



Cook Islands Government

Quarterly Financial Report

December 2011

Prepared by the Ministry of Finance and Economic Management
www.mfem.gov.ck

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Key Points

- The Net Operating Balance of the General Government as at the end of December 2011 was a surplus of \$1,413,000 made up of:
 - Operating revenue of \$56,158,000; and
 - Operating expenditure of \$54,745,000.

Table 1
Net Operating Balance General Government - December Quarter 2011

	Budget	Actuals	Variance	
	('000)	('000)	('000)	Per cent
Operating Revenue	55,296	56,158	862	2%
Operating Expenditure	56,622	54,745	-1,877	-3%
Net Operating Balance	-1,326	1,413	2,739	207%

Table 2
Fiscal Balance of General Government – December Quarter 2011

	Budget	Actuals	Variance	
	('000)	('000)	('000)	Per cent
Net Operating Balance	-1,326	1,413	2,739	207%
Add Depreciation	1619	1350	-269	-17%
Less Capital Expenditure	1,050	187	-863	-82%
Fiscal Balance	-757	2,576	3,334	440%

- Key factors in variances to operating revenue include:
 - increased fishing licences/fines ; and
 - increased departure tax
- Key factors in variances to operating expenditure include:
 - Timing/phasing issues in ministry operating costs; and
 - Personnel savings from vacancies in public sector

Summary of the Financial Position of the General Government

The Net Operating Balance of the General Government at the end of the December 2011 Quarter was a surplus of \$1,413,000. This represents an improvement of \$2,729,000 on the 2011-12 Budget (forecast to Dec 2011).

Overall, revenue is up by \$862,000 against budget (Dec Qtr) and operating expenditure is below budget (Dec Qtr) by \$1,867,000.

Historically, both operating expenditure and revenue is not generally evenly spread across the year and experience demonstrates that both revenue and expenditure trends up in the second half of the financial year.

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

Table 3
Net Operating Balance as at 31 December 2011

	Budget ('000)	Actuals ('000)	Variance ('000)
Operating Revenue			
Taxation Revenue	48,434	47,992	-442
Other Crown Receipts	2,365	3,560	1,195
Trading Revenue	2,639	2,650	11
Interest on Loans to Subsidiaries	85	19	-66
Dividends	650	891	241
Interest on Funds	1,124	1,047	-76
Total Operating Revenue	55,296	56,158	862
Operating Expenditure			
Ministry Expenditure Outputs	32,884	31,041	1,843
Air NZ Subsidy	4,750	5,460	-710
TOA Guarantee	778	573	205
Other POBOCs	14,672	13,937	736
Total POBOCS	20,201	19,970	231
Airport Authority	852	1,024	-172
Bank of Cook Islands	91	0	91
Te Aponga Uira	175	0	175
Debt Servicing Interest	486	378	108
Building Maintenance	650	1,002	-352
Crown Infrastructure Depreciation	1,235	1,235	0
Disaster/Contingency	50	90	-40
Bank Fees	0	5	-5
Currency Purchases	0	0	0
Total Operating Expenditure	56,622	54,745	1,877
Net Operating Balance	-1,326	1,413	2,739
Key Balance Sheet Items in General Government:			
Cash and Equivalents		53,377	
Committed Cash		-48,335	
Net Cash Reserve		5,042	
Gross General Government Borrowings		82,082	

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

General Government Revenue Analysis

General Government revenues are:

- up as at December 2011 against budget (Dec Qtr) (\$862,000 or 2%); and
- above revenue collected up to December 2010 (\$1,587,000 or 3%).

Table 4
General Government Revenue Summary – September 2011 YTD

	2010-11 Actuals ('000)	2011-12 Budget ('000)	2011-12 Actuals ('000)	Variance vs 2010-11 ('000)	Percent Variance	Variance vs Budget ('000)	Percent Variance
Value-added Tax	18,801	19,858	19,637	837	4%	(221)	-1%
Income Tax	12,491	13,260	13,208	718	6%	(52)	0%
Company Tax	5,293	5,783	5,301	8	0%	(482)	-8%
Import Levies	6,492	6,062	6,022	(470)	-7%	(40)	-1%
Withholding Tax	0	230	212	212	0%	(18)	-8%
Departure Tax	3,283	3,241	3,611	328	10%	370	11%
Trading Revenue	2,818	2,639	2,650	(168)	-6%	11	0%
Other Revenue	5,393	4,223	5,517	123	2%	1,294	31%
Total Revenue	54,571	55,296	56,158	1,587	3%	862	2%

Value Added Tax

VAT is down on budget (-1%) and up from the December quarter 2010-11 (4%). This has increased substantially from the previous quarter and MFEM expects this will come further into line with the budget over the coming months.

Income Tax

Income tax is even on budget and up on the December quarter 2010-11 (6%).

There has been a significant increase in the number of employees registered for income tax. Activity around the Avatiu Harbour upgrade is also believed to be a contributing factor in comparison to prior years with substantial new employment being generated through the project.

Company Tax

Company tax is down on budget (-8%) and even on the December quarter 2010-11. The prior year figures included a number of one-off payments from banks which helped to boost the early collections for 2010-11.

Import Levies

Import levies are down on budget (-1%) and down on the December quarter 2010-11 (-7%). The variances here are minor and are expected to meet budget expectations in 2010-11.

Withholding Tax

Withholding tax is down on budget (-8%). This was anticipated as banks were provided additional time to file returns to MFEM. It is anticipated the first two quarters will reflect transitional arrangements on the tax.

Departure Tax

Departure tax is up on budget (11%) and up on the December quarter 2010-11 (10%) due to higher than budgeted visitor numbers have been higher than anticipated at the time of the 2010/11 Budget.

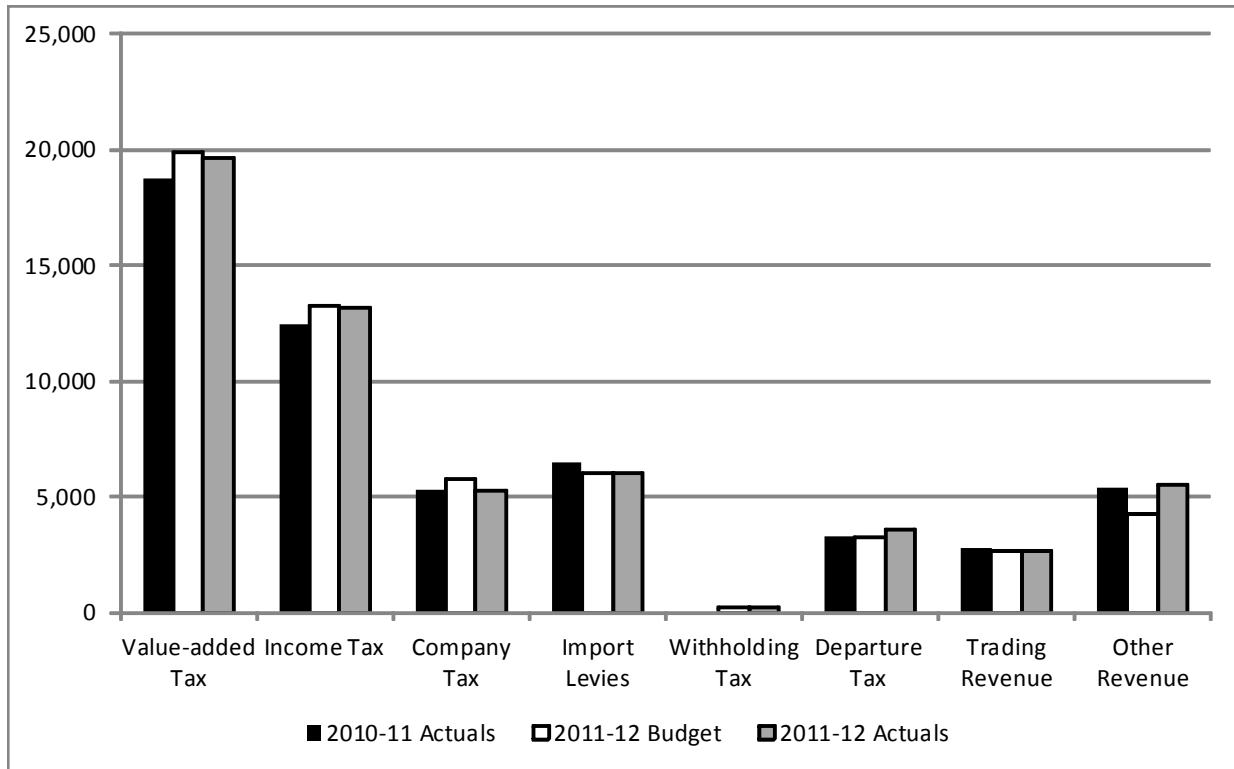
Trading Revenue

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

Other Crown Revenue

Other Crown Revenue is up on budget (31%) and up on the December quarter 2010-11 (2%). The increase against budget is predominantly due increased fishing licence revenue.

Figure 1
General Government Revenue – December 2011 YTD (\$000)



General Government Operating Expenditure Analysis

Payments on Behalf of Crown (POBOCs)

Table 5
Payments on Behalf of Crown – December 2011 YTD

	Budget	Actuals	Variance	
	('000)	('000)	('000)	Per cent
Air New Zealand Underwrite	4,750	5,460	-710	-15%
Apex (Toa) Profit Support	778	573	205	26%
Other POBOCs	14,672	13,937	736	5%
Total POBOCs	20,201	19,970	231	1%

Total POBOCs are expected to increase beyond the budget for 2011-12 due to a significant increase in the Air New Zealand underwrite. This increase is predominantly driven by increasing fuel costs in the aviation industry, and lower than expected revenue from ticket sales.

Other POBOCs are anticipated to be on budget. The favourable variance is due mainly to timing issues. Some significant favourable POBOCs include:

- International Subscriptions \$224,000 ; and
- Tongareva Lease \$165,000.

Appropriation Analysis

Table 6
Appropriation Analysis – December 2011 YTD

	2010-11 Actuals	2011-12 Budget	2011-12 Actuals	Var vs 2010-11	% Var	Variance vs Budget	% Var
Personnel	20,472	22,117	21,667	1,195	6%	-450	-2%
Operating	9,033	9,148	8,024	-1,009	-11%	-1,124	-12%
Depreciation	1,380	1,619	1,350	-30	-2%	-269	-17%
Trading Revenue	2,818	2,639	2,650	168	6%	-11	0%
Net Appropriation	28,066	30,245	28,391	325	1%	-1,854	-6%

After six months of the financial year, there is an overall saving of six per cent in the Net Appropriations of the Crown-funded agencies. This amounts to approximately \$1,854,000.

A number of agencies are well below their appropriation budgets to the end of December 2011. Some variances are timing issues while others have a more permanent cause (discussed below).

Personnel

Personnel expenditure is down on budget (2%) and up from the December quarter 2010-11 (-6%). The contributing factors to the budget variance are a number of vacancies which exist across the Public Sector.

The variance against the prior year is due to the delay in the passage of the 2010-11 budget. Many agencies held off recruiting and filling positions until confirmation of the passage of the budget, this has been offset by a number of Ministries re-aligning their staff against the appropriate bands.

Operating

Operating expenditure is down on budget (12%) and down from the December quarter 2010-11 (11%). The savings in operating expenditure are driven by some phasing issues. Some of the major contributors to this include:

- Ministry of Finance and Economic management (\$44,000) has professional services which will be utilised in coming months to pay for the extra cost of fuel associated with the delivery of census forms across all of the Cook Islands;
- Ministry of Education (\$88,000) have expected school costs (allowances, texts, stationery) which will be incurred in January and February; and
- Cook Islands Tourism (\$740,000) has marketing programs and initiatives which will be implemented shortly.

Depreciation

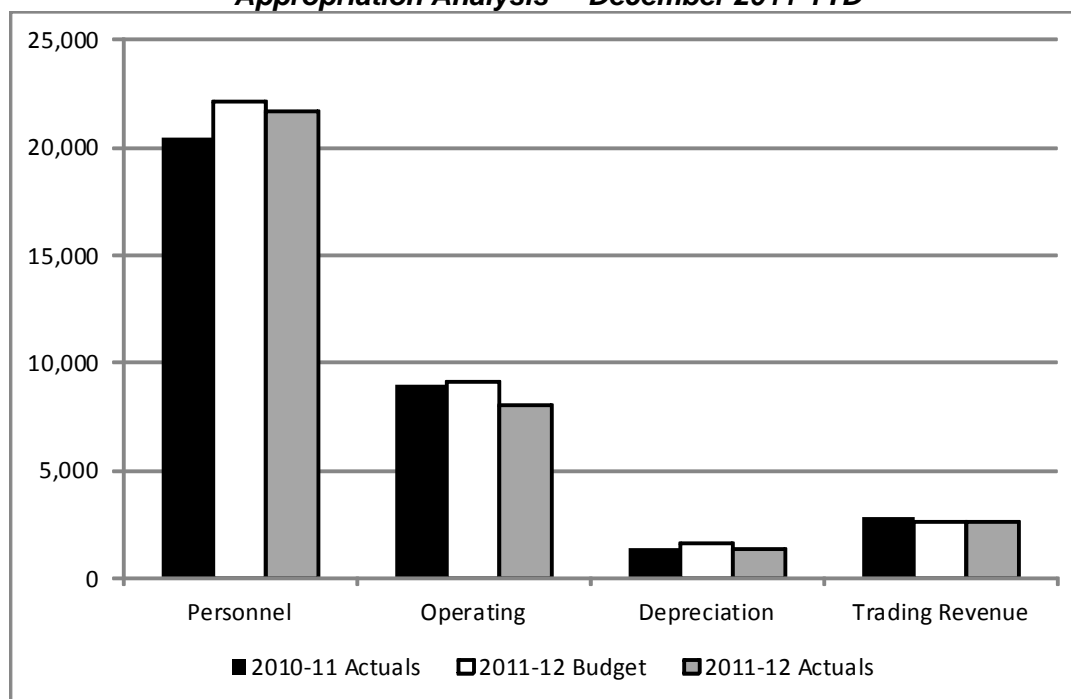
Depreciation expenditure is down on budget (17%) and down from the December quarter 2010-11 (2%), due to the delay in receiving and finalising some capital projects.

It should be noted that whilst depreciation is expensed according to the accrual principles of accounting and appropriated these funds are not provided to Ministries.

Trading Revenue

Trading revenue is on budget and down from the December quarter 2010-11 (-6%). The major contributing factor to the decrease on the previous year is the Outer Island residents are reducing their energy consumption which has resulted in lower revenue for the Island Administrations. The budget for the 2011-12 financial year factored this in to a degree and as such, the General Government's revenue is able to match the budget to this point.

Figure 2
Appropriation Analysis – December 2011 YTD



Other General Government Operating Expenditure

Table 7
Other General Government Operating Expenditure

	Budget ('000)	Actuals ('000)	Variance ('000)	Per cent
Airport Authority	852	1,024	-172	-20%
Bank of Cook Islands	91	0	91	100%
Te Aponga Uira	175	0	175	100%
Debt Servicing Interest	486	378	108	22%
Building Maintenance	650	1,002	-352	-54%
Crown Infrastructure Depreciatio	1,235	1,235	0	0%
Disaster/Contingency	50	90	-40	-80%
Total Other Operating	3,538	3,729	-191	-5%

Other operating costs for the General Government are 5% over what was budgeted as at December 2011.

- The Airport Authority variance is due to a phasing issue in funding and is expected to diminish over the balance of the financial year.
- The unfavourable variance in building maintenance costs of \$352,000 are due to the full payment of insurance premiums earlier in the financial year. As the year progresses, the variance will reduce.

- The \$40,000 unfavourable variance in the Contingency Fund is due to two state funerals and fuel assistance for the Manihiki Island Administration. The budget is apportioned evenly over the year and it is expected the variance will reduce during the year.
- The Bank of the Cook Islands and Te Aponga Uira expenses are budgeted evenly across the financial year. The payment relating to these items are to support each entity in providing social obligations. These expense have not been incurred by the General Government as Government has not yet confirmed the latest costs.

Funds Management

Crown Borrowings

Total gross borrowings decreased by \$11,056,000 from \$93,138,000 to \$82,082,000 in the December 2011 quarter.

- This was due primarily to the updating of the foreign exchange conversions (\$9,786,000) on foreign-sourced loans. A small portion of the change related to the payments of principal (\$1,268,000).
- In the prior report (Sep 11) the rates were as at 30 June 2009. The December 2011 figures displayed above have been updated with rates as at 30 December 2011.

Net borrowings of the Crown are \$63,006,000. These are made up of gross borrowing of \$82,082,000 offset by 19,706,000 in loan payment reserves.

- Net borrowings decreased in December 2011 by \$11,056,000 to due to the foreign exchange updates discussed above.

Table 8
General Government Borrowings – December 2011 YTD

Loan	Source (Currency)	Original Loan Amount in Currency ('000)	Loan Start Date	Loan Finalisation Date	Sep 11 Balance* ('000)	Principal Payments ('000)	FOREX Adjustment ('000)	Dec 11 Balance ('000)	Change Dec 11 Qtr ('000)
Economic Restructuring Loan	ADB (SDR)	3,430	Sep-96	Sep-36	6,754	-60	-846	5,848	-906
Cyclone Emergency Rehab Loan	ADB (SDR)	1,895	Jun-05	Jun-45	1,129	-10	-141	978	-151
3rd CIDB Loan (1380)	ADB (SDR)	1,538	Jan-96	Sep-35	3,093	-28	-415	2,650	-443
CIDB Loan (567)	ADB (USD)	1,500	Jul-82	Apr-22	1,004	-39	-122	842	-161
2nd CIDB Loan (1155)	ADB (SDR)	939	Mar-92	Dec-31	1,752	-19	-233	1,500	-252
CIDB Multi-Project Loan (849)	ADB (SDR)	2,067	Dec-87	Aug-27	3,093	-73	-368	2,652	-441
TCI Emergency Loan	ADB (SDR)	291	Aug-92	Jun-32	593	-6	-79	508	-85
Multi Project Loan (461)	ADB (USD)	1,000	Nov-80	Aug-20	1,164	-49	-129	986	-178
Pearl Loan (1309)	ADB (SDR)	336	Dec-94	Aug-34	608	-6	-75	526	-81
TCI Loan (1031)	ADB (SDR)	3,541	Oct-90	Aug-30	6,992	-140	-832	6,020	-972
Education Loan	ADB (SDR)	1,836	Feb-95	Aug-34	3,703	-33	-463	3,207	-496
Waste Management Loan (1832)	ADB (SDR)	1,695	Dec-01	Jun-33	3,483	-68	-477	2,938	-545
CEAL (2174)	ADB (SDR)	1,895	Jun-05	Jun-45	4,662	0	-985	3,676	-985
Economic Restructuring Loan (2565)	ADB (USD)	10,000	Jan-10	Oct-24	14,092	0	-1,127	12,965	-1,127
Avatiu Port Development (2472)	ADB (USD)	8,630	Sep-09	Nov-33	8,129	0	16	8,145	16
Avatiu Port Development (2473)	ADB (SDR)	4,524	Sep-09	Nov-40	9,243	0	-7	9,236	-7
Caisse Francais Development Loans	France (EUR)	5,413	Jan-99	Sep-18	6,771	-313	-2,213	4,245	-2,526
Import-Export Bank of China	China (CNY)	67,260	Aug-08	Aug-28	15,090	0	-1,290	13,800	-1,290
New Zealand GSF Loan	NZ GSF (NZD)	5,849	Nov-80	Jun-13	1,783	-424	0	1,359	-424
<i>Total Gross Borrowings</i>					93,138	-1,268	-9,786	82,082	-11,056
<i>Total Loans with ADB</i>					69,494			62,678	-6,816
<i>Total Loans with Other Sources</i>					23,644			19,404	-4,239
					93,138			82,082	-11,056
Less Loan Payment Reserves:					19,076	0	0	19,076	0
<i>Net Borrowing by the Government</i>					74,062			63,006	-11,056
Advances to Other Entities:									
Avatiu Port Development					17,372			17,381	9
Bank of the Cook Islands					0			0	0
<i>Total Loans Advanced to Other Entities</i>					17,372			17,381	9

**Note: borrowings figures from Sep 11 are valued as at 30 June 2009 rates*

General Government Cash Reserves

The cash reserve of the General Government, as at December 2011 is \$5,042,000, consisting of \$53,377,000 in cash and term deposits held at local banks offset by \$48,335,000 in committed funds.

The capital carry-forward outlined in Table 9 relates mainly to the Ministry of Infrastructure and Planning.

It should be noted that every time a carry-forward is approved, it will reduce the general cash reserve detailed in Table 9.

Table 9
Cash Reserves – December 2011 YTD

	Sep 11 Qtr ('000)	Dec 11 Qtr ('000)	Change Dec 11 Qtr ('000)
<i>Total Term Deposit at the Bank</i>			
Westpac	14,567	14,978	411
ANZ	14,160	14,189	29
BCI	9,842	9,973	131
ANZ - ADB USD \$10 million	14,237	14,237	-
<i>Total Term Deposit at the Bank</i>	52,805	53,377	571
<i>Committed</i>			
Trust Fund General Reserve	2,935	2,935	-
Disaster Response Trust	200	200	-
Debt/Loan Reserve	19,076	19,076	-
ADB USD \$10 million loan - Project pending	14,237	14,237	-
Trust Account Deposit	3,939	3,939	-
Carry Forward Approved - CAPEX	4,860	4,448	-
Carry Forward Contingency - OPEX	500	500	-
Working Capital	# 3,000	3,000	-
<i>Total Commitment for this year</i>	48,747	48,335	-
<i>Estimated General Cash Reserve</i>	4,058	5,042	984

* - This does not include cash on the Government Operating Bank Account of about \$2 million

- This is a buffer contingency Reserve

Appendix – Key Operating Trends

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

Figure 3
Net Operating Revenue Trends

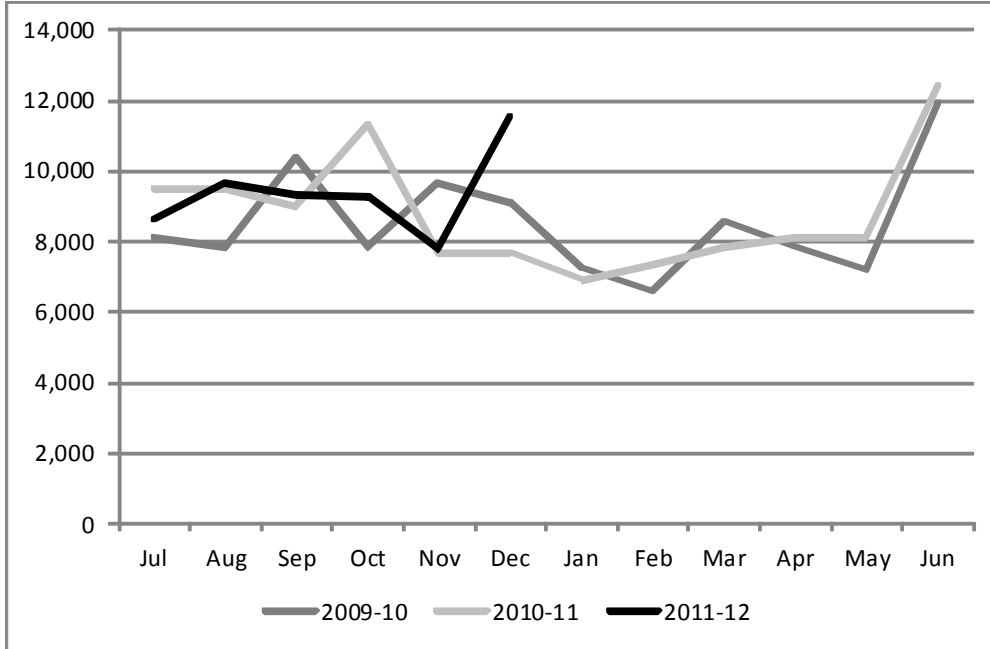
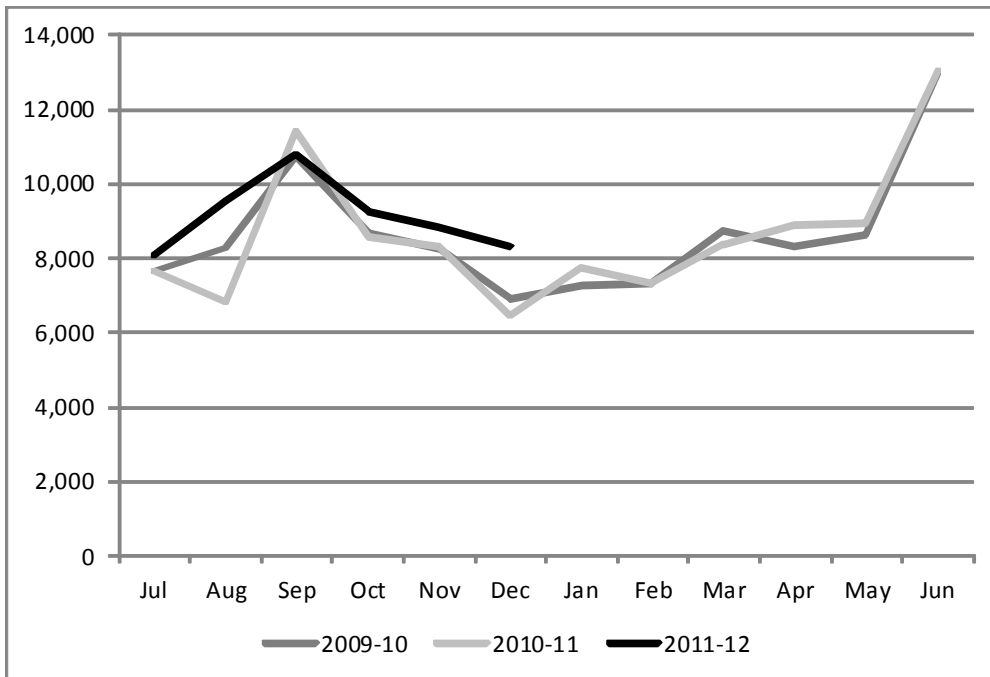


Figure 4
Net Operating Expenditure Trends



Glossary

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

Appropriation

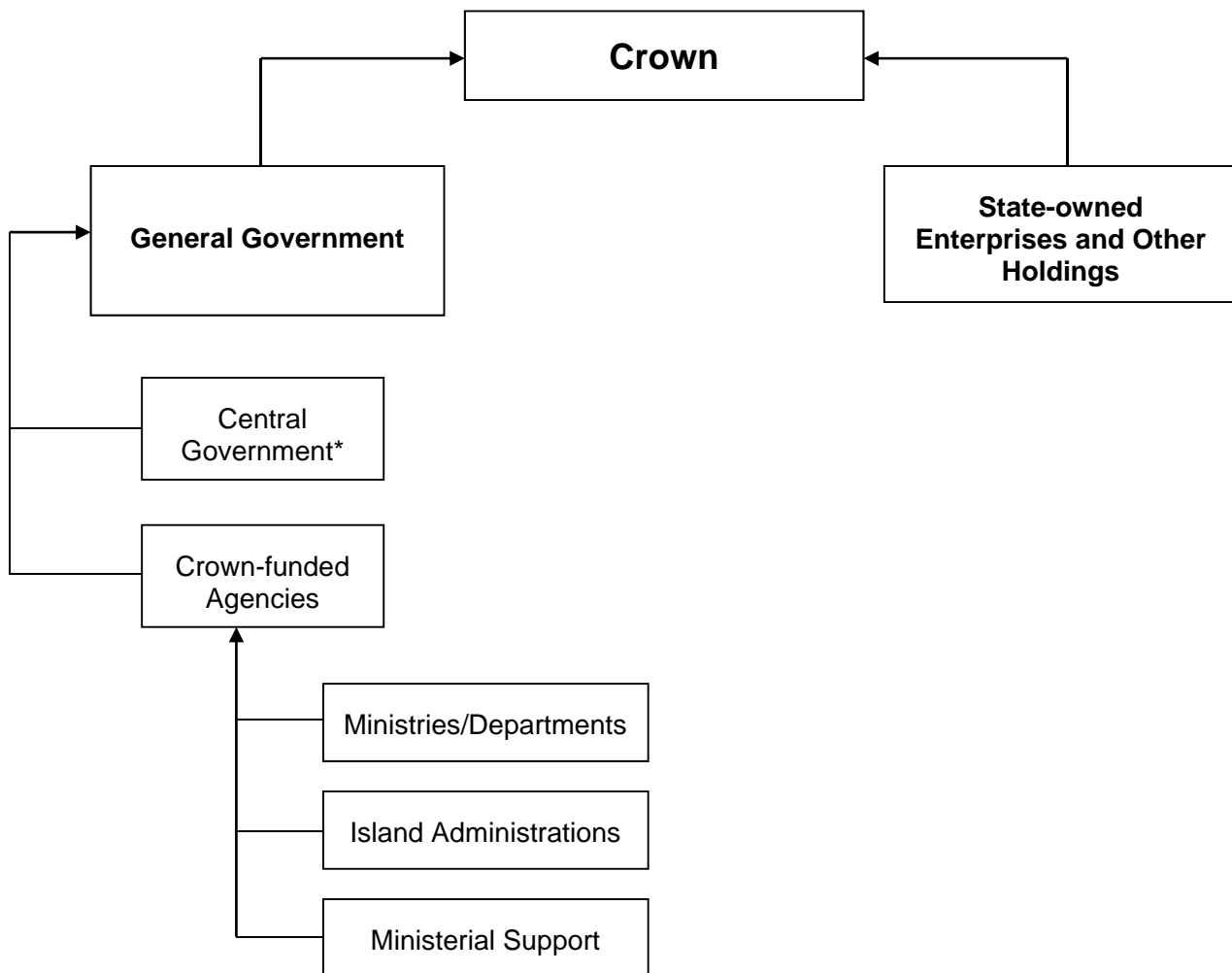
Appropriations are the funding-source provided by the Crown (as a Central Government entity) to allow the recipients (Crown-funded Agencies – see term below) to carry out their proposed operations.

Crown-funded Agencies/Agencies

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

General Government

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



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