,000</b>	<b>6,927,000</b>	<b>4,703,000</b>	<b>3,369,005</b>
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**CAPITAL FUNDS ADMINISTERED BY  
MFEM**

Capital Distribution Fund	220,000	200,000	200,000	250,000	(20,000)
Outer Islands Small Capital Fund	110,000	110,000	110,000	110,000	
Outer Islands Capital Fund	<b>1,433,695</b>	<b>2,570,000</b>	<b>950,000</b>	<b>0</b>	<b>1,136,305</b>
<b>TOTAL</b>	<b>330,000</b>	<b>310,000</b>	<b>310,000</b>	<b>360,000</b>	<b>(20,000)</b>

**GRAND TOTAL**

<b>5,846,995</b>	<b>9,371,000</b>	<b>7,237,000</b>	<b>5,063,000</b>	<b>3,349,005</b>
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## Schedule 7

### Revenue on Behalf of Crown (ROBOC)

	2012/13 Supplementary Estimates	2013/14 Budget Estimate	2014/15 Budget Estimate	2015/16 Budget Estimate	Variance
<b>Taxation Revenue</b>					
VAT	37,350,423	39,094,900	39,685,242.64	40,033,616	1,744,477
Income tax	26,200,768	27,733,742	28,172,641	28,415,981	1,532,974
Company tax	11,000,864	10,812,123	11,027,719	11,127,847	(188,741)
Import levies	13,038,251	13,207,021	13,683,266	14,176,181	168,770
Departure tax	6,481,006	8,204,796	8,772,989	9,266,451	1,723,790
Withholding tax	899,992	600,000	0	0	(299,992)
<b>Total Taxes</b>	<b>94,971,304</b>	<b>99,652,582</b>	<b>101,341,858</b>	<b>103,020,076</b>	<b>4,681,278</b>
<b>Other Crown Revenue</b>					
Foreign Investment Fees	17,250	21,000	20,149	20,654	3,750
Tattslotto Grants	120,000	137,000	143,000	150,000	17,000
Employer Liabilities	75,000	75,000	75,000	75,000	0
Censorship Fees	10,000	10,000	12,000	12,000	0
CISNOC Reimbursement Olympic Cost	93,000	0	0	0	(93,000)
Immigration Fees	540,000	968,300	968,300	968,300	428,300
Court Services	40,000	40,000	40,000	40,000	0
Fisheries - US Treaties	486,250	750,000	780,000	780,000	263,750
Fishing Licences	2,440,000	2,440,000	2,440,000	2,440,000	0
Fisheries Catch Revenue	0	1,700,000	1,700,000	1,700,000	1,700,000
Financial Services Commission	292,630	290,000	276,296	276,296	(2,630)
Drivers Licences	700,000	700,000	700,000	630,000	0
Instant Fines	65,000	65,000	65,000	65,000	0
Motor Vehicle Registration	620,000	675,000	675,000	675,000	55,000
Research Fee	700	1,000	1,000	1,000	300
Permits	25,816	66,000	55,816	55,816	40,184
Shipping Registration	70,000	107,000	117,975	129,773	37,000
International Shipping Licence	15,000	15,000	15,000	15,000	0
Liquor Licencing	26,000	26,000	26,000	26,000	0
Motor Vehicle Dealers	5,000	5,000	5,000	5,000	0
Upper Air Management Agreement	464,000	475,600	497,996	510,446	11,600
Circulating Currency - Coins	100,000	75,000	75,000	100,000	(25,000)
Numismatics	500,000	450,000	500,000	500,000	(50,000)
Telecom Cook Islands - dividend	1,150,000	1,150,000	1,150,000	1,150,000	0
Banana Court - dividend	150,000	10,000	10,000	10,000	(140,000)
Bank of the Cook Islands - dividend	439,950	466,000	557,053	557,053	26,050
Te Aponga Uira - dividend	500,000	875,000	637,800	619,190	375,000
Extraordinary SOE Dividends	0	60,000	60,000	60,000	60,000
Interest on loans to subsidiaries	202,567	335,000	322,800	310,126	132,433
Interest on balances	1,824,000	1,812,000	1,848,000	1,885,000	(12,000)

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<b>Total Other</b>	<b>10,972,163</b>	<b>13,799,900</b>	<b>13,774,185</b>	<b>13,766,654</b>	<b>2,827,737</b>
<b>Total Crown Receipts</b>	<b>105,943,467</b>	<b>113,452,482</b>	<b>115,116,043</b>	<b>116,786,730</b>	<b>7,509,015</b>

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**Schedule 8**  
**Payments on Behalf of Crown (POBOC)**

Administering Ministry	POBOC	Supplementary Budget 2012-13	Budget Estimates 2013/14	Budget Estimates 2014/15	Budget Estimates 2015/16	Variance
<b>Compensation of Employees</b>						
	Infrastructure Committee	50,000	50,000	50,000	50,000	0
Finance and Economic Management	Parliamentary Superannuation	180,000	180,000	180,000	180,000	0
Finance and Economic Management	National Heritage Trust PERC Salaries and Administration Costs	82,241	82,241	82,241	82,241	0
Finance and Economic Management	Transfer of PERC Salaries and Administration Costs	45,000	0	0	0	(45,000)
Audit		0	42,500	42,500	42,500	42,500
Internal Affairs	Price Tribunal	30,000	30,000	30,000	30,000	0
Justice	Judges Allowances	177,000	217,000	177,000	177,000	40,000
Parliamentary Services	Civil List - Personnel	1,743,127	1,794,630	1,794,630	1,794,630	51,503
Parliamentary Services	House of Ariki	175,000	130,341	130,341	130,341	(44,659)
Public Service Commission	HOM Salaries	1,138,279	1,144,716	1,144,716	1,144,716	6,437
Transport	Director of Civil Aviation	56,000	56,000	56,000	56,000	0
		<b>3,676,647</b>	<b>3,727,428</b>	<b>3,687,428</b>	<b>3,687,428</b>	<b>50,781</b>
<b>Use of Goods and Services</b>						
Audit	Audit Fees	0	95,600	95,600	95,600	95,600
	Operation Eagle Defendants	70,000	30,000	0	0	(40,000)
	Te Maeva Nui Constitution Celebrations	960,500	195,000	722,500	722,500	(765,500)
Cultural Development	Tertiary Training Institutions	493,767	759,855	759,855	759,855	266,088
Education						
Finance and Economic Management	Audit of Crown Accounts National Superannuation Fund	30,000	30,000	30,000	30,000	0
Finance and Economic Management	Standard and Poors Subscription	313,626	297,945	283,048	268,896	(15,681)
Finance and Economic Management	Cook Islands Golf Organization	35,000	40,000	40,000	40,000	5,000
Finance and Economic Management	Pacific Forum Leaders Forum	50,000	0	0	0	(50,000)
Foreign Affairs	Domestic Hosting Entertainment	709,000	0	0	0	(709,000)
Head Of State	Pharmaceuticals	15,000	35,000	15,000	15,000	20,000
Health	Outer Islands Equipment Repairs of Unanticipated Breakdowns	642,800	667,800	667,800	667,800	25,000
Infrastructure and Planning		100,000	100,000	100,000	100,000	0
Infrastructure and Planning	Waste Management	0	545,000	545,000	545,000	545,000
Internal Affairs	Lease extension	36,000	72,000	72,000	72,000	36,000
Internal Affairs	Vaka Maintenance	450,000	400,000	400,000	400,000	(50,000)
Parliamentary Services	Civil List - Operating	704,475	529,475	529,475	529,475	(175,000)

Administering Ministry	POBOC	Supplementary Budget 2012-13	Budget Estimates 2013/14	Budget Estimates 2014/15	Budget Estimates 2015/16	Variance
	Expenses					
Parliamentary Services	Commonwealth Forum	150,000	0	0	0	(150,000)
	PPAPD - FDOC					
Parliamentary Services	Secretariat	35,000	35,000	35,000	35,000	0
	Social Responsibility					
Prime Minister's Office	Fund	195,000	195,000	195,000	195,000	0
Police	Search and Rescue	20,000	20,000	20,000	20,000	0
	Serious Crime					
Police	Investigations	50,000	50,000	50,000	50,000	0
	Te Kukupa - Fuel					
Police	Contribution	140,000	140,000	140,000	140,000	0
Police	Te Kukupa Slippage	20,000	0	0	0	(20,000)
Police	Te Kukupa Refit	0	150,000	0	0	150,000
	Marketing Resources -					
	Tourism Growth					
Tourism Corporation	Strategy	2,000,000	2,000,000	2,000,000	2,000,000	0
Prime Minister's Office	Anzac Day Funding	0	5,000	5,000	5,000	5,000
	Cook Islands Marine					
Prime Minister's Office	Park	0	40,000	40,000	40,000	40,000
	International Civil					
Transport	Aviation Organisation	72,000	0	0	0	(72,000)
	International Maritime					
Transport	Organisation	22,600	0	0	0	(22,600)
	Pacific Aviation Safety					
Transport	Office	22,482	0	0	0	(22,482)
	TCI - Maritime Shipping					
Transport	Service	79,191	0	0	0	(79,191)
		<b>7,416,441</b>	<b>6,432,675</b>	<b>6,745,278</b>	<b>6,731,126</b>	<b>(983,766)</b>
<b>Subsidies</b>						
	University of the South					
Education	Pacific Contribution	285,000	285,000	285,000	285,000	0
Finance and Economic	Air New Zealand -					
Management	Subsidies	12,300,000	12,600,000	12,600,000	12,600,000	300,000
Finance and Economic	Apex - Profit Guarantee	1,500,000	1,500,000	1,500,000	1,500,000	0
Management	FSC - subsidy to meet					
Finance and Economic	depreciation expenses	50,000	35,000	35,000	35,000	(15,000)
Management	Subsidy of audio/visual					
Finance and Economic	broadcasting in Pa Enua	25,000	45,000	45,000	45,000	20,000
Management	Outer Island Shipping					
Transport	and Freight Subsidy	100,000	0	0	0	(100,000)
		<b>14,260,000</b>	<b>14,465,000</b>	<b>14,465,000</b>	<b>14,465,000</b>	<b>205,000</b>
<b>Social Assistance</b>						
	Te Aponga Uria -					
	uneconomic power					
CIIC	connections	50,000	0	0	0	(50,000)
	Foundation Basic Skills					
Education	Training	100,000				(100,000)
	Government Funded					
Education	Scholarships	120,000	280,000	280,000	280,000	160,000
	Student Assistance Fund					
	(In-Country and					
Education	Overseas)	160,000				(160,000)

Administering Ministry	POBOC	Supplementary	Budget	Budget	Budget	Variance
		Budget	Estimates	Estimates	Estimates	
		2012-13	2013/14	2014/15	2015/16	
Health	Patient Referrals	500,000	550,000	550,000	550,000	50,000
Health	Nursing School	0	143,070	137,070	137,070	143,070
Health	NCD Fund	0	195,000	195,000	195,000	195,000
Internal Affairs	Welfare Payments	13,095,800	13,583,800	13,878,200	14,157,400	488,000
Justice	Legal Aid	40,000	40,000	40,000	40,000	0
		<b>14,065,800</b>	<b>14,791,870</b>	<b>15,080,270</b>	<b>15,359,470</b>	<b>726,070</b>
<b>Other Expense</b>						
Education	Private School Funding	1,731,295	1,982,627	1,982,627	1,982,627	251,332
Finance and Economic Management	Insurance	40,000	0	0	0	(40,000)
Foreign Affairs	International Subscriptions	368,032	541,705	541,705	541,705	173,673
Marine Resources	Establishment of Fisheries Development Facility	200,000	200,000	200,000	200,000	0
Cook Islands Seabed Minerals Authority	Establishment of the Seabed Minerals Authority	290,000	340,000	340,000	290,000	50,000
Internal Affairs	CISNOC Grant	120,000	120,000	120,000	120,000	0
Internal Affairs	CISNOC Support	0	100,000	100,000	100,000	100,000
Internal Affairs	NGO and Welfare Organisations	221,000	221,000	221,000	221,000	0
Internal Affairs	Gender Regional Triennial Meeting	0	30,000	0	0	30,000
Police	Pacific Islands Chiefs of Police Conference (PICP)	0	57,000	0	0	57,000
Education	Education Ministers Forum	0	20,000	0	0	20,000
MOIP	SOPAC Conference 2013	0	100,000	0	0	100,000
MOIP	PWWA Conference 2013	0	100,000	0	0	100,000
		<b>2,970,327</b>	<b>3,812,332</b>	<b>3,505,332</b>	<b>3,455,332</b>	<b>842,005</b>
<b>Grand Total</b>		<b>42,389,215</b>	<b>43,229,305</b>	<b>43,483,308</b>	<b>43,698,356</b>	<b>840,090</b>

**Schedule 9**  
**Debt Servicing Schedule**

	Total Loans			On-Lent Loans			
	Principal	Interest	Gross	Principal	Interest	Gross	Net
Creditors							
France	565	23	588	565	23	588	0
Asian Development Bank	2756	805	3561	721	311	1032	2529
China	960	601	1561	0	0	0	1561
<b>Total Debt Servicing</b>	<b>4281</b>	<b>1429</b>	<b>5710</b>	<b>1286</b>	<b>334</b>	<b>1620</b>	<b>4090</b>



**Schedule 10**  
**Official Development Assistance (ODA) Schedule**

Agency	Development Partner	Supplementary Estimates 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16	Total
<b>CIIC</b>		<b>0</b>	<b>200,000</b>	<b>0</b>	<b>0</b>	<b>200,000</b>
ADB Asset Management Technical Assistance	ADB	0	200,000	0	0	
<b>Pearl Authority</b>		<b>263,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>263,000</b>
Pearl Industry Revitalisation	NZAID	263,000	0	0	0	
<b>Tourism Corporation</b>		<b>3,000,000</b>	<b>3,000,000</b>	<b>2,000,000</b>	<b>0</b>	<b>8,000,000</b>
Tourism Sector Support	NZAID	3,000,000	3,000,000	2,000,000	0	
<b>Foreign Affairs and Immigration</b>		<b>7,429,000</b>	<b>11,141,000</b>	<b>7,700,000</b>	<b>0</b>	<b>26,270,000</b>
Pacific Forum Leaders Meeting	AUS	209,000	0	0	0	
China grants in kind	CHINA	7,220,000	11,000,000	7,700,000	0	
PRC Grant	CHINA	0	20,000	0	0	
Korea Cars	KOREA	0	121,000	0	0	
<b>Ministry of Finance and Economic Management</b>		<b>14,026,934</b>	<b>12,906,000</b>	<b>6,665,000</b>	<b>6,830,000</b>	<b>40,427,934</b>
Public Sector Reform TA Support	ADB	300,000	900,000	400,000	0	
EU TCF	EU	80,000	80,000	80,000	80,000	
Water and Sanitation General Budget Support	EU	4,080,000	1,600,000	2,400,000	1,600,000	
India Grant Fund	INDIA	558,000	150,000	150,000	150,000	
Automated Border Management System	New Zealand Aid	735,838	135,000	135,000	0	
Aid Effectiveness	New Zealand Aid	205,000	62,000	0	0	
Te Mato Vai	New Zealand Aid	8,000,000	7,500,000	3,500,000	5,000,000	
Pac Forum Sec Small Island States	Pacific Islands Forum (PIF)	68,096	0	0	0	
TRAC Funds	UNDP	0	242,000	0	0	
Pearl Industry Revitalisation		0	2,237,000	0	0	
<b>Agriculture</b>		<b>223,200</b>	<b>581,500</b>	<b>38,500</b>	<b>0</b>	<b>843,200</b>

Agriculture Census and Statistics, Food and Ornamental Crop	FAO	223,200	223,200	0	0
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Agency	Development Partner	Supplementary Estimates 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16	Total
Forestry Assessment Project	FAO	0	83,000	0	0	
Crop Enhancement Technical Cooperation	FAO	0	236,000	0	0	
SPC - Water-logging Project	SPC	0	30,000	38,500	0	
SPC - Taro Revitalisation program	SPC	0	9,300	0	0	
<b>Ministry of Education</b>		<b>4,042,176</b>	<b>3,355,000</b>	<b>3,460,000</b>	<b>3,460,000</b>	<b>14,317,176</b>
Education Sector Partnership	New Zealand Aid	3,240,000	2,657,000	2,762,000	2,762,000	
Scholarships and Training Awards	New Zealand Aid	613,000	613,000	613,000	613,000	
Participation Program	UNESCO	189,176	85,000	85,000	85,000	
<b>Ministry of Health</b>		<b>1,324,112</b>	<b>1,556,200</b>	<b>1,211,200</b>	<b>766,000</b>	<b>4,857,512</b>
Management and prevention of HIV and STI	Global Fund	79,200	96,000	96,000	0	
Strengthening the management, prevention of TB in CK	Global Fund	93,212	78,000	78,000	0	
Health Specialist Visits Programme	New Zealand Aid	540,000	500,000	500,000	500,000	
Multi-sectoral approach to combat NCDs and assoc risk factor	Global Fund	190,500	0	0	0	
SPC Small Grants	SPC	0	20,000	20,000	20,000	
Strengthening Reproductive Health	UNFPA	150,000	345,000	0	0	
Human Resources Development (Fellowships)	WHO	271,200	271,200	271,200	0	
Technical Cooperation Programme	WHO	0	246,000	246,000	246,000	
<b>Ministry of Internal Affairs</b>		<b>1,705,258</b>	<b>1,291,530</b>	<b>815,570</b>	<b>600,000</b>	<b>4,412,358</b>
Social welfare review, protection of the vulnerable	ADB	854,000	390,000	100,000	0	
Disability Inclusive Development	AusAID		136,530	115,570	0	

Social Impact Fund (NGO and community initiatives scheme)	New Zealand Aid	851,258	765,000	600,000	600,000	
<b>Ministry of Infrastructure and Planning</b>		<b>5,599,000</b>	<b>6,042,000</b>	<b>4,650,000</b>	<b>4,000,000</b>	<b>20,291,000</b>
Improve infrastructure service delivery technical assistance	ADB	264,000	0	0	0	
Penrhyn Coastal Harbour upgrade	Australia Adaptation	0	0	650,000	0	
Agency	Development Partner	Supplementary Estimates 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16	Total
Northern Water-Community water tank upgrades(2011 carry fwd)	New Zealand Aid	650,000	650,000	0	0	
Mangaia water upgrades	Australia Adaptation	650,000	0	0	0	
Mangaia Harbour Climate Adaptation	AusAID		610,000	0	0	
Pacific Adaptation to CC (PACC+) Cook Is	UNDP	835,000	737,000	0	0	
Mauke and Mitiaro Harbours	New Zealand Aid	0	260,000	0	0	
Northern Water Improvement program - Household supply	New Zealand Aid	0	630,000	0	0	
Waste Management and Sanitation improvement program	New Zealand Aid	3,000,000	2,955,000	4,000,000	4,000,000	
Integrated Water Resources Management (IWRM)	SOPAC	200,000	200,000	0	0	
<b>Ministry of Marine Resources</b>		<b>588,000</b>	<b>362,000</b>	<b>362,000</b>	<b>0</b>	<b>1,312,000</b>
CI Fisheries Initiative (CIFI)	Australia Regional	226,000			0	
Fisheries Project Development Fund	FFA	362,000	362,000	362,000		
<b>National Environment Services</b>		<b>470,250</b>	<b>614,000</b>	<b>2,491,400</b>	<b>2,342,000</b>	<b>5,917,650</b>
Piloting V and A	AusAID	124,750				
Prevention, control and management Conservation Management of Island Biodiversity	Global Environment Facility	126,000	162,000	85,600	72,000	
UNCCD Data Reporting Project	Global Environment Facility	168,000	225,000	135,800	0	
Ridge to Reef	Global Environment Facility	0	57,000	0	0	
Monitoring of Ozone Depletion Substance	Global Environment Facility	0	100,000	2,200,000	2,200,000	
		0	70,000	70,000	70,000	

Building Capacity for Sustainable Land management	UNDP	30,000	0	0	0	
Persistent Organic Pollutants POPs	UNDP	21,500	0	0	0	
<b>Office of the Prime Minister</b>		<b>7,524,750</b>	<b>16,089,585</b>	<b>5,538,500</b>	<b>4,232,000</b>	<b>33,384,835</b>
Renewable Energy TA (Feasibility)	ADB	0	570,000	0	0	
Institutional Structure Development	AusAID	124,250	0	0	0	
Coastal Adaptation	AusAID	396,500	0	0	0	

Agency	Development Partner	Supplementary Estimates 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16	Total
SPC EU GCCA PSIS PROJECT	EU	300,000	465,000	0		
National Adaptation to CC (3rd Nat Com and 3-4 Nat Rept)	Global Environment Facility	0	60,000	170,000	170,000	
Renewable Energy program support	New Zealand Aid	2,500,000	6,280,000	3,400,000	3,500,000	
PV Mini grids	PEC (Japan)	1,260,000	3,390,000	0	0	
Energy Transformation	SIDS-DOCK		2,330,000	0	0	
Power sector study, EIA, verifications (PIGGAREP)	SPREP	244,000	77,000	0	0	
Community Centered Sustainable Development plans	UNDP	40,000	0	0	0	
Strengthening Resilience of Island Communities	UN Adaptation Fund	2,660,000	2,708,585	1,968,500	562,000	
Atiu Generator Renewable Energy	New Zealand Aid	0	209,000	0	0	
<b>CI Police Services</b>		<b>260,000</b>	<b>720,000</b>	<b>720,000</b>	<b>120,000</b>	<b>1,820,000</b>
CI Police Service HR development	Australian Federal Police	60,000	0	0	0	
Police Development Programme	New Zealand Aid		600,000	600,000	0	
Te Kukupa TA, operations	New Zealand Defence	200,000	120,000	120,000	120,000	
<b>Office of the Public Service Commissioner</b>		<b>1,300,000</b>	<b>1,000,000</b>	<b>0</b>	<b>0</b>	<b>2,300,000</b>
CI Technical Assistance Facility	New Zealand Aid	1,300,000	1,000,000	0	0	
<b>Te Aponga Uira</b>		<b>540,000</b>	<b>409,347</b>	<b>112,150</b>	<b>0</b>	<b>1,061,497</b>

Promoting Energy Efficiency in the Pacific	ADB	540,000	409,347	112,150	0	
<b>Seabed Mining Authority</b>	Commonwealth Secretariat	<b>170,000</b>	<b>95,000</b>	<b>20,000</b>	<b>0</b>	<b>285,000</b>
<b>Total</b>		<b>48,465,680</b>	<b>59,363,162</b>	<b>35,784,320</b>	<b>22,350,000</b>	<b>165,963,162</b>

## **Financial Statements**

**As at 30 June 2014**

**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 Cash Flows**

**(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**  
**For the years ending 30 June 2014**

	<b>Supp Bud 2012-13 ('000)</b>	<b>Projected 2013-14 ('000)</b>	<b>Projected 2014-15 ('000)</b>	<b>Projected 2015-16 ('000)</b>
<b>Revenue</b>				
Taxation revenues	94,971	99,653	101,342	103,020
<u>Other revenue</u>				
Revenue on behalf of the Crown	6,780	9,092	9,189	9,175
Sale of goods and services	5,209	5,452	6,014	6,051
Interest	2,027	2,147	2,171	2,195
Dividends	2,240	2,561	2,415	2,396
<b>Total Revenue</b>	<b>111,227</b>	<b>118,905</b>	<b>121,130</b>	<b>122,837</b>
<b>Expenditure</b>				
Appropriations to agencies	61,533	63,591	65,812	65,867
Payments on behalf of Crown	42,389	43,229	43,483	43,698
Debt-servicing interest	1,368	1,429	1,520	1,283
Building maintenance	1,800	1,800	1,800	1,800
Infrastructure depreciation	3,478	5,070	6,904	6,904
Other expenditure	3,155	3,740	2,680	2,679
<b>Total Expenditure</b>	<b>113,723</b>	<b>118,859</b>	<b>122,199</b>	<b>122,231</b>
<b>NET OPERATING SURPLUS / (DEFICIT)</b>	<b>-2,496</b>	<b>46</b>	<b>-1,069</b>	<b>606</b>

**Schedule 12**  
**Statement of Financial Position**  
**As at 30 June 2014**

	Supp Bud 2012-13 ( <i>'000</i> )	Projected 2013-14 ( <i>'000</i> )	Projected 2014-15 ( <i>'000</i> )	Projected 2015-16 ( <i>'000</i> )
<b>Assets</b>				
Cash and equivalents	21,607	17,916	16,852	29,431
Loan reserves	16,310	14,975	13,651	12,311
Trust accounts	8,013	8,511	9,018	9,533
Inventory	4,395	4,395	4,395	4,395
Tax receivables	16,370	15,551	14,773	14,035
Debtors and other receivables	10,699	10,699	10,699	10,699
Advances to SOEs	27,492	27,492	27,492	27,492
Investment in SOEs	146,733	146,733	146,733	146,733
Plant, property, and equipment	234,447	247,943	265,038	254,116
<b>Total Assets</b>	<b>486,065</b>	<b>494,215</b>	<b>508,651</b>	<b>508,743</b>
<b>Liabilities</b>				
Creditors and other payables	10,909	10,412	9,907	9,393
Trust liabilities	8,013	8,510	9,015	9,529
Borrowings	95,883	100,112	103,147	98,768
<b>Total Liabilities</b>	<b>114,805</b>	<b>119,034</b>	<b>122,069</b>	<b>117,690</b>
<b>Net Crown Balance</b>	<b>371,260</b>	<b>375,181</b>	<b>386,582</b>	<b>391,053</b>



Schedule 13

**Statement of Cash flows**  
**For the years ending 30 June 2014**

	Supp Bud 2012-13 ('000)	Projected 2013-14 ('000)	Projected 2014-15 ('000)	Projected 2015-16 ('000)
<b>Cash flows from Operating Activities</b>				
<u>Cash provided from:</u>				
Taxation and levies	94,971	99,653	101,342	103,020
Collection of tax arrears	1,250	818	778	739
Sale of goods and services	5,209	5,452	6,014	6,051
Interest	2,027	2,147	2,171	2,195
Dividends	2,240	2,561	2,415	2,396
Other income	6,780	9,092	9,189	9,175
	<u>112,477</u>	<u>119,723</u>	<u>121,908</u>	<u>123,575</u>
<u>Cash applied to:</u>				
Appropriations to agencies (less depn)	58,048	59,704	61,849	61,849
Payments on behalf of Crown	42,389	43,229	43,483	43,698
Debt-servicing interest	1,368	1,429	1,520	1,283
Building maintenance	1,800	1,800	1,800	1,800
Other expenditure	5,929	4,237	3,185	3,193
	<u>109,534</u>	<u>110,399</u>	<u>111,837</u>	<u>111,823</u>
<b>Net Operating Activity Cash flows</b>	<b>2,943</b>	<b>9,324</b>	<b>10,071</b>	<b>11,752</b>
<b>Cash flows from Investing Activities</b>				
<u>Cash provided from:</u>				
Subsidiary loan repayments	0	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Cash applied to:</u>				
Capital expenditure	23,743	16,517	24,383	0
Advances to Subsidiaries	0	0	0	0
	<u>23,743</u>	<u>16,517</u>	<u>24,383</u>	<u>0</u>
<b>Net Investing Activity Cash flows</b>	<b>-23,743</b>	<b>-16,517</b>	<b>-24,383</b>	<b>0</b>
<b>Cash flows from Financing Activities</b>				
<u>Cash provided from:</u>				
Loans drawn down	16,399	6,946	16,946	0
Cash drawn from loan reserves	1,529	1,335	1,325	1,340
	<u>17,928</u>	<u>8,281</u>	<u>18,271</u>	<u>1,340</u>
<u>Cash applied to:</u>				
Loan repayments	3,416	4,281	4,515	0
Loan reserves	0	0	0	0
Other reserves	743	498	507	514
	<u>4,159</u>	<u>4,779</u>	<u>5,022</u>	<u>514</u>
<b>Net Financing Activity Cash flows</b>	<b>13,769</b>	<b>3,502</b>	<b>13,249</b>	<b>826</b>

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Net cash movements	-7,031	-3,691	-1,064	12,578
Add: Opening Cash and Equivalents	28,638	21,607	17,916	16,852
<b><i>Closing Cash and Equivalents</i></b>	<b>21,607</b>	<b>17,916</b>	<b>16,852</b>	<b>29,430</b>

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Schedule 14

Statement of Borrowings  
As at 30 June 2014

	Supp Bud 2012-13 ('000)	Projected 2013-14 ('000)	Projected 2014-15 ('000)	Projected 2015-16 ('000)
<b><i>Total Gross Borrowings</i></b>	<b>95,883</b>	<b>100,112</b>	<b>103,147</b>	<b>98,768</b>
<b>Assets Held Against Borrowings:</b>				
Advances to subsidiaries	27,492	27,492	27,492	27,492
Loan reserves	16,310	14,975	13,651	12,311
<b><i>Total Assets Held Against Borrowings</i></b>	<b>43,802</b>	<b>42,467</b>	<b>41,143</b>	<b>39,803</b>
<b><i>Net Borrowings of the Government</i></b>	<b>52,081</b>	<b>57,645</b>	<b>62,005</b>	<b>58,966</b>

Schedule 15

Revenue Levied on Behalf of the Crown  
For the years ending 30 June 2014

	Supp Bud 2012-13 ('000)	Projected 2013-14 ('000)	Projected 2014-15 ('000)	Projected 2015-16 ('000)
<u>Taxation</u>				
Income tax	26,201	27,734	28,173	28,416
Company tax	11,001	10,812	11,028	11,128
Import levies	13,038	13,207	13,683	14,176
Departure tax	6,481	8,205	8,773	9,266
VAT	37,350	39,095	39,685	40,034
Withholding tax	900	600	0	0
Other	0	0	0	0
<b><i>Total Revenue Levied on Behalf of the Crown</i></b>	<b>94,971</b>	<b>99,653</b>	<b>101,342</b>	<b>103,020</b>

## Schedule 16

### Statement of Fiscal Risks As at 30 June 2014

<b>Quantifiable Contingent Liabilities</b>	<b>('000)</b>
Guarantees and indemnities	500
Uncalled capital	1,435
Legal proceedings and disputes	16,078
<b>Total Quantifiable Contingent Liabilities</b>	<b>18,013</b>

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:

	<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
E.	IPSAS 29 Financial Instruments: Presentation	1/01/2011

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.

<b>Revenue Type</b>	<b>Revenue Recognition Point</b>
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 donor 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*

Donor 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 (30th 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 donors 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.

## **CHANGES IN ACCOUNTING POLICIES**

### **Plant, Property, and Equipment**

For the financial year beginning 1<sup>st</sup> 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.