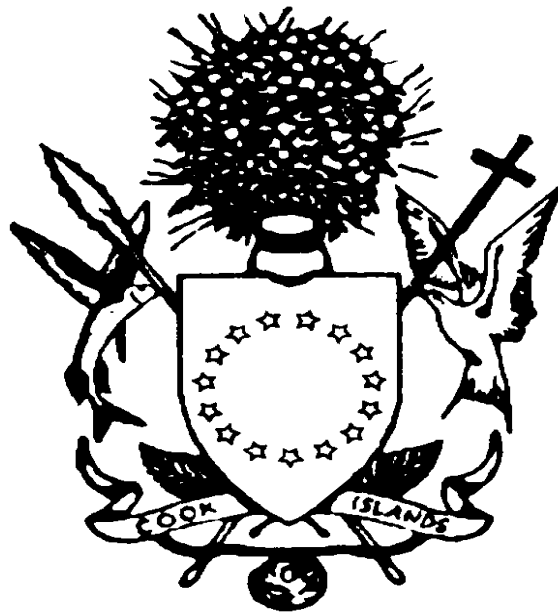

COOK ISLANDS GOVERNMENT
BUDGET ESTIMATES
2015/2016

Book 1
Appropriation Bill
Appropriations and Commentary



Hon. Mark Brown
Minister of Finance
June 2015

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**GOVERNMENT OF THE COOK ISLANDS
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15 June 2015

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the Budget Appropriation 2015/16.

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 2015/16 and the compliance with the *Ministry of Finance and Economic Management Act 1995/96*.

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

Honourable Mark Brown

Minister of Finance



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

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15 June 2015

STATEMENT OF RESPONSIBILITY

The 2015/16 Budget Appropriation Estimates have been produced in accordance with the Ministry of Finance and Economic Management Act 1995/96 (the Act).

The 2015/16 Budget process involved the annual publication of the Budget Policy Statement in February 2015 which was available on the mfem.gov.ck website and the establishment of the Budget Support Group commissioned to review department budget proposals prior to Cabinet consideration and approval.

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

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

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

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

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

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

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

Kia Manuia,

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

Richard Neves
Financial Secretary



PARLIAMENT OF THE COOK ISLANDS

APPROPRIATION BILL

EXPLANATORY NOTE

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

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

Clause 1 provides that, on enactment, the Bill will be called the Appropriation Act 2015.

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 30th June 2016.

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 2015/16 appropriation to actual expenditure incurred in the period 1 July 2015 to 30 June 2016.

Subsections 6-7 limits any expenditure which may be charged to the 2014/15 appropriation to actual expenditure incurred up to 30 June 2015.

Subsection 8 limits any expenditure which may be charged to appropriations from years prior to 2014/15 to actual expenditure incurred up to 30 June 2015.

Hon. Mark Brown



Appropriation Bill 2015

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| Schedule 3 | Borrowing Expenses and Debt Repayment |
| Schedule 4 | Other Expenses |
| | Summary |

An Act to appropriate certain sums of money out of the Cook Islands Government Account to the services of the year ending on the thirtieth day of June 2016 and to appropriate the supplies granted in this period

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

- 1 Title**
This Act is the Appropriation Act 2015.
- 2 Application**
This Act applies to the year ending on the thirtieth day of June 2016 (“the year”).

Appropriation Bill 2015

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 **\$226,215,975**.
- (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 2016.
- (5) Payments that may be charged against any appropriation made by this Act after 30 June 2016 are limited to—
 - (a) self balancing journal entries to correct posting errors during the year ended 30 June 2016; or
 - (b) expenses incurred or payments due during the year ended 30 June 2016 for which a valid invoice was submitted before 30 June 2016, but for which a payment or payments to extinguish that liability in relation to that invoice had not been made by 30 June 2016.
- (6) The appropriations made in the Appropriation Act 2014 will lapse on 30 June 2015.
- (7) Payments that may be charged after 30 June 2015 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 2015; or
 - (b) Expenses incurred or payments due during the year ended 30 June 2015 for which a valid invoice was submitted before 30 June 2015, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2015.
- (8) Where in the period ended 30 June 2015, 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 2015, those appropriations will also lapse on 30 June 2015.
- (9) Payments that may be charged after 30 June 2015 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 2015; or
 - (b) expenses incurred or payments due during the year ended 30 June 2015 for which a valid invoice was submitted before 30 June 2015, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2016.

Appropriation Bill 2015

Section 3(2) and (3)

**Schedule 1
Ministry Appropriations**

| Ministry | Personnel | Operating | Depreciation | Gross Operating Appropriation | Trading Revenue | Net Operating Appropriation | POBOCS | Capital Expenditure | Total Gross Appropriation | Total Net Appropriation |
|--|------------------|------------------|---------------------|--|----------------------------|--|---------------|--------------------------------|--------------------------------------|------------------------------------|
| Agriculture | 868,653 | 124,643 | 5,035 | 998,330 | 90,535 | 907,795 | 0 | 0 | 998,330 | 907,795 |
| Audit (PERCA) | 895,440 | 100,180 | 26,678 | 1,022,298 | 178,700 | 843,598 | 138,100 | 0 | 1,160,398 | 981,698 |
| Crown Law | 493,054 | 214,100 | 5,983 | 713,137 | 0 | 713,137 | 0 | 0 | 713,137 | 713,137 |
| Cultural Development | 545,601 | 193,782 | 96,655 | 836,038 | 175,000 | 661,038 | 200,500 | 0 | 1,036,538 | 861,538 |
| Business Trade and Investment Board | 414,486 | 232,574 | 9,000 | 656,060 | 23,380 | 632,680 | 0 | 0 | 656,060 | 632,680 |
| Education | 10,844,690 | 3,513,301 | 362,364 | 14,720,355 | 0 | 14,720,355 | 4,221,882 | 448,000 | 19,390,237 | 19,390,237 |
| Environment | 790,683 | 158,724 | 30,381 | 979,788 | 35,000 | 944,788 | 50,000 | 0 | 1,029,788 | 994,788 |
| Finance and Economic Management | 2,804,359 | 688,439 | 128,530 | 3,621,328 | 503,500 | 3,117,828 | 18,861,831 | 7,411,000 | 29,894,160 | 29,390,660 |
| Financial Services Development Authority | 235,200 | 177,906 | 9,867 | 422,973 | 0 | 422,973 | 0 | 0 | 422,973 | 422,973 |
| Foreign Affairs | 1,182,596 | 542,151 | 77,726 | 1,802,473 | 20,000 | 1,782,473 | 620,166 | 0 | 2,422,639 | 2,402,639 |
| Head Of State | 185,168 | 34,080 | 15,057 | 234,305 | 0 | 234,305 | 15,000 | 0 | 249,305 | 249,305 |
| Health | 8,337,307 | 2,506,330 | 654,788 | 11,498,425 | 400,000 | 11,098,425 | 1,646,870 | 525,000 | 13,670,295 | 13,270,295 |
| Infrastructure Cook Islands | 1,615,670 | 303,351 | 241,596 | 2,160,617 | 295,626 | 1,864,991 | 645,000 | 9,458,500 | 12,264,117 | 11,968,491 |
| Internal Affairs | 940,109 | 113,085 | 17,264 | 1,070,457 | 6,000 | 1,064,457 | 18,620,788 | 100,000 | 19,791,245 | 19,785,245 |
| Justice | 1,442,361 | 399,371 | 118,047 | 1,959,779 | 500,000 | 1,459,779 | 217,000 | 0 | 2,176,779 | 1,676,779 |
| Marine Resources | 1,135,833 | 345,125 | 57,318 | 1,538,276 | 15,000 | 1,523,276 | 300,000 | 0 | 1,838,276 | 1,823,276 |
| Ombudsman | 210,382 | 63,840 | 5,822 | 280,044 | 0 | 280,044 | 0 | 0 | 280,044 | 280,044 |
| Parliamentary Services | 472,676 | 79,611 | 24,579 | 576,866 | 8,419 | 568,447 | 2,560,446 | 0 | 3,137,312 | 3,128,893 |
| Pearl Authority | 208,493 | 234,688 | 21,916 | 465,097 | 0 | 465,097 | 0 | 0 | 465,097 | 465,097 |
| Police | 2,924,739 | 495,663 | 218,622 | 3,639,024 | 69,360 | 3,569,664 | 255,000 | 0 | 3,894,024 | 3,824,664 |
| Prime Minister's Office | 980,638 | 216,849 | 36,069 | 1,233,556 | 0 | 1,233,556 | 550,000 | 805,000 | 2,588,556 | 2,588,556 |
| Public Service Commission | 1,618,708 | 52,447 | 81,747 | 1,752,902 | 0 | 1,752,902 | 0 | 0 | 1,752,902 | 1,752,902 |
| Tourism Corporation | 1,426,893 | 3,027,553 | 16,000 | 4,470,446 | 352,000 | 4,118,446 | 5,100,000 | 0 | 9,570,446 | 9,218,446 |
| Transport | 486,465 | 135,964 | 39,047 | 661,476 | 36,000 | 625,476 | 56,000 | 0 | 717,476 | 681,476 |
| Cook Islands Investment Corporation | 0 | 0 | 0 | 0 | 0 | 0 | 535,000 | 3,544,000 | 4,079,000 | 4,079,000 |
| Cook Islands Seabed Minerals Authority | 236,801 | 72,139 | 5,060 | 314,000 | 0 | 314,000 | 0 | 0 | 314,000 | 314,000 |
| Capital Funds Committee-Administered by MFEM | 0 | 0 | 45,000 | 45,000 | 0 | 45,000 | 0 | 300,000 | 345,000 | 345,000 |

Appropriation Bill 2015

| Ministry | Personnel | Operating | Depreciation | Gross Operating Appropriation | Trading Revenue | Net Operating Appropriation | POBOCS | Capital Expenditure | Total Gross Appropriation | Total Net Appropriation |
|---|-------------------|-------------------|------------------|-------------------------------|------------------|-----------------------------|-------------------|---------------------|---------------------------|-------------------------|
| Total Ministries | 41,297,003 | 14,025,895 | 2,350,151 | 57,673,048 | 2,708,520 | 54,964,528 | 54,593,584 | 22,591,500 | 134,858,132 | 132,149,612 |
| Ministerial Support | | | | | | | | | | |
| Prime Minister | 293,509 | 109,773 | 11,100 | 414,382 | 0 | 414,382 | 0 | 0 | 414,382 | 414,382 |
| Deputy Prime Minister | 130,000 | 85,372 | 5,628 | 221,000 | 0 | 221,000 | 0 | 0 | 221,000 | 221,000 |
| Minister Mark Brown | 196,455 | 81,613 | 6,802 | 284,870 | 0 | 284,870 | 0 | 0 | 284,870 | 284,870 |
| Minister Kiriaua Turepu | 122,907 | 56,931 | 11,162 | 191,000 | 0 | 191,000 | 0 | 0 | 191,000 | 191,000 |
| Minister Nandi Glassie | 101,585 | 78,415 | 12,000 | 192,000 | 0 | 192,000 | 0 | 0 | 192,000 | 192,000 |
| Minister Albert Nicholas | 68,500 | 116,000 | 5,500 | 190,000 | 0 | 190,000 | 0 | 0 | 190,000 | 190,000 |
| Leader Of Opposition | 147,000 | 48,200 | 6,800 | 202,000 | 0 | 202,000 | 0 | 0 | 202,000 | 202,000 |
| Total Ministerial Support Offices | 1,059,956 | 576,304 | 58,992 | 1,695,252 | 0 | 1,695,252 | 0 | 0 | 1,695,252 | 1,695,252 |
| Outer Islands | | | | | | | | | | |
| Aitutaki | 1,078,767 | 491,578 | 143,884 | 1,714,229 | 48,250 | 1,665,979 | 0 | 931,000 | 2,645,229 | 2,596,979 |
| Autitaki Power Supply | 254,316 | 1,608,228 | 348,789 | 2,211,333 | 1,900,943 | 310,390 | 0 | 0 | 2,211,333 | 310,390 |
| Atiu | 671,621 | 404,678 | 138,561 | 1,214,860 | 224,318 | 990,542 | 0 | 12,000 | 1,226,860 | 1,002,542 |
| Mangaia | 783,799 | 539,982 | 204,700 | 1,528,481 | 301,000 | 1,227,481 | 0 | 12,000 | 1,540,481 | 1,239,481 |
| Manihiki | 608,465 | 173,741 | 92,199 | 874,406 | 136,300 | 738,106 | 0 | 10,000 | 884,406 | 748,106 |
| Mauke | 623,522 | 206,471 | 80,877 | 910,870 | 113,853 | 797,017 | 0 | 10,000 | 920,870 | 807,017 |
| Mitiaro | 475,163 | 66,586 | 55,200 | 596,948 | 58,899 | 538,049 | 0 | 8,000 | 604,948 | 546,049 |
| Palmerston | 250,130 | 65,614 | 42,000 | 357,743 | 20,599 | 337,144 | 0 | 10,000 | 367,743 | 347,144 |
| Penrhyn | 351,717 | 205,023 | 52,407 | 609,146 | 83,904 | 525,242 | 0 | 12,000 | 621,146 | 537,242 |
| Pukapuka-Nassau | 701,990 | 146,452 | 140,552 | 988,994 | 73,695 | 915,299 | 0 | 12,000 | 1,000,994 | 927,299 |
| Rakahanga | 384,960 | 24,285 | 37,829 | 447,074 | 49,336 | 397,738 | 0 | 8,000 | 455,074 | 405,738 |
| Outer Islands Capital Fund- Administered by MFEM | 0 | 0 | 27,500 | 27,500 | 0 | 27,500 | 0 | 0 | 27,500 | 27,500 |
| Total Outer Islands | 6,184,448 | 3,932,640 | 1,364,497 | 11,481,585 | 3,011,097 | 8,470,488 | 0 | 1,025,000 | 12,506,585 | 9,495,488 |
| Gross Total | 48,541,407 | 18,534,838 | 3,773,640 | 70,849,885 | 5,719,617 | 65,130,268 | 54,593,584 | 23,616,500 | 149,059,969 | 143,340,352 |

Appropriation Bill 2015

Schedule 2 Benefits and Other Unrequited Expenses

| Category of Benefit | Budget Estimate | Budget Estimate | Variance |
|---|-------------------|-------------------|----------------|
| | 2014/15 | 2015/16 | |
| Welfare Payments | 16,541,348 | 16,967,788 | 426,440 |
| Parliamentary Superannuation | 180,000 | 180,000 | 0 |
| Total Benefits and Other Unrequited Expenses | 16,721,348 | 17,147,788 | 426,440 |

Schedule 3 Borrowing Expenses and Debt Repayment

| | Budget Estimate | Budget Estimate | Variance |
|--|------------------|------------------|------------------|
| | 2014/15 | 2015/16 | |
| Gross Debt Servicing (see Schedule 10) | 5,424,736 | 4,676,468 | - 748,268 |
| Total Borrowing Expenses and Debt Repayment | 5,424,736 | 4,676,468 | - 748,268 |

Schedule 4 Other Expenses

| Category of Expense | Budget Estimate | Budget Estimate | Variance |
|--|-------------------|-------------------|--------------------|
| | 2014/15 | 2015/16 | |
| Airport Authority | 2,047,997 | 2,047,997 | 0 |
| Bank of the Cook Islands | 181,000 | 120,000 | -61,000 |
| Te Aponga Uira | 350,000 | 380,000 | 30,000 |
| Ports Authority | 0 | 110,099 | 110,099 |
| Asset Management (CIIC) | 1,800,000 | 1,798,000 | -2,000 |
| Contingency Funds - Capital Expenditure | 50,000 | 50,000 | 0 |
| Contingency Funds - Operating | 100,000 | 100,000 | 0 |
| Crown Infrastructure Depreciation | 2,920,397 | 2,920,397 | 0 |
| Concessional Loan to Vanilla Farmers (BCI) | 0 | 150,000 | 150,000 |
| Cook Islands Primary Schools 50 year Saver | 0 | 230,000 | 230,000 |
| Public Sector Strengthening | 0 | 672,000 | 672,000 |
| Expenditure of ADB Loan | 3,245,000 | 3,245,000 | 0 |
| Expenditure of Chinese Loans (TMV) | 6,452,000 | 6,240,000 | -212,000 |
| Overseas Development Assistance | 63,693,150 | 49,115,200 | -14,577,950 |
| ADB Share Capital | 26,600 | 0 | -26,600 |
| Transfer to Emergency Response Trust Fund | 400,000 | 50,000 | -350,000 |
| Transfer to Reserve Trust Fund | 506,445 | 514,570 | 8,125 |
| Depreciation Contingency Fund | 3,100,000 | 2,490,000 | -610,000 |
| Debt Interest Contribution to LRF | 2,227,247 | 2,246,275 | 19,028 |
| Total Other Expenses | 87,099,837 | 72,479,539 | -14,620,298 |

Summary

| Category of Payment | Budget Estimate | Budget Estimate | Variance |
|---|--------------------|--------------------|------------------|
| | 2014/15 | 2015/16 | |
| Schedule 1 - Ministry Outputs (Gross), POBOCs and Capital Expenditure (less the POBOCs in Schedule 2) | 114,001,010 | 131,912,181 | 17,911,171 |
| Schedule 2 - Benefits and Other Unrequited Expenses | 16,721,348 | 17,147,788 | 426,440 |
| Schedule 3 - Borrowing Expenses and Debt repayment | 5,424,736 | 4,676,468 | -748,268 |
| Schedule 4 - Other Expenses | 87,099,837 | 72,479,539 | -14,620,298 |
| TOTAL APPROPRIATION | 223,246,931 | 226,215,975 | 2,969,044 |

This Act is administered by the Ministry of Finance and Economic Management.

Printed under the authority of the Cook Islands Parliament—2015.

3 Government Financial Statistics Operating Statement

The Government Financial Statistics (GFS) Operating Statement reflects the financial performance of Government and discusses general trends and revisions of forecasts for operating revenues, operating expenditures and the resultant operating balance. The GFS operating statement encompasses all funds managed at the general government level including the Loan Repayment Fund.

Table 3.1 GFS Operating Statement of the Crown 2015/16 to 2018/19 (\$'000)

| Statement of Government Operations | 2014/15 Forecasts | 2015/16 Forecasts | 2016/17 Forecasts | 2017/18 Forecasts | 2018/19 Forecasts |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| REVENUE | 161,153 | 179,570 | 174,732 | 154,934 | 136,839 |
| Taxes | 101,289 | 102,914 | 103,871 | 104,624 | 106,645 |
| Social contributions | 20 | 44 | 44 | 44 | 44 |
| Grants | 32,428 | 48,415 | 46,060 | 25,664 | 5,547 |
| <i>Current</i> | 8,385 | 20,871 | 17,474 | 17,747 | 3,817 |
| <i>Capital</i> | 24,043 | 27,544 | 28,586 | 7,917 | 1,730 |
| Other revenue | 27,416 | 28,197 | 24,757 | 24,602 | 24,602 |
| EXPENSE | 134,524 | 150,508 | 145,412 | 144,213 | 129,518 |
| Compensation of employees | 49,776 | 52,855 | 52,264 | 52,178 | 49,574 |
| Use of goods and services | 33,277 | 40,063 | 36,124 | 36,207 | 26,963 |
| Depreciation | 9,752 | 9,184 | 11,809 | 11,802 | 11,391 |
| Interest | 2,057 | 2,285 | 2,626 | 2,450 | 2,273 |
| Subsidies | 12,365 | 14,330 | 14,330 | 13,580 | 12,830 |
| Grants | - | - | - | - | - |
| Social benefits | 17,793 | 19,017 | 19,121 | 19,078 | 18,360 |
| Other expense | 9,504 | 12,774 | 9,139 | 8,918 | 8,128 |
| NET OPERATING BALANCE | 26,629 | 29,063 | 29,320 | 10,721 | 7,321 |
| Plus NON CASH APPROPRIATIONS | | | | | |
| Depreciation | 9,752 | 9,184 | 11,809 | 11,802 | 11,391 |
| CASH SURPLUS/(DEFICIT) FROM OPERATING TRANSACTIONS | 36,382 | 38,247 | 41,130 | 22,523 | 18,711 |
| CASH TRANSACTIONS IN NONFINANCIAL ASSETS | | | | | |
| Net Cash Applied to the Acquisition of Fixed Assets | 47,522 | 60,646 | 58,567 | 16,829 | 5,645 |
| Gross transactions in Non-Financial Assets | 57,275 | 69,830 | 70,376 | 28,631 | 17,036 |
| Less Non Cash Transactions in Non-Financial Assets (Depreciation) | (9,752) | (9,184) | (11,809) | (11,802) | (11,391) |
| NET (BORROWING)/LENDING | (11,141) | (22,399) | (17,437) | 5,694 | 13,066 |
| CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS | (9,334) | (16,280) | (9,711) | (4,575) | 3,072 |
| Domestic Transactions | (9,360) | (16,280) | (9,711) | (4,575) | 3,072 |
| Foreign Transactions | 27 | - | - | - | - |
| CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES | (1,956) | (4,977) | (7,555) | 7,866 | 7,664 |
| Domestic Transactions | - | - | - | - | - |
| Foreign Transactions | (1,956) | (4,977) | (7,555) | 7,866 | 7,664 |
| NET CASH FINANCING TRANSACTIONS | (11,290) | (21,257) | (17,266) | 3,291 | 10,736 |
| <i>Statistical discrepancy with financial statements</i> | (149) | 1,142 | 171 | (2,403) | (2,330) |

3.1 GFS Net Operating Balance

The GFS net operating balance is the balance of operating revenues less operating expenditure by the Government and its development partners. The GFS net operating balance in 2015/16 is estimated to be a \$29.1 million.

Going forward, changes in expenditure and revenue estimates are predicted to result in a \$29.3 million operating balance in 2016/17, \$10.7 million in 2017/18, and \$7.3 million in 2018/19.

3.2 GFS Operating Revenue

Operating revenues are made up of taxation receipts (63 per cent), grants from other governments (27 per cent) and other revenues, which include agency trading revenues, interest and dividend receipts (10 per cent). These revenue streams are used to finance the on-going operational expenditure of government, with surpluses used for investing activities such as infrastructure development projects (where apparent).

At the time of the HYEPU published in December 2014, GFS Operating revenues were estimated to tally to \$158.1 million, of which \$110.2 million was expected to be collected in taxes for 2015/16.

Since December 2014, total movements in operating revenue have resulted in a downward revision of operating revenues by \$2.1 million to \$189.4 million, due to both parameter and policy decisions.

For 2015/16, tax revenue is anticipated to be \$1.9 million lower than previously forecast, due to adjustments to indirect taxation include an increase of \$4.9 million to fisheries revenue from fisheries activities in which the Cook Islands Government has recently settled on agreed amounts with two fishing vessels which have infringed in Cook Islands waters and the sale of additional catch days. The actual for 2013/14 and estimates for 2014/15 reflect actual monies received that were not reported at the previous update. Total fines received by MFEM in 2014/15 amounted to \$1.225 million. Income tax is expected to reach \$22 million in 2015/16, with company tax falling to around \$10 million.

Company taxes are expected to decrease in 2015/16 due to the continuing write down in some non-performing assets and increased competition within the banking sector.

3.3 GFS Operating Expenditure

Operating expenditure is made up of compensation of employees (34 per cent), use of goods and services (33 per cent), social benefits (12 per cent), subsidies (10 per cent), depreciation (6 per cent), and other expenses including interest expenses (5 per cent).

At the time of the HYEPU published in December 2014, total movements in operating expenditure have resulted in an upward revision of operating expenditure by \$14.8 million to \$149.1 million, due to both parameter and Policy decisions.

Since December 2014, operating expenditures at the time of the HYEPU were estimated at \$136.2 million. These have been revised upwards to reflect an increase of \$14.8 million, predominantly in goods and services which is mainly driven by an increase to recurrent official development assistance (ODA) directed to funding capital projects in 2015/16 and the inclusion of a higher modality partnership with New Zealand to support health, education, internal affairs and tourism.

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

3.4 GFS Non-Operating Items

Cash Transactions in Non Financial Assets outlines the transactions relating to capital, the details of which are outlined in Budget Book 3 (Capital). This spending includes public works, purchase of plant and equipment and investments in ICT. Large increases in the purchase of non-financial assets, mainly in infrastructure (renewable energy, Te Mato Vai, and others) occur in 2015/16 and 2016/17. Total purchases of non-financial assets (excluding depreciation) will rise to an estimated \$60.6 million in 2015/16. This reflects both Cook Island Government funded capital spending and ODA capital spending.

The Net Borrowing/Lending Requirement 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 reserves, a deficit requires borrowings or depletion of reserves. Consistent with the large capital works currently underway, the net borrowing requirement is \$22.4 million in 2015/16. This requirement is serviced by a combination of cash and debt financing, with net cash transactions contributing \$16.3 million and net debt finance (new loans minus repayments) contributing \$5.0 million.

There are some smaller movements not captured in the GFS schedules, with most of these relating to the classification of reserves in the financial schedules.

4 Fiscal Update

4.1 Overview

The Cook Islands fiscal strategy is established in an environment of continued uncertainty in the prospects for the global and regional economy. A conservative approach was adopted in developing the 2015/16 Budget. In the acknowledgement the Cook Islands has a limited economic base, relying heavily on tourism as its main revenue generator, revenues from fishing are now beginning to be increased gradually.

The Government continues to appropriate funding towards underwriting two long haul service routes between Rarotonga and Sydney, and Rarotonga and Los Angeles as a means of diversifying (for both market and seasonality) and increasing the number of tourists coming to the Cook Islands.

The 2015/16 Budget was developed with the aim of supporting growth in a tight economic environment whilst seeking to prioritise and meet the policy intentions outlined in the 2015/16 Budget Policy Statement, which in a year of celebrating 50 years of sovereignty were as follows;

- celebrate our people;
- celebrate our environment;
- celebrate our economy and improve economic productivity; and
- Put in place the means to progress our priorities.

The 2015/16 Budget incorporates expenditure and revenue adjustments in the following categories;

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

The last official update to the financial estimates at in the Half Year Economic and Fiscal Update (HYEFU) in December 2014, it was anticipated that the starting position for the 2015/16 was an underlying operating deficit of \$0.316 million.

After updating the forecasts, and an analysis of actual revenue collected and expenditures spent as at April 2015, the underlying budget balance has improved significantly as result of various factors discussed below.

The Government has produced an underlying operating surplus of \$1.5 million in 2015/16, \$1.1 million in 2016/17, increasing to \$3.0 million in 2017/18 and a larger operating surplus of \$5.6 million in 2018/19.

Table 4.1 Underlying Budget Balance 2014/15 to 2018/19(\$000)

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|--------------|--------------|--------------|--------------|
| | Budget | Forecast | Forecast | Forecast |
| Final Underlying Revenue | 140,315 | 138,197 | 138,790 | 131,292 |
| Final Underlying Expenditure | 138,758 | 137,083 | 135,783 | 125,674 |
| Final Underlying Operating Balance | 1,557 | 1,114 | 3,008 | 5,618 |

In recent months there have been significant changes in revenue predominantly due to decisions taken by the Government.

The key factor in improving the underlying operating surplus for 2015/16 is improvements in fisheries revenue: approximately \$4.8 million from purse seine revenue. In addition, further revenue

of \$3.3 million is anticipated from the sale of circulating currency Cook Islands coins to the local banks. The majority of the seigniorage benefit will be felt in 2015/16 as the coins begin to go into circulation. MFEM will be responsible for delivering the Cook Islands' coinage reform, managing the process of distributing new coins, and withdrawing old coins from circulation.

Table 4.2 Reporting of budget balance 2014/15 to 2018/19 (\$'000)

| Statement of Government Operations | 2015/16 Projected \$'000 | 2016/17 Projected \$'000 | 2017/18 Projected \$'000 | 2018/19 Projected \$'000 |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| NET GFS Operating Balance | 40,057 | 37,767 | 19,135 | 18,152 |
| GFS Revenue | 189,521 | 184,772 | 165,020 | 169,292 |
| Remove ODA Revenue | 49,255 | 46,625 | 26,279 | 5,687 |
| Underlying Revenue | 140,265 | 138,146 | 138,741 | 163,605 |
| GFS Expenditure | 149,413 | 146,954 | 145,835 | 168,626 |
| Remove ODA Revenue | 10,716 | 10,715 | 10,716 | 10,716 |
| Underlying Expenditure | 138,698 | 136,238 | 135,119 | 157,910 |
| FINAL UNDERLYING NET OPERATING BUDGET BALANCE | 1,557 | 1,114 | 3,008 | 5,618 |

In terms of fiscal policy and macroeconomic stability, the Budget 2015/16 reflects the fiscal responsibility principals as outlined in the MFEM Act:

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

4.2 Changes to Revenue

Total underlying operating revenue in 2015/16 is estimated to reach \$140.3 million; this is made up of \$102.9 million in tax revenue and \$37.4 million in non tax revenue. These estimates include the impact of the following policy changes or initiatives previously committed to by Government:

- five per cent indexation of the levies on tobacco, alcohol, and sweetened drinks;
- lowering the lower income tax rate from 18.5 per cent in 2015, to 17.5 per cent from 1 January 2016, and 17 per cent from 1 January 2017;
- reducing the required dividend payout from the Bank of the Cook Islands, to enable it to reduce interest rates; and
- For the 2015 calendar year, a total of 930 fishing days out of the 1,250 days allocated to the Cook Islands have been assigned to purse seine fishing fleets, with an average price per day of \$10,000. The Government has entered into purse seine fishing agreements with three fishing companies.

Table 4.3 Parameter Changes to Tax Revenue (\$'000)

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|----------------------------------|---------------|---------------|------------|-------------|--------------|
| VAT | -909 | -142 | 1,382 | 883 | 1,627 |
| Income tax | 1,233 | 880 | 1,231 | 818 | 1,229 |
| Company tax | -1,122 | -1,819 | -895 | -1,034 | -818 |
| Import levies | -1,320 | -683 | -915 | -1,006 | -630 |
| Withholding tax | 388 | 0 | 0 | 0 | 0 |
| Departure tax | -76 | -137 | -157 | -141 | 134 |
| Total Changes in Taxation | -1,806 | -1,901 | 646 | -480 | 1,541 |

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

Total revenue parameter changes are reflected in the table above. Overall movements indicate that tax revenue will be reduced \$2.1 million in 2015/16.

Income tax is expected to reach \$22.2 million in 2015/16, with company tax declining to around \$10.6 million. Company taxes are expected to decrease in 2015/16 due to the continuing write down in some non-performing assets (which have accumulated over time) and increased competition within the banking sector.

The 15 per cent withholding tax applies only on dividends generated by local companies which are subsequently repatriated overseas. This item cannot be reasonably forecast. As a result, no income is forecast, but some revenue is expected to be collected from future transactions if and when they occur.

VAT is expected to reach over \$50.3 million in 2015/16, a \$1.0 million increase on the estimated outcome for 2014/15 due to the full-year impact of the VAT increase to 15 per cent on 1 April 2014.

Departure Tax is estimated to be \$7.8 million in 2015/16, representing an increase of \$0.1 million on the \$7.7 million estimated outcome for 2014/15. This increase is mainly due to the two per cent increase in departure tax to \$66.30. The two per cent increase is part of the annual indexation of departure tax to maintain the real value of the tax over time. The departure tax is competitive when compared to other destinations and source markets.

Import and excise-equivalent duties are estimated to increase to \$12.0 million in 2015/16, an increase of \$0.9 million on the \$11.0 million estimated outcome for 2014/15. Import levies are expected to grow in line with increased tariffs on tobacco products 1 July 2014, although inventory movements between financial years have complicated accurate forecasting of the revenue profile with suppliers shifting tobacco purchases forward to avoid increased tax rates.

Movements in other revenues:

Fisheries Revenue is estimated to be \$9.8 million in 2015/16. Fisheries revenue is composed of the Fisheries US treaties, Catch Revenue and Fishing Licences which is estimated to total \$10.0 million per annum in the forward years.

- The agreement between Maritime Cook Islands and the Government, under which MCI operates the Cook Islands Ship Registry, provides for a base fee and a turnover fee. The turnover fee becomes payable when the three year moving average of MCI's sales is positive. The growth factor for the forecast period is 5.5 per cent which is based on an approximately 35 per cent increase in the three year moving average of MCI's sales. In addition to these are further revenue adjustments to Interest on loans to subsidiaries from Ports Authority on the subsidiary loan taken with the Crown for the construction of the Avatiu harbour.

- Motor Vehicle Registration has been conservatively increased by \$0.1 million in the 2015/16 estimates due to the increased number of vehicles imported, namely motorbikes with engine capacity over 100cc.

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

4.3 Changes to Expenditures

At the time of the 2014/15 HYEPU published in December 2015, MFEM estimated underlying expenditure for 2015/16 to be \$123.6 million increasing to \$125.1 million for expenditure from the time of the 2014/15 Budget to the 2015/16 Budget excluding ODA.

Changes in expenditure are made up 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.

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

Following recent months there has been significant changes in expenditures predominantly expenditure decisions on behalf of the Government.

Total Expenditure for 2015/16 is estimated to reach \$138.7 million which represents a \$17.9 million increase. The key adjustments are reflected by a \$7.1 million increase in Payments on behalf of the Crown (POBOC) and further adjustments to ministry operating and personnel cost.

It should be noted that assistance from New Zealand is now being incorporated into the budget as higher modality budget support. The budget 2015/16 reflects the possibility of a \$9.1 million in Higher Support Modality Partnership with New Zealand which will go into traditional areas outlined in the Joint Commitment for Development of education, health, social impacts, tourism development and public sector strengthening.

The Budget 2015/16 includes some of the following key expenditure changes:

- The New Zealand Government Superannuation Fund (GSF) employer's contribution has increased from 12.1 to 13.0 per cent. The proposed increase is effective as of 1 July 2015 and approximately 250 Cook Islands government public servants are in this scheme.
- The Natural Disaster Response Fund acts as a source of immediate funding for disaster response in the event that a national emergency is declared. The Government has committed to increasing the value of the fund to \$1 million, and is setting aside \$50,000 a year until the fund reaches appropriate levels.
- The Government has committed to a phased increase in the old age pension (aged 70 and over) from a rate of \$400 a month in 2011 to a rate of \$800 a month. Currently, old age pensioners receive \$625 per month. With the additional funding provided in this Budget, monthly payments will increase by \$10 per month from 1 July 2015, bringing their total receivable amount to \$650 per month.
- Government has joined in partnership with the Bank of Cook Islands to create the Jubilee Jumpstart Savings Scheme for all Cook Islands primary school students for the 50th Anniversary. This will result in a term deposit where \$250,000 will be deposited over a

period of five years at a 4.4 per cent per annum rate compounding monthly and distributed to eligible children at the end of the term.

- A retirement package will be made available for public servants over the age of 60 who voluntarily retire from the Public Service. This will provide an opportunity for Cook Island graduates returning back home and young Cook Islanders who are willing and seeking to make a career in the Public Service.
- The Government has committed to policy regarding shipping routes to the outer islands of the Pa Enea. The estimated expense is to indicate the intended size of the subsidy/underwriting of shipping routes, but will be subject to change depending on the final arrangements.

The Budget also includes technical adjustments to the budget baselines to reflect an update to the Funding Model for the Pa Enea, reclassification, and more up to date data being available. The Budget also includes adjustments to the outer year estimates as result of contracts and projects coming to an end.

Refer to the expenditure chapter in section 8 for a more detailed descriptive of the new initiatives, savings, technical adjustments and other expenditures in 2015/16 and outer years.

4.4 Capital Budget – Cook Islands Government Expenditure

Total spending on capital from all sources in 2014/15 is estimated to reach approximately \$56 million. Spending was lower than budgeted, by \$21.807 million, due to savings (-\$1.0 million) and the deferral of some projects, including:

- Apii Nikao rebuild (-\$6.0 million) and Chinese public building upgrades (-\$0.8 million), due to unexpected delays in the grant funding processes;
- Sanitation Upgrades Programme (-\$2.2 million), and Te Mato Vai intakes and reservoir upgrades (-\$3.1 million) due to further planning and design requirements;
- Pa Enea Agriculture equipment (-\$1.5 million), which is now scheduled to arrive during the first quarter of 2015/16;
- Renewable energy photovoltaic equipment funded by Japanese Government (-\$1.0 million) now scheduled for delivery in 2015/16;
- Acquisition of land in the Pa Enea for solar farms (-\$0.9 million), due to ongoing land negotiations;
- Bridges and drainage improvements (-\$1.5 million), due to reprioritising of funding to cover Project City contract shortfalls; and
- Components of the SRIC-Climate Adaptation Fund, which has now been programmed over 2015/16 and 2016/17 (-\$1.5 million).

Total capital spending in 2015/16 is now estimated to reach \$64.6 million.

Table 4.4 Funding Source 2014/15 to 2018/19 (\$000)

| Funding Source | 2014/15 Budget Estimate | 2014/15 Committed Spend | 2015/16 Budget Estimate | 2016/17 Budget Estimate | 2017/18 Budget Estimate | 2018/19 Budget Estimate | 5-Year Total |
|------------------------|--|--|--|--|--|--|---------------------|
| CIG CAPEX | 21,782 | 17,028 | 23,367 | 17,517 | 8,662 | 3,915 | 70,488 |
| ODA | 46,166 | 32,357 | 26,579 | 28,321 | 7,622 | 1,325 | 96,204 |
| ADB PEEP | 234 | 234 | 0 | 0 | 0 | 0 | 234 |
| Australia Defence | 6,760 | 6,760 | 0 | 0 | 0 | 0 | 6,760 |
| EU | 0 | 0 | 4,500 | 2,760 | 0 | 0 | 7,260 |
| EU - Germany | 210 | 0 | 420 | 210 | 0 | 0 | 630 |
| NZ/A | 17,962 | 13,510 | 7,357 | 10,619 | 3,722 | 1,325 | 36,533 |
| Japan PEC | 1,000 | 0 | 5,231 | 0 | 0 | 0 | 5,231 |
| Denmark, SIDS- DOCK | 708 | 708 | 0 | 0 | 0 | 0 | 708 |
| KOREA | 0 | 236 | 267 | 0 | 0 | 0 | 503 |
| PRC | 15,592 | 9,123 | 6,481 | 8,800 | 3,900 | 0 | 28,304 |
| SPREP | 127 | 127 | 0 | 0 | 0 | 0 | 127 |
| EIB | 600 | 223 | 513 | 0 | 0 | 0 | 736 |
| UN Adaptation fund | 2,913 | 1,436 | 1,750 | 415 | 0 | 0 | 3,601 |
| GEF | 0 | 0 | 0 | 5,517 | 0 | 0 | 5,517 |
| Turkey | 60 | 0 | 60 | 0 | 0 | 0 | 60 |
| LOANS | 9,697 | 9,698 | 15,150 | 3,808 | 0 | 0 | 28,656 |
| EXIM | 6,452 | 6,453 | 8,660 | 563 | 0 | 0 | 15,676 |
| ADB | 3,245 | 0 | 3,245 | 9,735 | 0 | 0 | 12,980 |
| SOE – CIIC | 0 | 0 | 2,747 | 1,300 | 0 | 0 | 4,047 |
| Grand Total | 77,645 | 55,838 | 64,598 | 57,436 | 16,284 | 5,240 | 199,395 |

Cook Islands funded capital expenditure (CIG-CAPEX) will be resourced by the Crown's cash reserves, loans which have already been agreed to as per the Loan Repayment Act. At the outset of 2014/15, CIG-CAPEX for the four-year period, 2014-2018, was estimated at \$59.817 million. Since then, an additional \$11.800 million in Cook Islands funded capital has been added to the plan. Savings and deferred works (beyond 2019) totalling \$5.044 million has reduced the additional budget requirements to \$6.756 million.

Readers should refer to the capital plan in the 2015/16 Budget Book Three for a detailed analysis of all capital projects for 2015/16 to 2018/19. This includes all capital projects funded through the Cook Islands Government, official development assistance, loans and other commitments.

Other Considerations:

Cash Reserves – Seed funding for the Sovereign Wealth Fund

A draft Sovereign Wealth Fund Bill is currently being drafted, with community consultation to occur and legislation is anticipated to be tabled during 2015/16. The main purpose of the Fund is to safe guard any short term revenue gains from the natural capital endowments of the Cook Islands (such as revenues from seabed mineral extraction) to protect the net national assets for future generations. The Fund can also be used to smooth unexpected revenue gains by encouraging a long term accumulation of national savings.

In line with the spirit of the proposed policy, short term gains in revenue from fishing penalties (where a vessel has broken the rules surrounding fisheries management, and therefore degraded the value of the Cook Islands natural assets, namely, the fishery) or seizure of vested assets by the Financial Supervisory Commission (where a stock of private savings is unclaimed after a number of years) these revenues will be held in reserve until such time as the Sovereign Wealth Fund is operational. Once passed by Parliament, the funds held in reserve will be transferred to the new Sovereign Wealth Fund as seed funding.

Table 4.5 Source of Initial Seed Funding for the Cook Islands Sovereign Wealth Fund

| | 2014/15 Estimate | 2015/16 Budget | 2016/17 Projected | 2017/18 Projected | 2018/19 Projected |
|----------------------------|---------------------|-------------------|----------------------|----------------------|----------------------|
| Vested Assets from the FSC | - | - | - | - | - |
| Fishing Penalties | - | - | - | - | - |
| Seabed Mining Revenues | - | - | - | - | - |
| Total Additions | - | - | - | - | - |
| Total Reserve | - | - | - | - | - |

4.5 Budget Policy Statement

The Budget Policy Statement (BPS) 2015/16 was published in February 2015 and standard practise includes this key document forming the basis for decisions which are incorporated into the 2015/16 Budget.

It is important to note that the key intentions of the BPS continue to be supported and implemented through existing budgetary baselines of ministries and crown agencies. In this year of celebration, the broad strategic priorities are to:

- celebrate our people;
- celebrate our environment;
- celebrate our economy and improve economic productivity; and
- Put in place the means to progress our priorities.

In determining these priorities, implicit in our efforts is the recognition of the integration of the social and cultural; economic and environmental pillars of sustainable development.

INTENTIONS FOR BUDGET 2015/16

The 2015/16 Budget includes priorities in the key themes highlighted in the BPS 2015/16. A summary table below demonstrates how Government has allocated its resources to the key priority areas. Each BPS priority is discussed in detail in Chapter 8 of the expenditure section.

Table 4.6 Summary of New Initiatives

| Summary of New Initiatives | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|--|---------------|---------------|---------------|--------------|---------------|
| GFS Contribution Increase | 44 | 44 | 44 | 44 | 176 |
| Technical Adjustments | 21 | -45 | -183 | -183 | -390 |
| Celebrate Our Environment | 295 | 220 | 320 | 220 | 1,055 |
| Improve Economic Productivity | 3,753 | 1,055 | 675 | 675 | 6,158 |
| Improve Service Delivery to the Community | 1,957 | 1,566 | 1,568 | 1,570 | 6,661 |
| Improving International Obligations | 147 | 62 | 62 | 62 | 333 |
| Celebrating our people | -432 | 5 | 5 | 5 | -417 |
| Improving Public Sector Service Productivity | 387 | -523 | -513 | -513 | -1,162 |
| Official Development Assistance | 8,910 | 9,275 | 9,270 | 0 | 27,455 |
| Total Expenditure | 15,082 | 11,659 | 11,248 | 1,880 | 39,869 |

4.6 Fiscal Responsibility Ratios

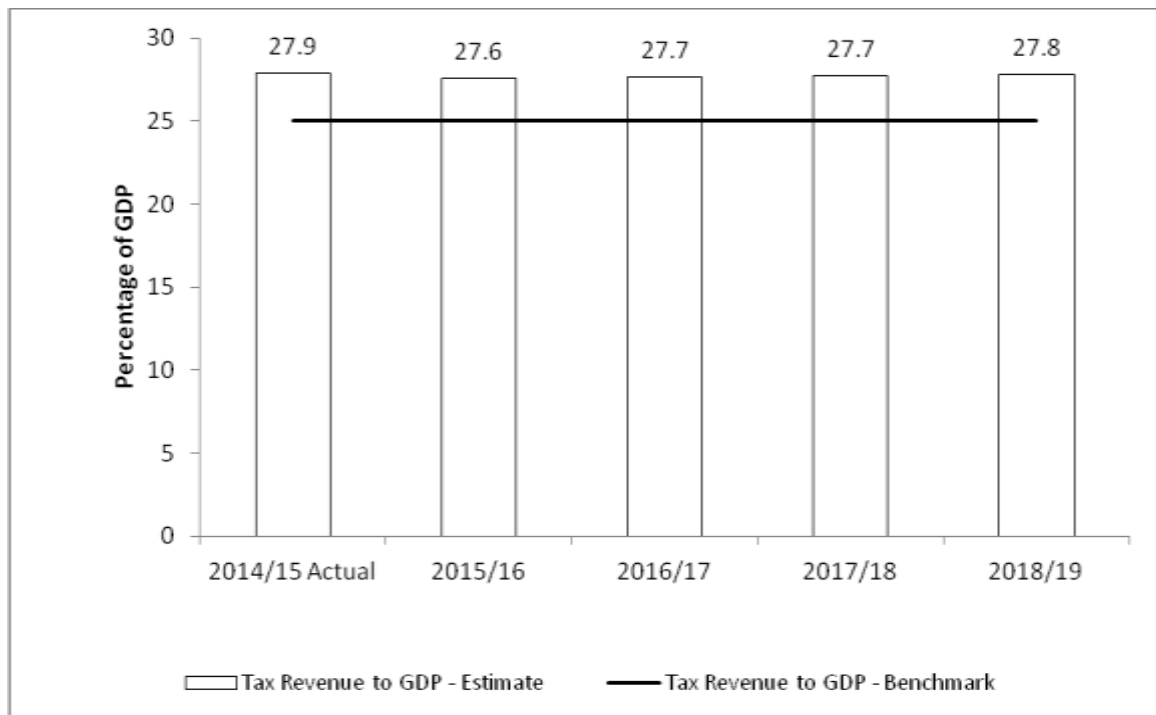
4.6.1 Tax Revenue to GDP

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

Current forecasts estimate that the Government will exceed the benchmark by a small margin to 27.6 percent in 2015/16 and remains around the approximately the same in the forward estimates. The reason for this is the tax reform that the Government endorsed late 2013, which included the tax rate of VAT being increased to 15 per cent and the rate of PAYE being reduced. The Government intends to further lower the income tax rate from 18.5 per cent in 2015, to 17.5 per cent from 1 January 2016, and 17 per cent from 1 January 2017.

There was also a downward revision to the calculation for nominal GDP, which has resulted in an unfavourable movement in the ratio.

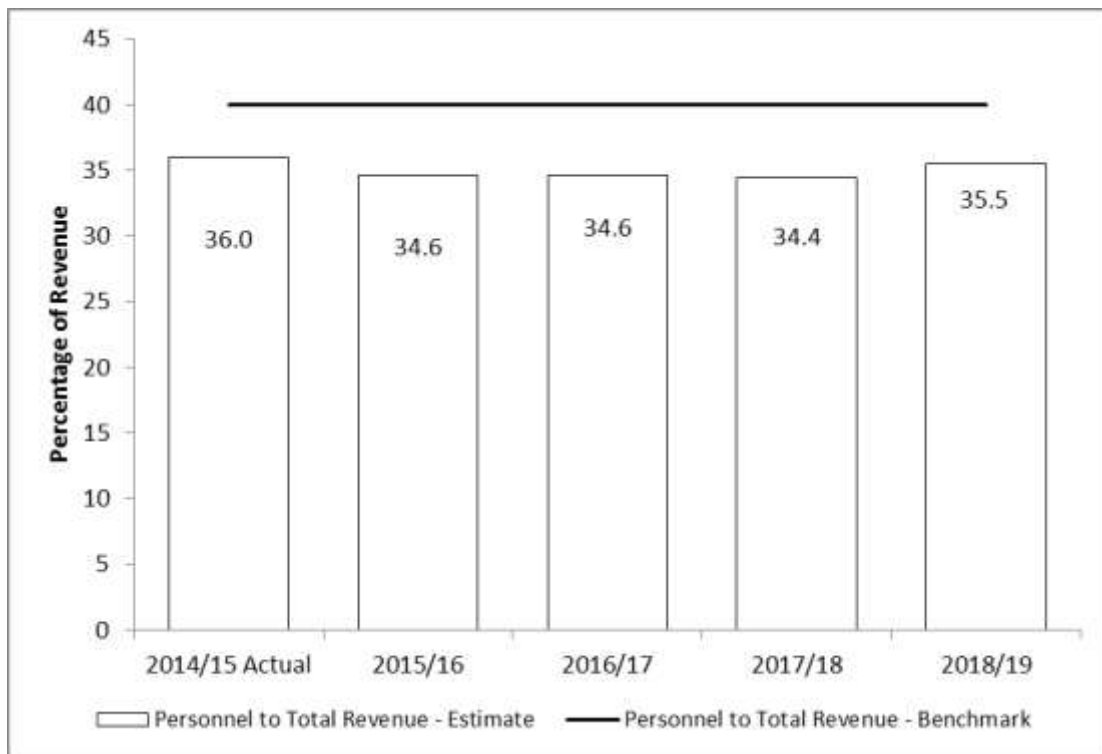
Chart 4.1 Tax Revenue to GDP 2014/15 to 2018/19



4.6.2 Personnel Expenditure to Revenue

This ratio is aimed at controlling the expansion in the size of the public service. The benchmark that current and previous governments agreed to work within is maintaining the expenditure on personnel within 40 per cent of total revenues. As illustrated in the chart below, the Government is expecting to remain within the overall ratio 40 per cent for 2015/16 and outer years. The Budget 2015/16 includes several measures to ensure the level of personnel stays within limits.

Chart 4.2 Personnel Expenditure to Revenue 2014/15 to 2018/19

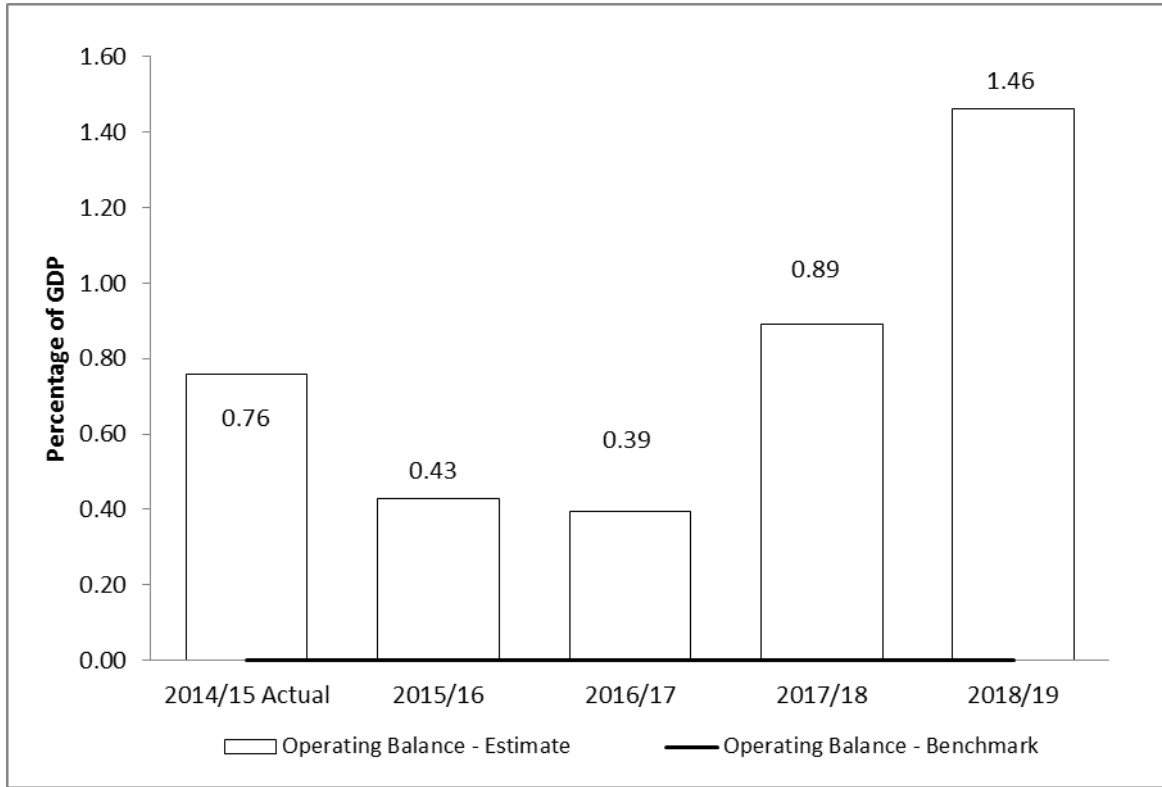


4.6.3 Underlying Net Operating Balance

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. The Government has set a benchmark of running an operating surplus in each Budget. As illustrated below, it is anticipated that Government has an underlying operating surplus of \$1.5 million for 2015/16.

Going forward, changes in expenditure and revenue estimates are predicted to result in underlying surpluses of \$1.5 million in 2015/16, \$1.9 million in 2016/17, \$3.6 million in 2017/18 and \$5.6 million in 2018/19.

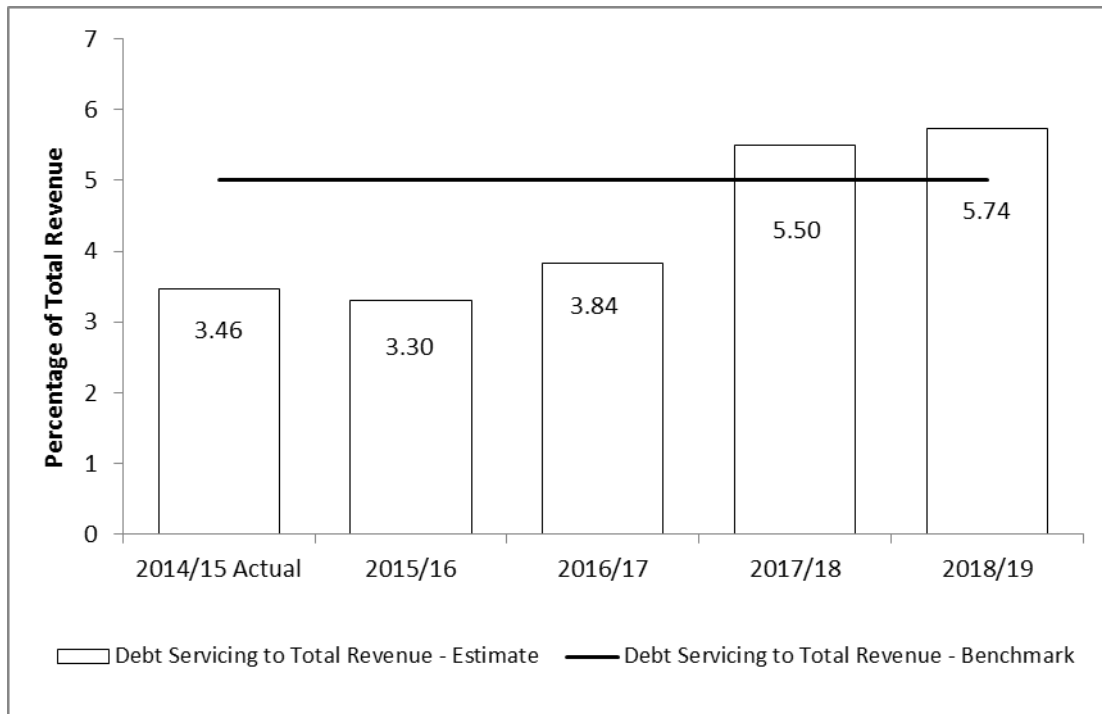
Chart 4.3 Underlying Operating Balance 2014/15 to 2018/19



4.6.4 Net Debt Servicing to Revenue

Debt servicing to total revenue measures the ability of Government to service its debt obligations from revenue collected. Debt servicing includes both interest and principle. The figure shown below represents the debt servicing component of the payment going out of the Loan Repayment Fund. The ratio of debt servicing over the short to medium term is breached in 2017/18. Further details around debt sustainability can be found in the debt chapter (Chapter 10).

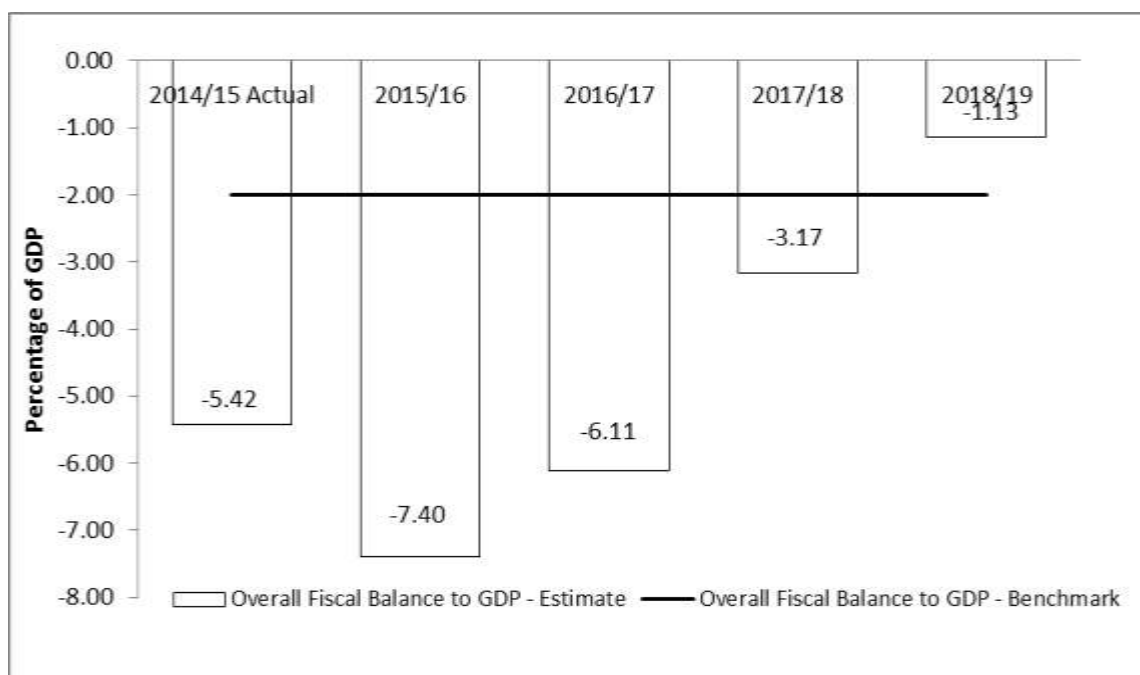
Chart 4.4 Debt Servicing to Revenue 2014/15 to 2018/19



4.6.5 Overall Budget Balance to GDP

The Overall Balance is the operating balance less non-operating expenditure (purchase of assets and repayment of liabilities). Where the budget overall balance is in deficit, it must be serviced through lending or a drawdown of reserve funds. The benchmark is set to be maintained within +/-2 per cent of GDP to ensure that government does not 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. As the chart below illustrates, the Government breaches the overall Budget balance in the short term due to large scale infrastructure projects which are financed by a combination of concessional lending and using cash reserves. This is expected to be a relatively short term trend due to the short term nature of the projects in question, as evidenced by a smaller overall deficit in 2016/17, 2017/18 and 2018/19.

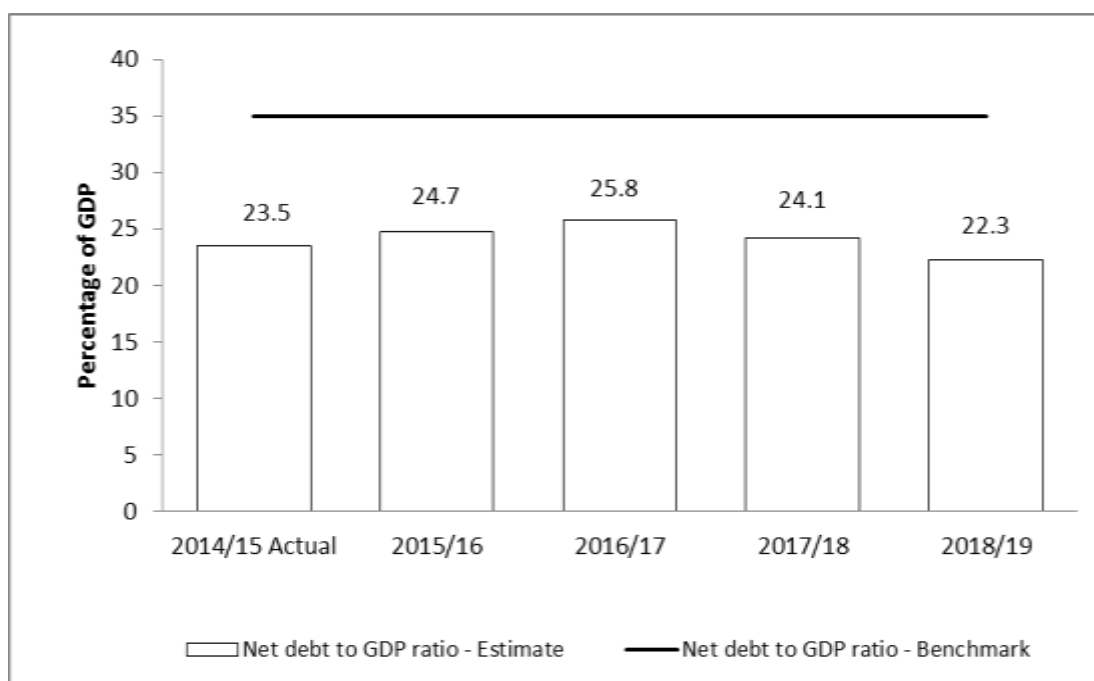
Chart 4.5 Budget Overall Balance to GDP 2014/15 to 2018/19



4.6.6 Net Debt to GDP

Net debt (taken here to be gross debt obligations net of the funds in the LRF) to GDP measures the level of debt relative to national income and is intended to control the overall level of debt taken on by Government including SOE's. The benchmark agreed to by Government is to maintain net debt within 35 per cent of GDP. This would represent total borrowings of \$132 million estimated in 2015/16. The Government is well within the net debt benchmark over the short and medium term.

Chart 4.6 Net Debt to GDP Ratio 2014/15 BPS to 2018/19



The Cook Islands has adopted a conservative approach towards the definition of net debt. The

internationally accepted definition of net debt is total gross debt (all public sector debt and currency on issue) less total financial assets corresponding to those debt instruments (this means like for like, for example cash). Under this definition the Cook Islands net debt position would be around \$71.9 million or 19.2 per cent of GDP in 2015/16.

Table 4.7 Fiscal Indicators Summary

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projection | 2018/19 Projection |
|---|-------------------|-------------------|---------------------|-----------------------|-----------------------|
| Statement of Financial Performance | | | | | |
| Taxation Underlying Revenue (\$m) | 101.3 | 102.9 | 103.9 | 104.6 | 106.6 |
| Social Contributions (\$m) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Underlying Revenue (\$m) | 27.8 | 37.4 | 34.6 | 34.5 | 24.6 |
| Total Operating Underlying Revenue (\$m) | 129.1 | 140.4 | 138.6 | 139.2 | 131.3 |
| Total Underlying Revenue Percentage of GDP (\$m) | 35.5 | 37.6 | 36.9 | 36.9 | 34.2 |
| Tax Underlying Revenue Percentage of GDP (\$m) | 27.9 | 27.6 | 27.7 | 27.7 | 27.8 |
| Personnel (\$m) | 46.5 | 48.5 | 48.0 | 47.9 | 46.7 |
| Percentage of Total Underlying Revenue | 36.0 | 34.6 | 34.6 | 34.4 | 35.5 |
| Total Operating Underlying Expenditure (\$m) | 126.3 | 138.8 | 137.1 | 135.8 | 125.7 |
| Percentage of GDP | 34.8 | 37.2 | 36.5 | 36.0 | 32.7 |
| Percentage of Operating Underlying Revenue | 97.9 | 98.9 | 98.9 | 97.6 | 95.7 |
| Re-appropriation of Previous Years Funds for Capital (\$m) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Underlying Operating Balance (\$m) | 2.76 | 1.59 | 1.48 | 3.37 | 5.62 |
| Percentage of GDP | 0.8 | 0.4 | 0.4 | 0.9 | 1.5 |
| Non Operating Balance (\$m) | 22.4 | 29.2 | 24.4 | 15.3 | 10.0 |
| Underlying Operating Balance surplus/deficit (\$m) * | -19.7 | -27.6 | -22.9 | -12.0 | -4.4 |
| Percentage of GDP | -5.4 | -7.4 | -6.1 | -3.2 | -1.1 |
| Statement of Financial Position (\$m) | | | | | |
| Assets (\$m) | 533.6 | 590.1 | 645.0 | 669.3 | 676.4 |
| Liabilities (\$m) | 145.2 | 148.6 | 148.8 | 144.4 | 136.5 |
| Crown Balance (\$m) | 388.4 | 441.5 | 496.1 | 524.9 | 540.0 |
| Percentage of GDP | -106.9 | -118.4 | -132.2 | -139.1 | -140.7 |
| Statement of Borrowings (\$m) | | | | | |
| Gross Debt end of FY (\$m) | 101.1 | 109.1 | 113.7 | 105.8 | 98.2 |
| Percentage of GDP | 27.8 | 29.3 | 30.3 | 28.0 | 25.6 |
| Net Crown Debt, end of FY (\$m) | 85.3 | 92.2 | 96.6 | 91.1 | 85.5 |
| Percentage of GDP | 23.5 | 24.7 | 25.8 | 24.1 | 22.3 |
| Loan Repayment Reserves Held (\$m) | 15.8 | 16.9 | 17.1 | 14.7 | 12.7 |
| Development Partner Support (\$m) | | | | | |
| Grants (\$m) | 32.4 | 49.1 | 46.5 | 24.4 | 24.4 |
| Percentage of GDP | 8.9 | 13.2 | 12.4 | 6.5 | 6.4 |
| Net Debt Servicing (\$m) | 4.5 | 4.6 | 5.3 | 7.7 | 7.5 |
| Percentage of Total Underlying Revenue | 3.5 | 3.3 | 3.8 | 5.5 | 5.7 |
| Memo item: Nominal GDP (\$m) | 363.2 | 372.8 | 375.3 | 377.4 | 383.8 |

4.7 Assumptions Underlying the Fiscal Projections

Various assumptions must be made to forecast government's fiscal performance and position in the outer years:

- Operating revenues are forecast on the basis of recent trends in economic activity and other considerations such as one-off payments or known upcoming activity (such as fishing agreements). Taxes are linked to the economic activity to which they relate: VAT, income and company tax are linked to general economic growth; import levies are linked to the forecast movements in imported products; and departure tax is linked to the forecast numbers of tourist arrivals. Withholding taxes (on repatriated profits) is not forecast, nor are the FSC vested assets, unless known transactions that would result in revenue to the Crown.
- Nominal GDP, which is the key indicator for future tax projections, is expected to grow by:
 - 0.5 per cent in 2014/15
 - 2.6 per cent in 2015/16
 - 0.7 per cent in 2016/17
 - 0.6 per cent in 2017/18
 - 1.7 per cent in 2018/19
- The general model used to forecast nominal economic growth is based on the expenditure method of national accounting and uses estimates of public final demand (including aid assistance), net merchandise trade, total tourism spending, domestic investment, and domestic consumption.
- GDP data is updated to June 2014 (provisional estimates) and trade data is updated to the September quarter 2014. The data sets used were those available as at 10 April 2015.
- Tourism expenditure is the largest single component of the forecasts, and is based on:
 - An average stay of 7.7 days for New Zealand arrivals, 8.0 for Australia, 7.7 for USA, 9.3 for Canada, 8.6 for the UK and Europe, 6.2 for Asia, and 7.9 for other – an overall average of around 8 days depending on the composition of total arrivals in any given month and the time of year. This data was collected from the Customs and Immigration database of arrivals and departures, which uses the passport numbers of visitors to determine how long an individual passport holder is in the country.
- Average visitor spend of NZD 200-230.00 per day, which is estimated from quarterly visitor surveys and a CPI indexation of a basket of tourist services.
- Public final demand is the second largest single item and is estimated based on the personnel and operating appropriation, as well as the capital expenditure profile, for both Government and aid spending. A realisation (or completion) rate is applied to capital projects to allow for project slippage from one year to the next. This rate sits between 30 per cent and 50 per cent, depending on the year.
- Government expenditure is based on the operating and capital estimates for 2014/15, Appropriation for 2015/16, and existing government policy.
- Growth in prices measured through movements in the Consumer Price Index are assumed to remain around the historical yearly averages, with a small increase in inflation in 2014/15 due to the 2.5 percentage point increase to the VAT.
- Exchange rates are provided by the service provider for the Loan Reserve Fund, Bancorp, and are outlined in the Debt Chapter.

5 Economic Update

5.1 Introduction

The Cook Islands is a small open economy largely dependent on tourism, its natural comparative advantage. Consumer preferences and economic growth in the major tourist source market of New Zealand (and to a lesser extent, Australia) has a major impact on domestic economic performance. Any international developments affecting New Zealand will eventually impact on the Cook Islands. Not only is New Zealand the Cook Islands largest trading partner and source of tourism, but changes in the New Zealand dollar will also impact on domestic markets and inflation.

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

Increasingly, large capital works have also become a driver for economic growth, and this is the case for 2015/16. The completion of these projects will present challenges for maintaining the economic stimulus of construction activity in future years. Changes in project implementation timelines have caused large swings in the GDP forecasts. After declining in 2014/15, tourism arrivals are forecast to slow dramatically from previous growth rates, due largely to Australian tourists being drawn to other competing destinations, particularly Asia, and New Zealand tourists being drawn to other Pacific destinations.

The reliance on imports to support local consumption makes the Cook Islands extremely vulnerable to external price shocks – particularly in regards to fuel, as transport and energy costs affect the price of almost all goods. The price of transport remains the key risk to inflation. The reliance on imports to support household consumption is offset somewhat by lower household costs (in terms of rents and utilities) resulting in a cost of living that is roughly comparable to New Zealand despite incomes being much lower.

Despite the large imbalance in goods trade, the Cook Islands enjoys a large current account surplus owing to the significant contribution of estimated tourism receipts (which are counted as a service export).

Growth prospects for the global economy remain mixed. The outlook for advanced economies has improved relative to 2014 with low interest rates and oil prices providing stimulus for economic activity, particularly in the US. Growth expectations for emerging market and developing economies remain subdued due to a range of factors, including a need for structural reforms and slower growth out of China.

The IMF's World Economic Outlook in April estimates that the world economy will grow 3.5 per cent in 2015, rising to 3.8 per cent in 2016. Developing economies are still expected to account for more than 70 per cent of global growth in 2015

The impacts of the lower global oil price have begun to enter the Cook Islands retail markets, but it is still unclear what the impacts will be on production and consumer prices (notably, the impacts on shipping costs).

Australia and New Zealand have maintained their official growth estimates for 2015/16 to 2½ per cent and 3¼ per cent respectively. While Australia's economic and employment growth estimates

are similar to the last 12 months, New Zealand's growth outlook has strengthened, with growth and employment outcomes improving accordingly. Australian arrival figures into the Cook Islands have been weaker than anticipated, likely due to below trend economic growth in Australia, a depreciating Australian dollar, and price competition into Asian destinations. There has also been much stronger competition for outbound tourism to other Pacific destinations such as Fiji and Hawaii.

Since the 2014/15 HYEPU, total tourism arrivals for November through to March performed as expected, but the composition was not in line with forecasts. Notably, Australian arrivals were below expectations and have been revised accordingly. This has led to a small downward revision of the 2014/15 arrivals forecast to a 1.5 per cent contraction (down from a 1 per cent contraction estimated at the 2014/15 HYEPU). Tourism growth in 2015/16 is expected to remain relatively flat, with just 0.1 per cent growth in total arrivals due to weak New Zealand growth being almost fully offset by declines in Australian and European arrivals.

Real GDP is forecast to grow by 1.4 per cent in 2015/16, driven largely by shifts in public capital spending (notably Te Mato Vai and the Southern Group Renewable Energy Project) and weak growth in tourism. With the completion of these capital projects and an absence of any new ones, the economy is forecast to contract by an estimated 1.6 per cent in 2016/17, and a further 1.9 per cent in 2017/18. The economy is then forecast to contract 1.4 per cent in 2018/19, due largely to further falls in aid spending from donors.

Nominal GDP growth is estimated to increase by 0.5 per cent in 2014/15 due to further slippage of some capital investment activity into 2015/16 and below trend tourism growth. Capital projects support a growth rate of 2.6 per cent in 2015/16, with tourism starting to show signs of recovery. However, this estimate may be revised significantly if capital implementation schedules are not met or are adjusted (particularly for Te Mato Vai and the Southern Group Renewable Energy Project).

Inflation as measured by the Cook Islands Consumer Price Index (CPI) was estimated to be 2.9 per cent in 2014/15. With the one-off increase in the VAT now almost completely worked through the supply chain, inflation is expected to fall to around 2.2 per cent in 2015/16 before adjusting towards its long-term trend (3.1 per cent) in the outer years.

Table 5.1 Summary of Economic Indicators

| | 2014/2015 Actual | 2015/2016 Estimate | 2016/2017 Projection | 2017/2018 Projection | 2018/2019 Projection |
|--|---------------------|-----------------------|-------------------------|-------------------------|-------------------------|
| Economic Activity | | | | | |
| Nominal GDP (\$'000) | 363,226 | 372,848 | 375,286 | 377,449 | 383,827 |
| Percentage change (YOY) | 0.5 | 2.6 | 0.7 | 0.6 | 1.7 |
| Real GDP (at Constant 2006 Prices, \$'000) | 272,429 | 276,352 | 271,886 | 266,765 | 263,099 |
| Percentage change (YOY) | -1.2 | 1.4 | -1.6 | -1.9 | -1.4 |
| Inflation | | | | | |
| Consumer Price Index (base Dec. 2006 = 100) | 130.5 | 133.4 | 137.5 | 141.8 | 146.2 |
| Percentage change (YOY) | 2.9 | 2.2 | 3.1 | 3.1 | 3.1 |
| Construction/Capital Investment | | | | | |
| Commercial Building Approvals (\$'000) | 2,961 | 2,961 | 2,961 | 2,961 | 2,961 |
| Residential Building Approvals (\$'000) | 6,550 | 6,605 | 6,661 | 6,718 | 6,775 |
| Public Works (\$'000) (includes Dev Partners) | 21,295 | 26,309 | 19,880 | 10,951 | 7,375 |
| Productive Sector Indicators | | | | | |
| Visitor Arrivals | 121,000 | 121,100 | 121,800 | 122,900 | 124,100 |
| Percentage change (YOY) | -1.5 | 0.1 | 0.6 | 0.9 | 1.0 |
| Estimated Visitor Expenditures (\$'000) | 220,947 | 227,303 | 235,462 | 244,904 | 255,022 |
| Pearl Exports (\$'000) | 332 | 292 | 292 | 292 | 292 |
| Fish Exports (\$'000) | 20,816 | 20,816 | 20,816 | 20,816 | 20,816 |
| External Sector | | | | | |
| Merchandise Trade Balance (\$'000) | (118,222) | (119,339) | (120,427) | (121,581) | (122,931) |
| Services Trade Balance (\$'000) | 221,200 | 220,900 | 227,300 | 235,500 | 244,900 |
| Exchange Rate (USD/NZD Average) | 0.830 | 0.700 | 0.700 | 0.700 | 0.700 |
| Financial Sector (at end of financial year) | | | | | |
| Government Net Debt Position (\$'000)* | 43,411 | 67,804 | 82,150 | 78,920 | 68,244 |
| Private and Public Enterprise Deposits (\$'000)** | 180,214 | 0 | 0 | 0 | 0 |
| Private and Public Enterprise Loans (\$'000)** | 253,034 | 0 | 0 | 0 | 0 |

* Using the international definition of net debt: liabilities (debt and currency) minus assets (cash and reserves)

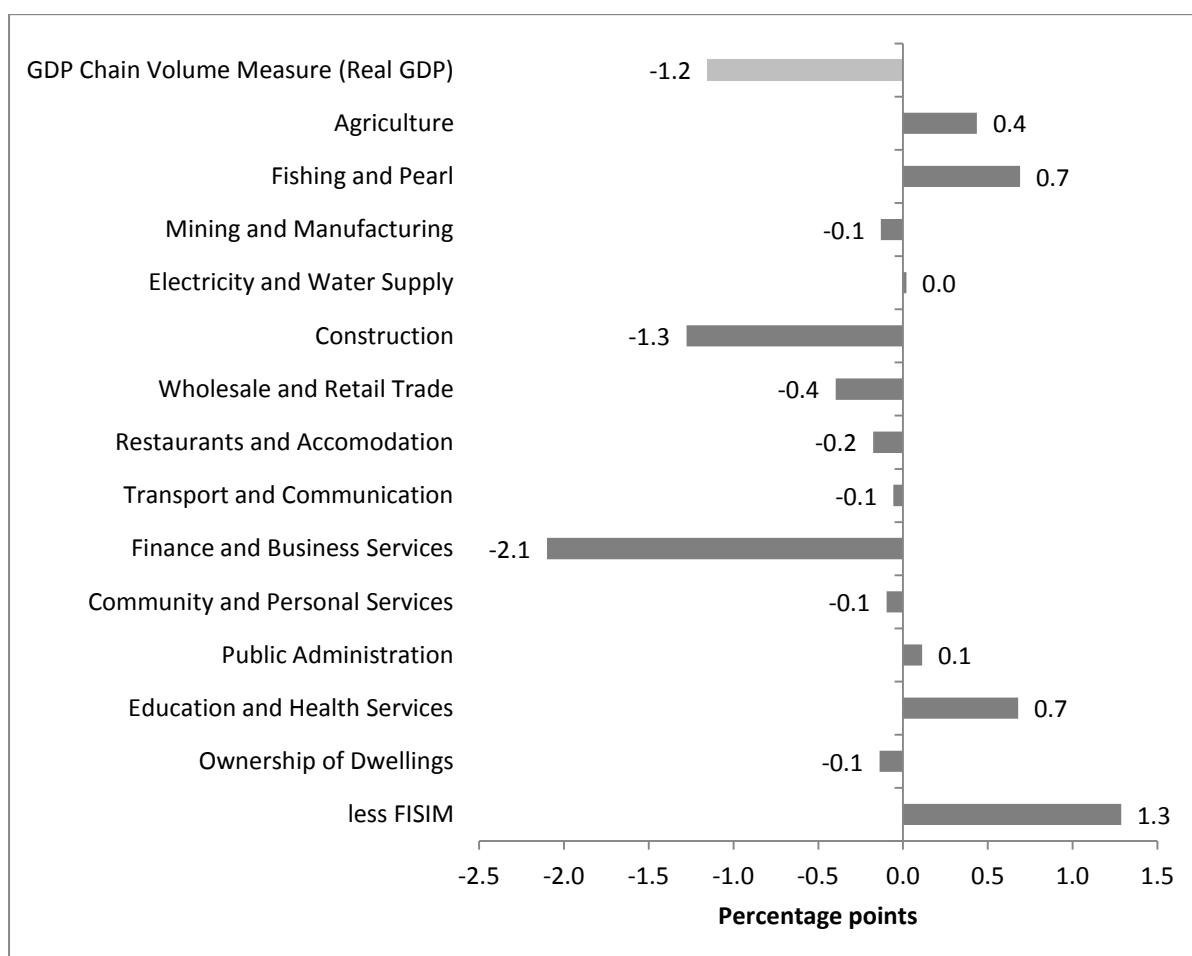
** No attempt has been made to estimate public or private deposits or loans due to breaks in the data series and a lack of partial indicators

5.2 Gross Domestic Product (GDP)

Real GDP (removing the impact of inflation) for the Cook Islands declined 1.2 per cent in 2013/14, reversing the economic gains achieved in 2012. Major contributors to this decline were falls in finance and business services (contributing -2.1 percentage points) and construction (-1.3 percentage points). Partially offsetting the declines were gains in financial intermediation (1.3 percentage points), education and health services (0.7 percentage points), and fishing and pearls (0.7 percentage points).

Recent GDP estimates highlight the sensitivity of the Cook Islands economy to relatively small changes in single industries or the implementation schedules of public capital projects. This is particularly important in the coming years, where the level of public capital investment will be significant.

Chart 5.1 Contribution to 2013/14 real GDP growth (percentage point contribution)



It is unclear whether the negative result is truly as dramatic as the data suggests. Importantly, there are no other indicators that are typically associated with depressed economic activity: taxes did not decline, imports did not decline (they also grew, indicating domestic demand did not likely contract), building approvals were not low (both commercial and residential approvals have increased) and tourism numbers did not decline (they too increased, although at a much slower growth rate than in previous years, and at the expense of a small decrease in average length of stay). Such as, accurate estimates of tourist daily spending, despite recent efforts there are issues around completeness of available data.

Real GDP is forecast to grow by 1.4 per cent in 2015/16, driven largely by shifts in public capital

spending (notably Te Mato Vai and the Southern Group Renewable Energy Project) offset by weak growth in tourism. With the completion of these capital projects, the economy is forecast to contract by an 1.6 per cent in 2016/17, 1.9 per cent in 2017/18, 1.4 per cent in 2018/19, due largely to assumptions in relation assistance from development partners. Assumptions around the local content of capital projects have also been scaled back from previous forecasts.

Nominal GDP is now estimated to have fallen in 2013/14. Similar to real GDP, this fall was due to a large reduction in the provision of financial services, a shifting of capital projects into 2014/15 and 2015/16, and slower tourism growth.

Nominal GDP growth is estimated to increase by 0.5 per cent in 2014/15 due to further slippage of some capital investment activity into 2015/16 and below trend tourism growth. Capital projects support a growth rate of 2.6 per cent in 2015/16, with tourism starting to show signs of recovery. However, this estimate may be revised significantly if capital implementation schedules are not met or are adjusted (particularly for Te Mato Vai and the Southern Group Renewable Energy Project).

By 2016/17, tourism growth starts to make up for the withdrawal of fiscal stimulus, but nominal growth is estimated to remain weak. Importantly the GDP deflator (average production prices) across the economy returns to trend levels of growth, resulting in negative real growth rates.

Table 5.2 GDP growth revisions

| | 2014/15 | | 2015/16 | | 2016/17 | |
|---|---------------|-------------------|------------------|-------------------|------------------|-------------------|
| | 2014 HYEFU | 2015/16 Budget | 2014/15 HYEFU | 2015/16 Budget | 2014/15 HYEFU | 2015/16 Budget |
| Nominal GDP growth (per cent) | 4.8 | 0.5 | 1.3 | 2.6 | 1.3 | 0.7 |
| Real GDP growth (per cent) | 2.1 | -1.2 | -0.3 | 1.4 | -0.3 | -1.6 |
| Implicit GDP deflator (percentage change) | 2.6 | 1.7 | 1.6 | 1.2 | 1.6 | 2.3 |

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

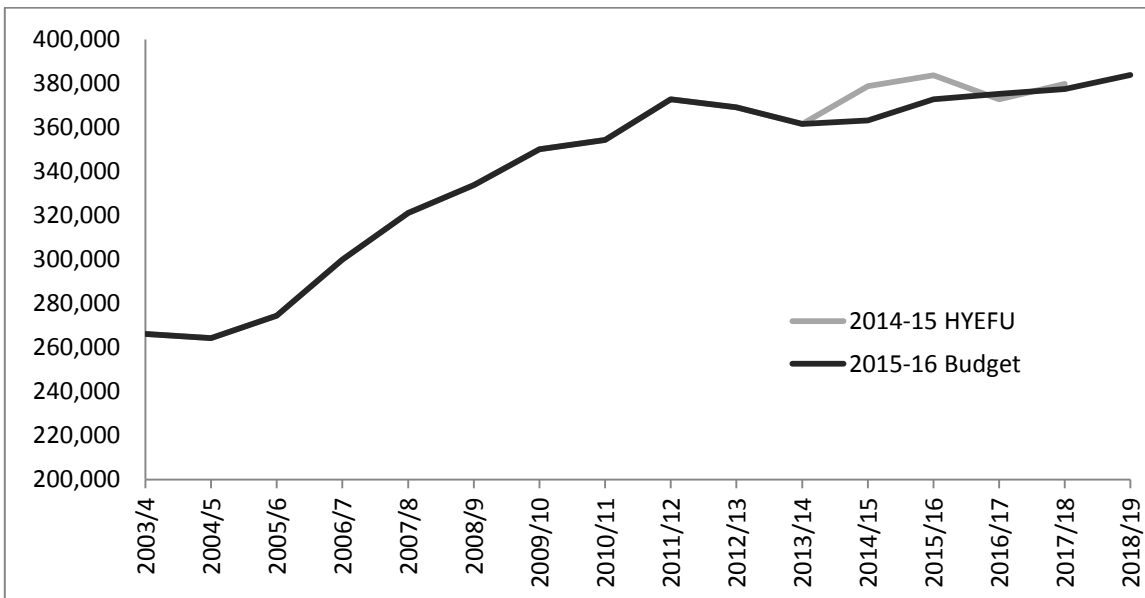
- poor budget execution of the public sector capital investment planned across the Cook Islands – in particular, any delays in the implementation of the renewable energy or water projects;
- the current lower growth levels of New Zealand and Australian tourism arrivals decline further, or improves significantly;
- the domestic labour market continues to fail in filling job vacancies, through either a decline in migrant labour entering the Cook Islands, or Cook Islanders continuing to leave the job local market;
- external price shocks to our major import categories (fuel or food supplied by New Zealand) or the value of the New Zealand dollar changes significantly; and
- Any reductions in projected assistance from development partners.

A return to trend levels of inflation may not occur, as actual inflation levels appear to be below expectations in previous forecasts. In particular, the GDP deflator (the difference between nominal and real GDP) may be lower than expected due to recent falls in the global oil price, although it is difficult to predict when/if the price changes are fed through to the local economy. If production price pressures are contained, then real growth outcomes will improve accordingly.

Chart 5.2 Real GDP at 2006/07 prices, 2003/04 to 2018/19 (\$000)



Chart 5.3 Nominal GDP at current prices, 2003/04 to 2018/19 (\$000)



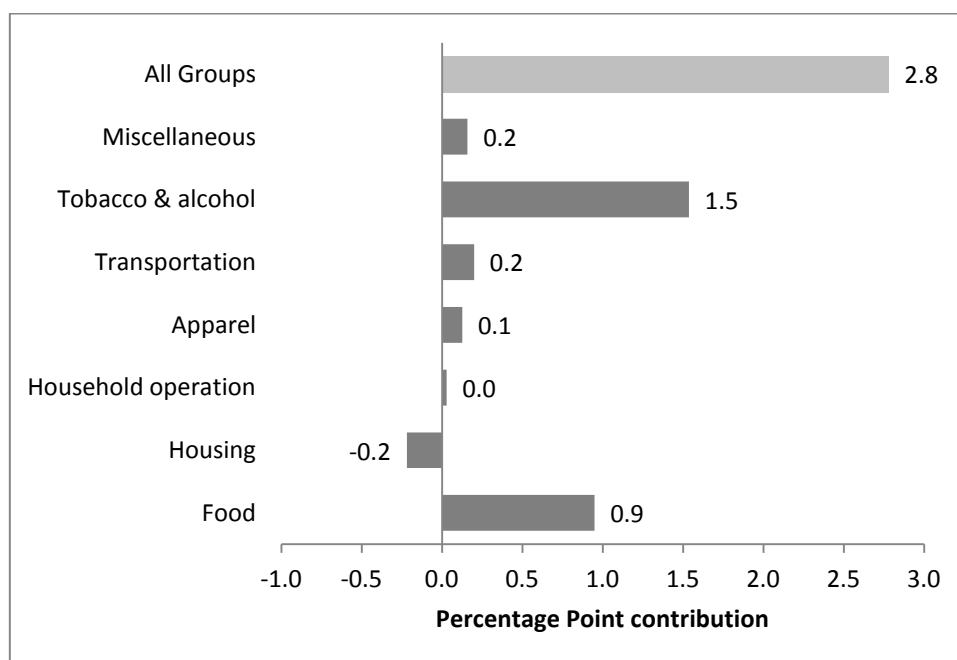
5.3 Consumer Price Index (CPI)

Inflation in the Cook Islands is measured by the Consumer Price Index (CPI) and is reported on a quarterly basis. Over the last ten years, the Cook Islands has enjoyed an average inflation rate of 2.9 per cent due to the use of the New Zealand dollar as the national currency and subdued wage growth. For nine of the last ten years, inflation was below 4.3 per cent, with the only exception being the 10.2 per cent inflation spike in 2008/09 due to global fuel prices.

At the time of publication, the most recent CPI data available was for the March quarter 2015, which showed inflation of 3.6 per cent compared to the March quarter 2014, and average annual inflation of 2.8 per cent for the 12 months to March. The March quarter result is just slightly lower than the inflation rates forecast at the time of the 2014-15 HYEFU, which were 3.8 and 3.0 per cent respectively.

Average annual inflation through to the March quarter 2015 was driven by a 34.2 per cent increase in tobacco prices (contributing 1.3 percentage points to overall inflation, see Chart 5.4 for the combined tobacco and alcohol contribution) and a 3.1 per cent increase in food prices (contributing 0.9 percentage points). The biggest quarterly contribution to inflation was from overseas travel, which increased 21.4 per cent in the March quarter alone, contributing 0.9 percentage points to March quarterly inflation, but only 0.3 percentage points to annual inflation.

Chart 5.4 Contribution to March quarter 2015 year average inflation (percentage point contribution)



In relation to tobacco taxation, of the 4.5 per cent in total inflation since the September quarter in 2012 (when tobacco taxes were first increased), tobacco prices have contributed 2.6 percentage points to inflation, or around 60 percent of the total change in price across all categories. In contrast, food inflation has only contributed 1.5 percentage points, or around 35 per cent of total price increases across all categories.

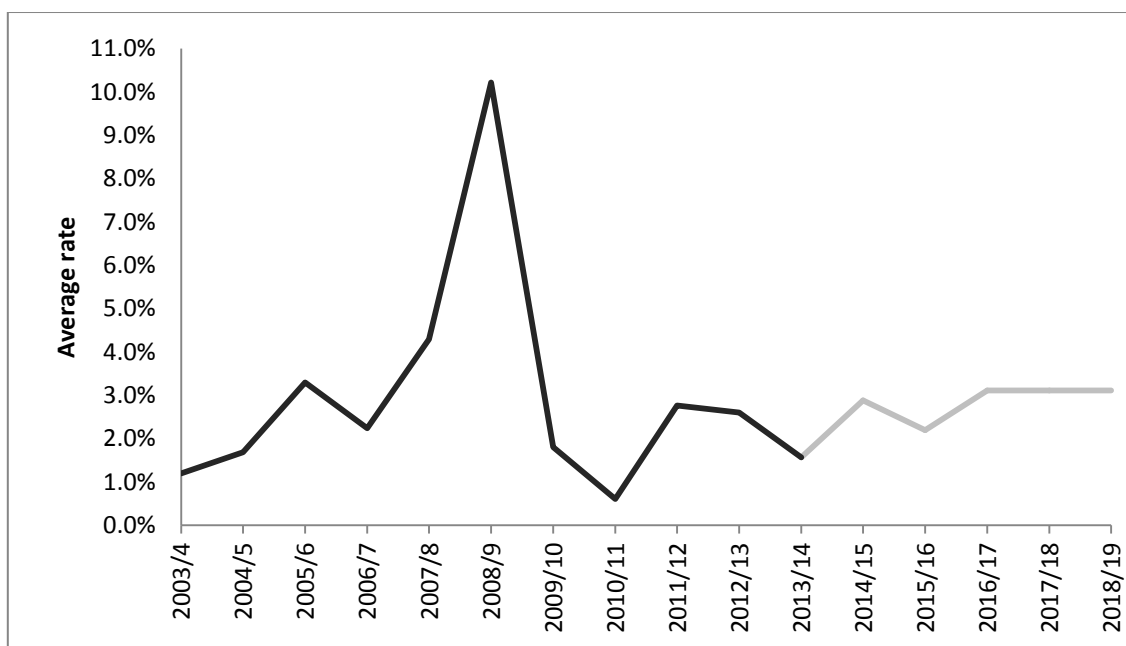
As shown in Chart 5.4, 2014/15 will bear the full inflationary effect of the increase to the VAT from 1 April 2014, with an estimated average annual inflation of 2.9 per cent. This is a downward revision from previous estimates of 3.8 per cent. Much of this revision is due to the lower than expected inflation experienced so far in 2014/15. Inflation is expected to reach 2.2 per cent in 2015/16 due the VAT effect working its way into the baseline prices (as there are no further increases), before

returning to the trend level of inflation of around 3.1 per cent from 2016/17 onwards.

There are substantial risks surrounding these forecasts. While the price changes owing to the VAT would likely have been passed on within 12 months, the lower level of inflation across the last 12 months may be because retailers have held off increasing prices right away, and are adopting a 'wait and see' approach. The fall in global fuel prices might also be a mitigating factor that has alleviated price pressures on imported goods. Conversely, the increase in global fuel prices from the current lows remains an ongoing risk.

On the upside, the 33 percent increases tobacco taxation (which has driven a large part of the inflation results since 2012) will not be a feature in any of the forward years, so price increases in this area of consumer spending will return 'normal' levels. Also, New Zealand inflation remains below 2 per cent, suggesting that imported inflation will not be a major issue going forward, except if there is an increase in oil prices.

Chart 5.5 Consumer Price Index (CPI), year average, 2003/04 – 2018/9



5.4 Tourism

Tourism remains the largest industry in the Cook Islands, accounting for around 60 per cent of the economy. The Cook Islands has experienced 12 years of almost uninterrupted growth in tourism arrival numbers. In the past 16 years, there have only been two years of negative growth: 2001/02 (due to a large reduction in European tourists) and 2007/08 (large declines in the US and European markets). Remarkably, the New Zealand tourist market has only declined once in 17 years, a 500 person decline in 1997/98.

Between 2008/09 (following the global recession) and 2012/13, the average growth for total tourism arrivals in the Cook Islands was 5.7 per cent. However, following a stellar 7.4 per cent growth in 2011/12, growth in 2012/13 was 3.5 per cent, and just 1.6 per cent in 2013/14 (the lowest growth in five years). The strong growth experienced from New Zealand and Australian markets likely peaked over 2010 to 2012 and a return to double digit growth in the near term is unlikely. Australian arrivals have contracted in ten of the last 12 months when compared to arrivals in the previous year.

The 2014 HYEFU forecast growth in tourism arrivals to slow from 1.6 per cent growth in 2013/14, to an estimated 1.0 per cent contraction in 2014/15. The 2015/16 Budget further revises 2014/15 total arrivals to a 1.5 per cent decline, largely due to Australian arrivals contracting an estimated 7.2 per cent.

New Zealand remains the largest market at 67 per cent of total arrivals in 2014/15, with Australia having a share of 17 per cent.

For 2015/16, total arrivals are expected to grow just 0.1 per cent, driven largely by weak growth from New Zealand being almost completely offset by declines in almost all other major markets except the US.

The average visitor stay continues to be around eight days, with this average heavily influenced by the level of New Zealand and Australian arrivals. . The average daily spend (including accommodation) is estimated to be around \$200-230 per visitor (including children).

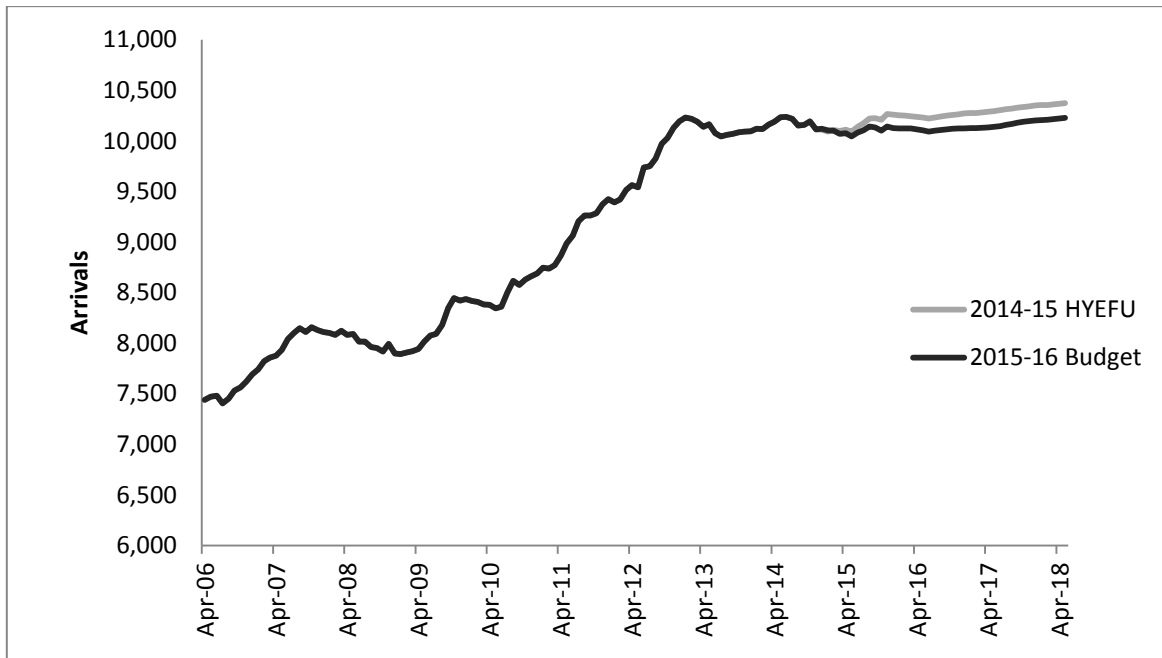
The Ministry of Finance estimates that there were close to approximately 940,000 completed visitor days in 2014, an increase of 2.9 per cent on the 900,000 completed visitor days in 2013 due to a combination of an increase in the average stay and the overall number of visitors.

Around 53 per cent of total visitor arrivals are female and the age of the average traveller is 39.8 years, although the age profile varies dramatically between different markets (for example, New Zealand and Australian tourists tend to be in their 20's or their 50's, whereas Canadian travellers are overwhelmingly in their 60's).

Table 5.3 Actual and forecast total tourism numbers by quarter 2013/14 to 2018/19

| | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Total |
|---------|--------|--------|--------|--------|----------------|
| 2013/14 | 39,031 | 31,902 | 21,294 | 30,627 | 122,854 |
| 2014/15 | 38,102 | 31,435 | 20,694 | 30,760 | 120,991 |
| 2015/16 | 38,704 | 31,371 | 20,700 | 30,400 | 121,100 |
| 2016/17 | 39,000 | 31,500 | 20,700 | 30,600 | 121,800 |
| 2017/18 | 39,400 | 31,800 | 20,800 | 30,900 | 122,900 |
| 2018/19 | 39,800 | 32,100 | 21,000 | 31,200 | 124,100 |

Chart 5.6 Total monthly visitor arrivals (12 month moving average) 2006-2018



5.4.1 New Zealand

New Zealand continues to be the Cook Islands leading market for visitors, accounting for an estimated 65 per cent of the total market (or 80,723) in 2014/15.

Over the past ten years, New Zealand arrivals have grown an average of 10.1 per cent a year – a phenomenal level of growth with New Zealand arrivals more than doubling over that period (increasing by 141 per cent over ten years). Outbound tourism from New Zealand grew less than 40 per cent over the same period, representing a large shift in New Zealand tourist preferences towards the Cook Islands over other destinations. This is supported by the results of the recent visitor survey which estimates that 49 per cent of visitors from New Zealand are return visitors – an impressive achievement for the tourism industry.

However, in the 12 months up to March 2015 total New Zealand arrivals into the Cook Islands grew 4.4 per cent relative to 4.9 per cent outbound growth from New Zealand; a poorer performance when compared to historical averages. Outbound New Zealand travel to Oceania grew an impressive 7.6 per cent, with the Cook Islands only accounting for 0.2 percentage points of this growth. The main growth destination for New Zealand tourists were Australia (up 6.6 per cent on 2014, or 5.1 percentage points of total Oceania growth) and Fiji (up 16.3 per cent on 2014, or 1.3 percentage points of total Oceania growth).

This suggests a significant shift in the Pacific market for outbound New Zealand tourists. While more New Zealanders are choosing to travel in the Pacific relative to elsewhere in the world, the Cook Islands is not included in this trend, with Australia and Fiji capturing increasing market shares. Of all the major Pacific destinations, the Cook Islands had the lowest percentage growth in New Zealand arrivals. Indeed, this data suggests that the Cook Islands is losing its hard earned market share of Pacific travel (despite being relatively steady versus non-Pacific destinations).

Going forward, New Zealand arrivals are expected to grow by a relatively muted 0.6 per cent in 2014/15, due largely to poor performance in July to November 2014 (when compared to the stellar performance in previous years). This trend is expected to continue into 2015/16, with New Zealand arrivals expected to grow by 1.0 per cent.

These forecasts are based on recent performance, greater anticipated competition for New Zealand

tourists from other Pacific destinations, and a relatively strong New Zealand dollar (compared to other Pacific currencies) reducing relative price competitiveness. Reduced flight capacity during the peak New Zealand tourist months could also be a factor, especially considering the capacity growth for flights to Fiji, Hawaii and Vanuatu ex Auckland.

Chart 5.7 New Zealand monthly visitor arrivals (12 month moving average) 2006-2018

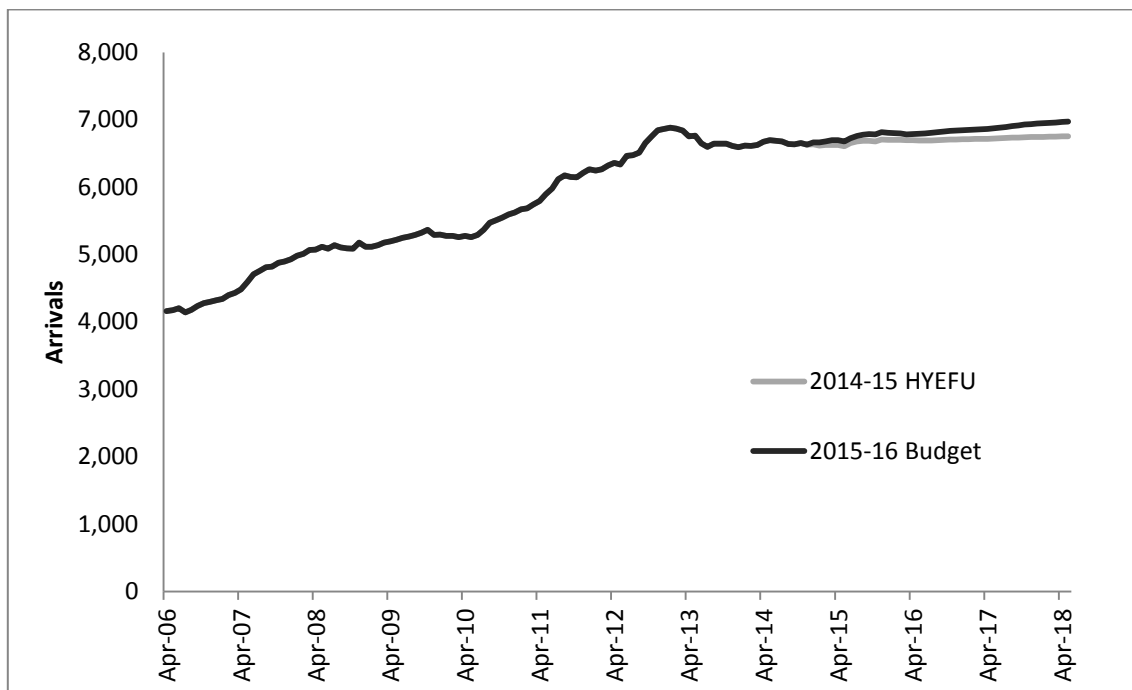


Table 5.4 Actual and forecast New Zealand tourism numbers by quarter 2013/14 to 2018/19

| | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Total |
|---------|--------|--------|--------|--------|---------------|
| 2013/14 | 28,382 | 19,323 | 11,666 | 20,880 | 80,251 |
| 2014/15 | 27,788 | 19,625 | 12,061 | 21,249 | 80,723 |
| 2015/16 | 28,532 | 19,846 | 11,800 | 21,400 | 81,500 |
| 2016/17 | 28,900 | 20,100 | 11,900 | 21,600 | 82,600 |
| 2017/18 | 29,300 | 20,400 | 12,100 | 22,000 | 83,800 |
| 2018/19 | 29,800 | 20,700 | 12,300 | 22,300 | 85,100 |

5.4.2 Australia

The Australian market is the second largest tourism market to the Cook Islands, accounting for approximately 17 per cent of the total market share.

Australia has been experiencing a boom in outbound tourism growth. In the last ten years Australian outbound tourism has grown by 158 per cent, an average of 10.2 per cent a year. To compare, Australian arrivals to the Cook Islands have increased 95 per cent, or an annual average of 7.0 per cent. While the growth in tourist arrivals from Australia has been impressive, the main driver of this appears to be the overall growth in Australian outbound tourists, rather than the Cook Islands increasing its market share. Indeed, with the exception of 2011, 2012 and 2013, the Cook Islands' share of Australian outbound tourism fell across the period.

Since the second half of 2013, growth in Australian arrivals slowed significantly with periods of large reductions in arrivals. As noted at the time of the 2014/15 HYEFU, there was a risk that Australian

arrivals could fall further, as most of their annual growth has typically come in the last six months of the year, and no growth was forthcoming during this period in 2014.

For the calendar year 2014, Australian arrivals were 3.3 per cent lower compared to 2013 and in the 12 months leading up to March 2015, Australian arrivals fell 7.4 percent. Accordingly, the forecasts for Australian arrivals in 2014/15 have been revised to a 7.2 per cent contraction, a significant revision from the 1.0 per cent reduction forecast at the 2014/15 HYEUFU.

Looking at the Australian outbound market, of the 5.0 per cent growth in Australian outbound tourists, the lion's share was captured by Europe and Asia. Australian tourists heading to Oceania grew just 1.9 per cent in the 12 months to October 2014, with the main growth being captured by New Zealand, New Caledonia, and other Polynesia. With cheap flights to Asia, and a relatively strong currency versus Asian economies not pegged to the US dollar, this trend towards non-Pacific destinations is expected to continue.

Australian arrivals are forecast to contract 3.1 per cent in 2015/16, with a further 1.6 per cent contraction in 2016/17 as outbound growth becomes slightly more evenly spread. After no growth in 2017/18, muted growth of 0.4 per cent is expected in 2018/19, with destinations like Fiji working hard to reclaim their share of the Australian outbound market in those years.

The expected change from a Boeing 767 to a Boeing 777/787 on the underwritten Sydney route presents an opportunity to improve fare competitiveness with other destinations in the region (notably Fiji), but also presents a financial sustainability risk of the current strategy if arrival numbers are unable to meet expected targets. In the short term, the underwrite is not expected to divert significant volumes of Asia-bound Australian tourists.

The direct Sydney flights were the most popular route for Australian tourists in 2014, with around 40 per cent of the total travel, although most Australian travellers still transit through Auckland in at least one direction. Australians account for around 70 per cent of the passengers arriving on the underwritten flight from Sydney.

Chart 5.8 Australia monthly visitor arrivals (12 month moving average) 2006-2018

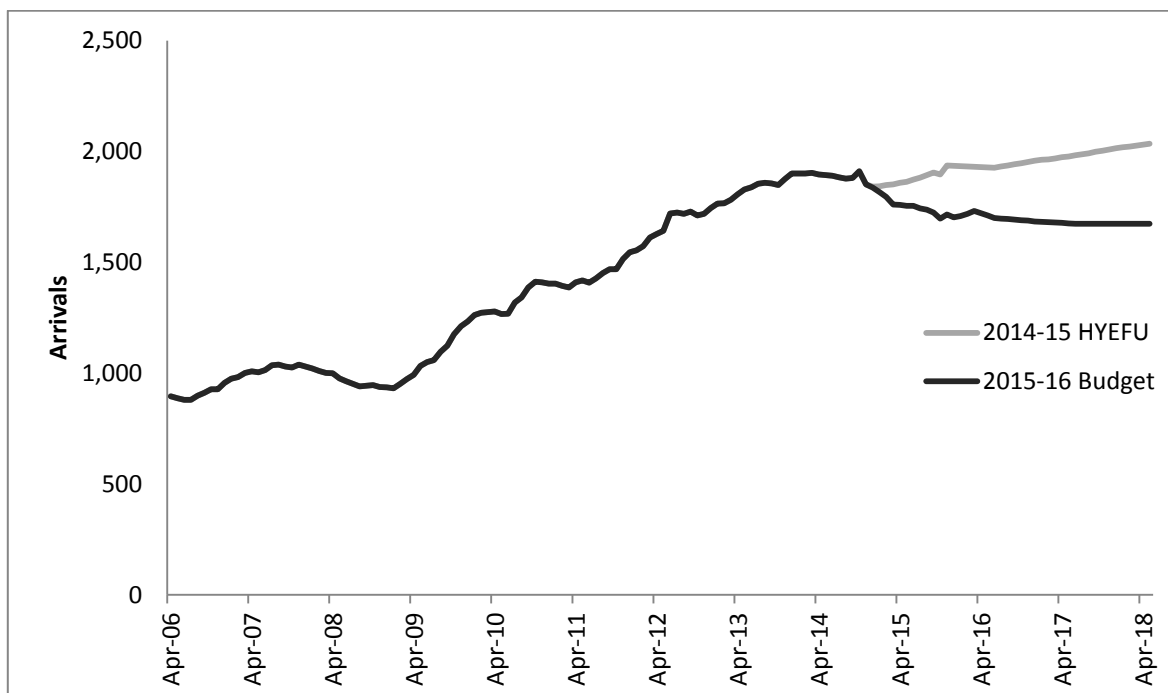


Table 5.5 Actual and forecast Australian tourism numbers by quarter 2013/14 to 2018/19

| | Qtr 1 | Qtr2 | Qtr 3 | Qtr 4 | Total |
|---------|--------------|-------------|--------------|--------------|---------------|
| 2013/14 | 6,064 | 7,068 | 4,196 | 5,362 | 22,690 |
| 2014/15 | 5,927 | 6,548 | 3,286 | 5,289 | 21,050 |
| 2015/16 | 5,570 | 6,287 | 3,600 | 4,900 | 20,400 |
| 2016/17 | 5,500 | 6,200 | 3,600 | 4,800 | 20,100 |
| 2017/18 | 5,500 | 6,200 | 3,600 | 4,800 | 20,100 |
| 2018/19 | 5,500 | 6,200 | 3,600 | 4,900 | 20,200 |

5.4.3 Other markets

Over the past year, growth performance of arrivals from non-core markets has been mixed. Despite European and US arrivals growing modestly over the 12 months to March, Canadian arrivals declined 10.5 per cent over the same period. As a result, non-core markets are expected to decline 3.5 per cent in 2014/15.

Continued economic issues for most of the EU countries are likely contain any future growth from this market, with European arrivals expected to fall 2.1 per cent in 2015/16. Despite reports that poor connection times out of LAX have been addressed, arrivals out of Canada are assumed to weaken further, declining an additional 2.1 per cent in 2015/16.

Conversely, US arrivals are expected to grow 1.7 per cent in 2015/16 due to improved economic and employment outcomes.

Asia and smaller markets continue to remain relatively minor contributors.

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

The direct LA flight remains important for long haul markets, but is significantly more vital for the North American market (around 60 percent of total North American traffic). European and Asian markets tend to be more mixed, with the vast majority of traffic still transiting through Auckland. The total number of travellers arriving via Auckland is far greater than those travelling through Los Angeles.

Chart 5.9 Other major markets monthly arrivals (12 month moving average) 2006-2018

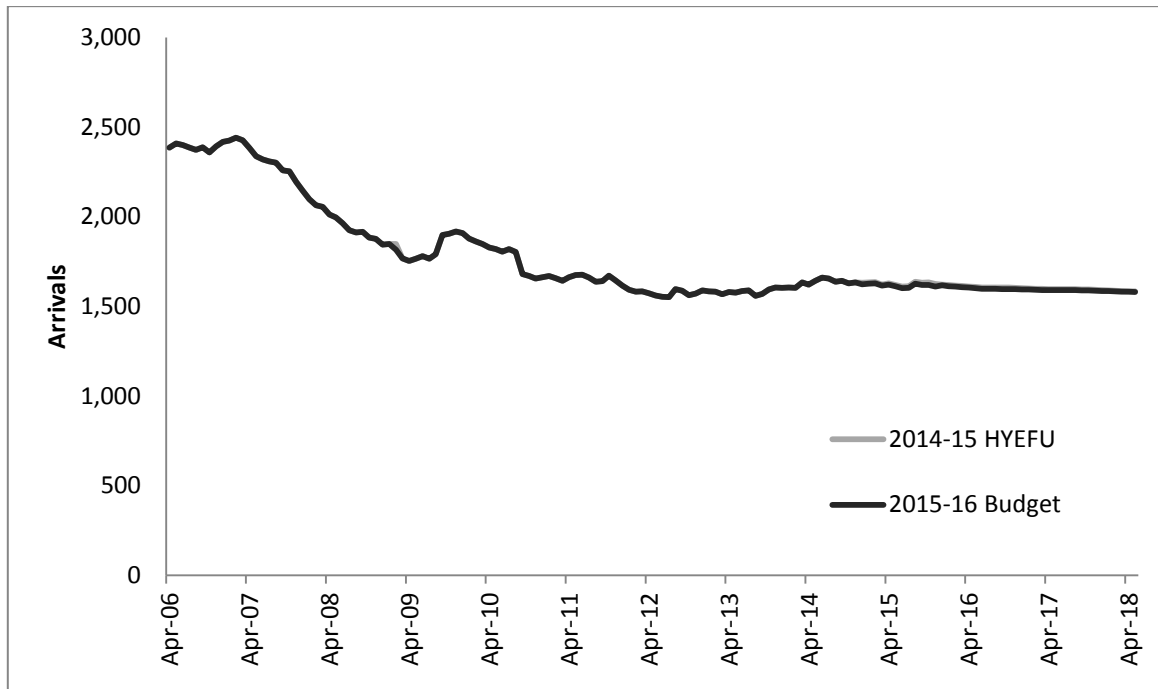


Table 5.6 Actual and forecast tourism numbers by quarter 2013/14 to 2018/19

| | Qtr 1 | Qtr2 | Qtr3 | Qtr 4 | Total |
|---------|-------|-------|-------|-------|---------------|
| 2013/14 | 4,585 | 5,511 | 5,432 | 4,385 | 19,913 |
| 2014/15 | 4,387 | 5,262 | 5,347 | 4,222 | 19,218 |
| 2015/16 | 4,603 | 5,239 | 5,200 | 4,100 | 19,200 |
| 2016/17 | 4,600 | 5,200 | 5,200 | 4,100 | 19,100 |
| 2017/18 | 4,600 | 5,200 | 5,100 | 4,100 | 19,000 |
| 2018/19 | 4,600 | 5,100 | 5,100 | 4,100 | 18,800 |

5.5 Marine Resources

The Cook Islands' marine sector is predominantly made up of tuna fisheries. Fish exports now account for 96 per cent of the value of Cook Islands goods exports: in 2014, fish exports totalled \$20.4 million of the total \$21.3 million. A significant increase on the \$12.1 million exported in 2013 and the \$5.4 million achieved in 2012.

Fisheries exports for 2015 and 2016 are forecast to reach \$21 million due to the strengthening of the USD.

Other marine exports include live fish for aquarium trade and black pearls. In 2014 these exports were \$0.091 million for live fish and \$0.364 million for black pearls.

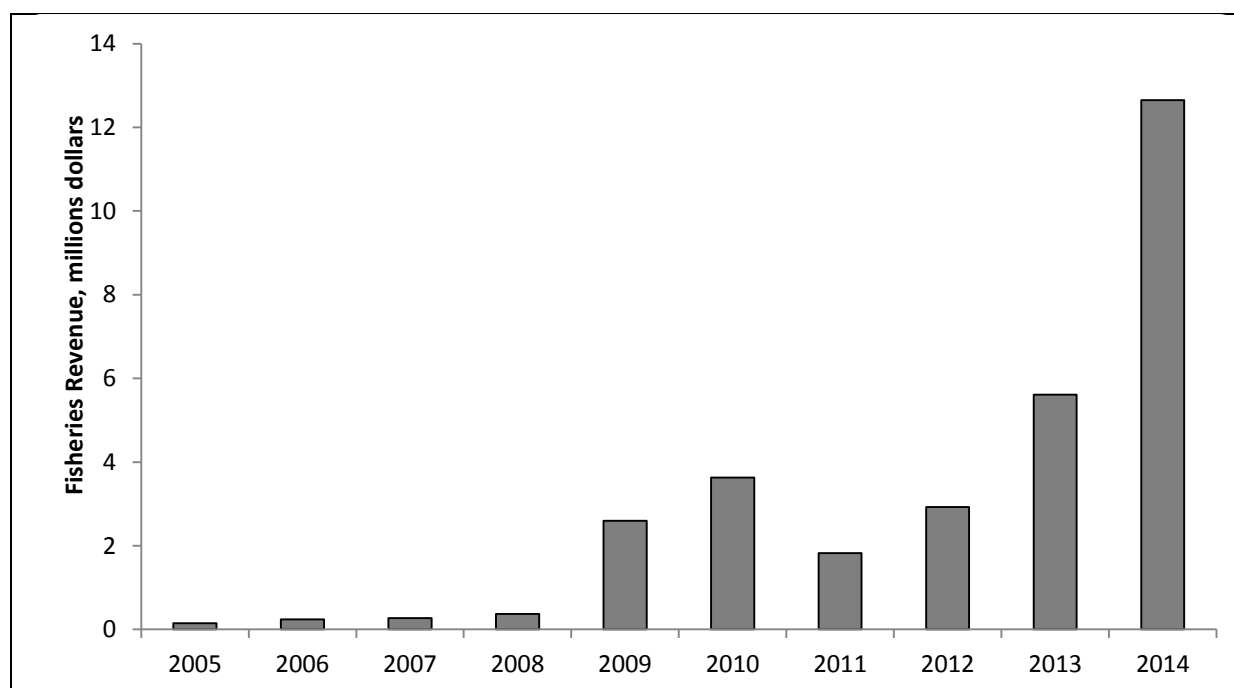
The main benefit to the Cook Islands economy from fishing activities continues to be the licensing revenue from treaties and fishing licenses. Revenue for 2014/15 is estimated to reach \$12.8 million, this consists of:

- \$9.7 million collected for the purse seine fishery;
- \$1.7 million from long line fishing license fees; and
- \$1.3 million for out of court settlements for fisheries infringements.

The growth in revenue has come from the purse seine fishery, where the Cook Islands has been assigned a total of 1,250 fishing days for the 2015 calendar year under the allocation provided by the Western Central Pacific Fisheries Commission (WCPFC).

In 2015 the Government entered into purse seine fishing access agreements with three fishing companies, in addition to the existing purse seine agreement with the US. Of these, two were Korean companies who are in joint partnership with the Government of Kiribati and a privately owned New Zealand company. At this time a total of 930 fishing days have been sold at an average price \$10,000 per day.

Chart 5.10 Fisheries revenue 2005/06 to 2014/15, (\$m)



5.5.1 Fishing

The Cook Islands EEZ is divided into a Northern and Southern fishery, with the majority of fishing taking place in the Northern fishery where the waters are more stable and productive. The main fishing grounds are from Penrhyn in the east to Pukapuka in the west, and north of Suvarrow.

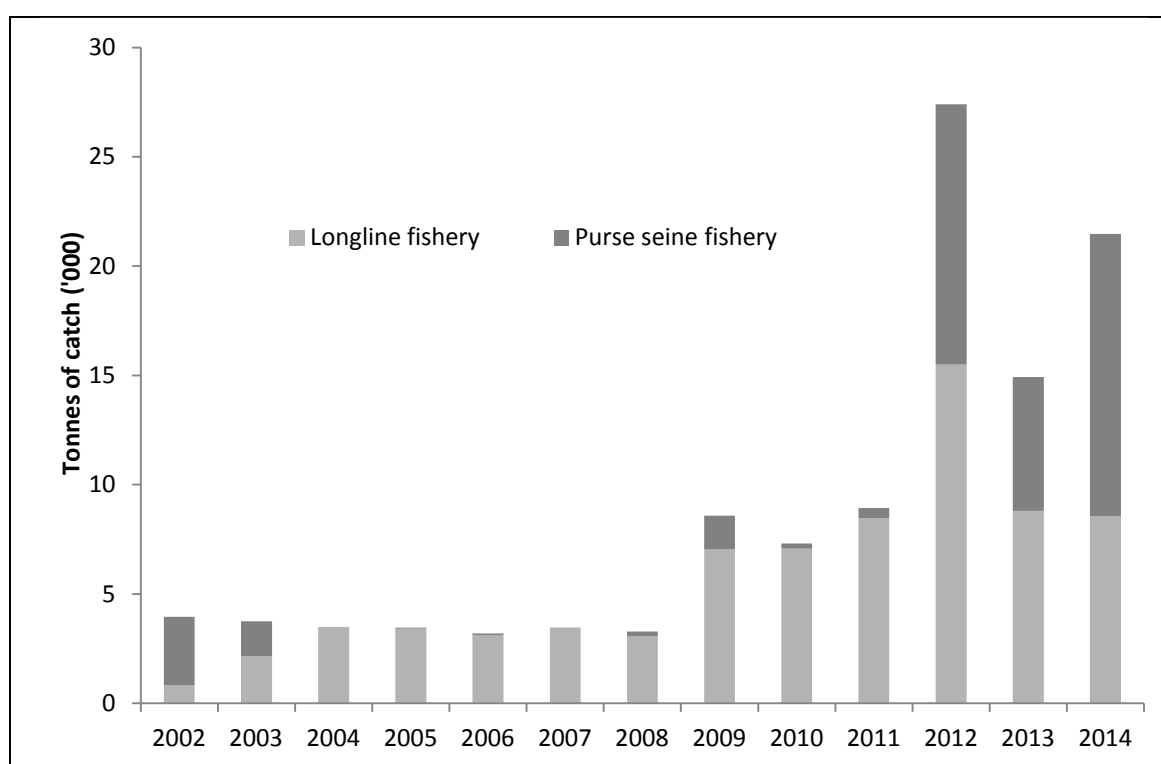
Traditionally, the Cook Islands EEZ has mainly been a long line fishery targeting albacore tuna, which is offloaded frozen to the cannery in Pago Pago where most of the long line fishing vessels are based.

The long line catches have increased steadily to a peak of 15,500 thousand tonnes in 2012 during exploratory fishing for bigeye tuna. In 2014, catches from long lining declined to 8,600 tonnes.

Purse seining has become increasingly important, expanding from around 1,000 tonnes in 2012, to 12,900 tonnes in 2014.

The total commercial catch for all vessels in 2014 was 21,700 tonnes (Chart 5.11)

Chart 5.11 Fishery Catch in the Cook Islands Exclusive Economic Zone (tonnes)



Albacore and yellow fin tuna were the major species caught by the long line fishery in 2014 with increase in yellow fin compared to 2013, attributed to El Nino like patterns. Skipjack tuna accounted for 92 per cent of the 2014 purse seine catch, whilst bigeye tuna bycatch was two per cent of the total (Table 5.7)

Table 5.7 Fishery Catches in the Cook Islands EEZ by Species (tonnes)

| | 2013 | | | 2014 | | |
|--------------|--------------|--------------|------------|--------------|---------------|------------|
| | Longline | Purse Seine | Local | Longline | Purse Seine | Local |
| Albacore | 6,098 | 0 | 1 | 4,691 | 0 | 3 |
| Bigeye | 534 | 217 | <1 | 751 | 204 | 0 |
| Yellowfin | 1,025 | 431 | 180 | 2,114 | 823 | 113 |
| Skipjack | 85 | 5,479 | 10 | 228 | 11,874 | 14 |
| Other | 927 | 0 | 80 | 780 | 0 | 81 |
| Total | 8,668 | 6,127 | 270 | 8,566 | 12,901 | 212 |

In 2014 there were a total of 36 long liners and 18 purse seiners that fished within the Cook Islands waters (Table 5.8). Additionally, five Cook Island flagged vessels operated exclusively on the high seas and other EEZ jurisdictions. This brings the total number of licensed offshore fishing vessels managed by the Ministry of Marine Resources (MMR) to 59. In 2014 the catch data for the 302 local artisanal and game charter fishing boats was also reported (Table 5.8).

Table 5.8 Number of active fishing vessels

| Licensed and active vessels | 2012 | 2013 | 2014 |
|------------------------------------|-------------|-------------|-------------|
| Offshore fishery | | | |
| Long liner | 60 | 45 | 36 |
| Purse seiner | 16 | 17 | 18 |
| Other commercial | 4 | 4 | 5 |
| Total | 80 | 66 | 59 |
| Local artisanal and game fishery | | 223 | 302 |

The estimated landed catch value for 2014 was \$79 million, an increase of around \$30 million compared to 2013. The increase mainly reflects a weakening of the NZD against the USD and JPY, as well as greater volumes arising from the purse seine fishery.

Albacore long line prices increased slightly from the lows experienced in 2013. However, purse seine skipjack tuna prices have reduced from the peaks observed in 2012 and 2013. The landed value for the local and artisanal catches (assuming an average price of \$8 per kilogram of round weight) is \$2 million dollars as demonstrated in Table 5.9.

Table 5.9 Landed value of fishery catches (\$m)

| Landed value | 2012 | 2013 | 2014 |
|----------------------------------|-------------|-------------|-------------|
| Longline fishery | 40 | 32 | 44 |
| Purse seine fishery | 25 | 15 | 33 |
| Local artisanal and game fishery | | 2 | 2 |
| Total | 65 | 49 | 79 |

One domestic commercial fishing company (with one Cook Islands flagged vessel) operates in the southern Cook Islands waters, and offloads its fresh catch at Rarotonga. The catch is either sold locally or exported by airfreight. In 2014, 194 tonnes of fresh catch was offloaded compared to 105 tonnes in 2013. The increased catch is due to the company expanding by an additional vessel. The volume of air freight exported increased slightly from 15 tonnes in 2013 to 23 tonnes in 2014.

In 2013 a Chinese owned fishing company based in Rarotonga with Chinese flagged vessels fishing in the Northern Fishery began offloading its frozen catch into Rarotonga for exported by sea freight. In 2013, 121 tonnes were offloaded and in 2014, 1,822 tonnes were offloaded. In addition, 18 tonnes of frozen by-catch was sold separately to local retailers at an average price of \$3.60 per kg. The company estimated that \$1.5 million dollars of expenditure was spent locally as result of the offloading operations for items such as fuel, container charges, berthage, and local salaries.

The Chinese flagged vessels possess advance freezing technology which allows the catch to be frozen to minus 52 degrees Celsius (sashimi grade quality) which will then fetch a higher market price compared to the frozen catch sent to the cannery. In 2014, the company began to trial this technology amongst its Cook Islands fleet, and 95 tonnes of super frozen product was offloaded in Rarotonga for sea freighting in specially designed containers.

Although there is potential for filleting and packaging super frozen tuna, little onshore processing of catch takes place in Rarotonga.

Table 5.10 Catch Landed into Avatiu port (tonnes)

| | 2013 | 2014 |
|---|-----------|-----------|
| Cook Islands flagged vessels | | |
| Fresh catches offloaded | 105 | 194 |
| Fresh catches to be exported by airfreight | 15 | 23 |
| Chinese flagged vessels | | |
| Frozen by-catch sold locally | 23 | 18 |
| Frozen catches to be exported by seafreight | 121 | 1,882 |
| Total | 49 | 79 |

The Government is considering changes to long line fishery licenses in order to ensure that total catch remains within sustainable limits. The current regime does not limit the catches per license holder. The Government will look at developing a long line quota system to limit individual license holders to within a total allowable catch (TAC).

This approach will limit albacore catch to 9,600 tonnes, which is less than the peak catch of 10,000 tonnes caught in 2012. The albacore TAC is the catch limit which the Cook Islands has agreed to under the Tokelau agreement signed in December 2014 with other Pacific Island countries. A similar approach for bigeye will reduce the total catch to 2,500 tonnes of bigeye tuna, down from 3,000 tonnes caught in 2012.

The local fishery remains an important economic activity for game-charter operators, semi-commercial sales and subsistence fishing. The local fishery recorded good catch rates in 2014 with increased catches attributed to the deployment of fish aggregating devices (FADs). In 2015/16 the Government will expand the deployment of FADs to the remaining southern islands where waters are less productive and highly seasonal in order to increase local catch volumes.

There is potential for high valued air freighted export for fresh high quality fish. A medium term target of 1,000 tonnes per annum is feasible, provided the market demand (particularly in the US and Japan) is sustained and there are regular airfreight links.

The offloading of frozen long line catch into Rarotonga offers the best opportunity for local economic development of the offshore fishery. However the 1,800 tonnes offloaded in 2014 highlighted some major logistical constraints associated with shipping schedules and provisioning of fuel and local labour. The success of super frozen offloading trials in 2014 indicates the potential for some storage and processing of frozen fillets to high valued markets. The Cook Islands albacore fishery is expected to be Marine Stewardship Council certified for sustainably caught product which will enhance its retail value. However the Cook Islands is not accredited to the European market standards for seafood export and the government will have to invest in laboratory testing services to access this market.

The purse seine fishery is likely to remain the significant source of direct revenue for government. The Cook Island total allowable effort of 1,250 days equates to revenues of around \$15 million dollars per annum.

5.5.2 Pearls

Cook Islands pearls are sold on both domestic and international markets. The performance of the Cook Islands pearl industry is mainly assessed on the export trends due to the difficulty in quantifying the size of the domestic market.

The value of exports declined from \$1.6 million in 2009/10 to \$0.142 million in 2013, before improving to \$0.364 million in 2014. The production base in terms of seeded oysters has remained

relatively low with around 10 active farmers and a further 14 farmers operating at minimal levels. Compliance with the lagoon management plan (to improve environmental management and farming practices) is contributing to the improved quality of pearls being produced.

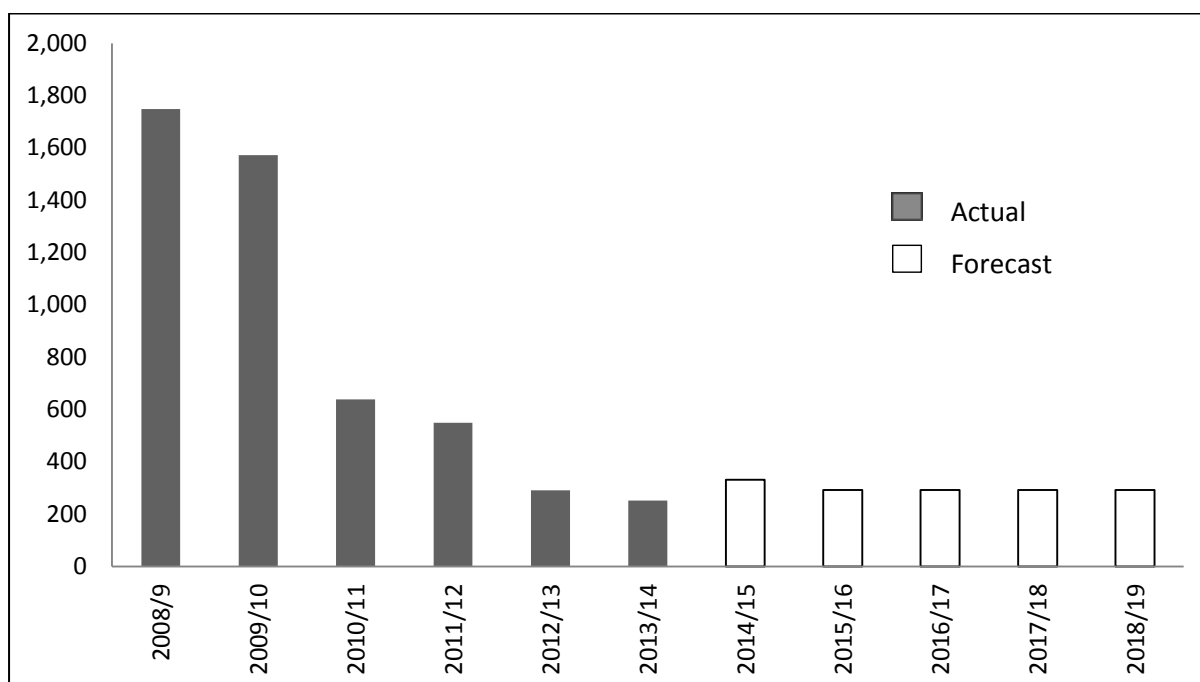
Declining export figures since 2009 suggest that an increasing proportion of pearls are being sold on the domestic market where prices are better, and greater value added opportunities are available.

Higher levels of production are expected after new farming materials provided by the Governments of New Zealand and China. Current levels of production are estimated to stay at modest levels of around 200,000 farmed oysters. Seeding and harvest records collected from pearl farmers indicate that in 2014 there was a sizable increase in the number of saleable pearls: 37,000 pearls compared to 19,000 pearls in 2013. These stocks are expected to boost the levels of domestic sales and export in 2014/15.

Table 5.11 Pearl production, 2009-2014

| Year | Farmed shells | Seeded shells | Saleable pearls |
|------|---------------|---------------|-----------------|
| 2009 | 40,429 | 16,716 | 3,005 |
| 2010 | 77,544 | 61,351 | 11,182 |
| 2011 | 153,980 | 137,112 | 5,271 |
| 2012 | 239,333 | 207,576 | 13,199 |
| 2013 | 151,993 | 105,802 | 19,065 |
| 2014 | 198,575 | 120,916 | 37,169 |

Chart 5.12 Pearl Exports (including pearl shell) 2008/09 to 2018/19, (\$000)



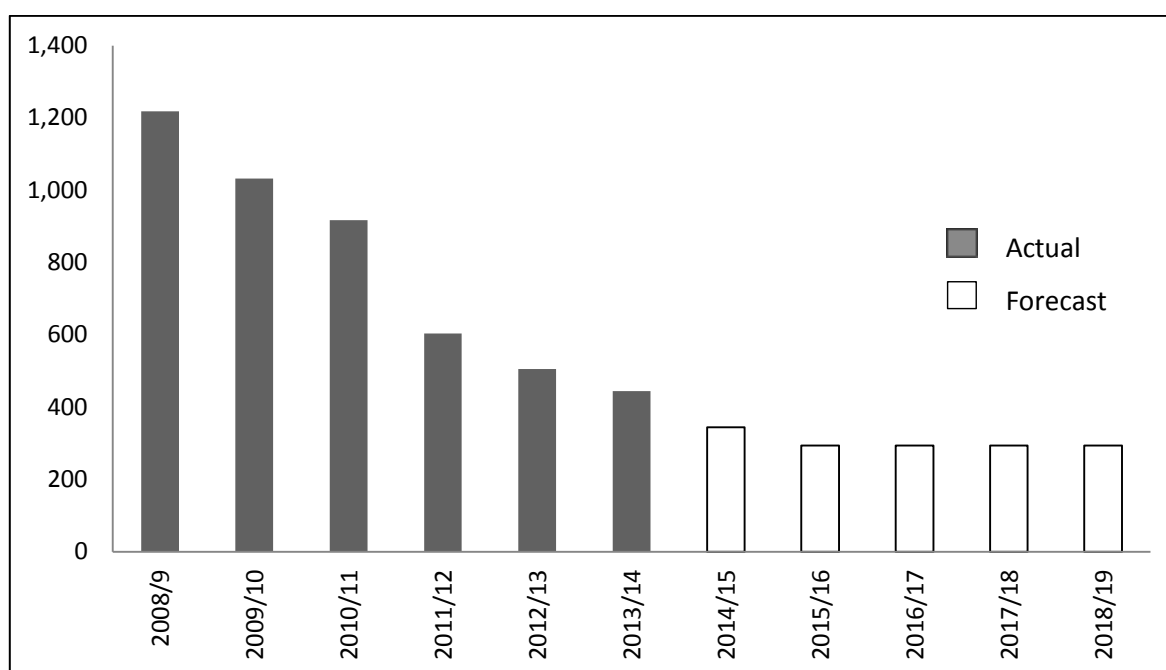
5.6 Agriculture

The Agriculture sector accounted for 3.2 per cent of GDP in 2013, from 2.4 per cent in 2012. GDP estimates for the first quarters of 2014 show consistent agricultural production, suggesting that the 2013 level of output is likely to continue. Agricultural exports did not increase across the same period (2013), suggesting that this boost in production was all directed at the local market. Indeed,

much of the decline in exports could be due to greater servicing of domestic demand rather than declines in production, as agricultural output (as measured by GDP) has been consistent of the past 5 years but exports have fallen. Indeed, while tourism and the associated demand on food has increase markedly over the past ten years, imports of food items have not increased by as much as what would be expected, supporting the case that local production is filling some of this extra demand.

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

Chart 5.13 Agriculture Exports 2008/09 to 2018/19, (\$000)



Export forecasts continue to decline due to lower maire exports, however it is expected that future growth will occur in the export of noni due to huge demand from the China. The Ministry of Agriculture is raising up to six thousand Noni Seedlings to cater for farmers needs for Rarotonga and four thousand for the Outer Islands (Atiu and Mitiaro) in support of the noni industry.

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

5.7 Goods Imports and Exports

5.7.1 Goods Imports

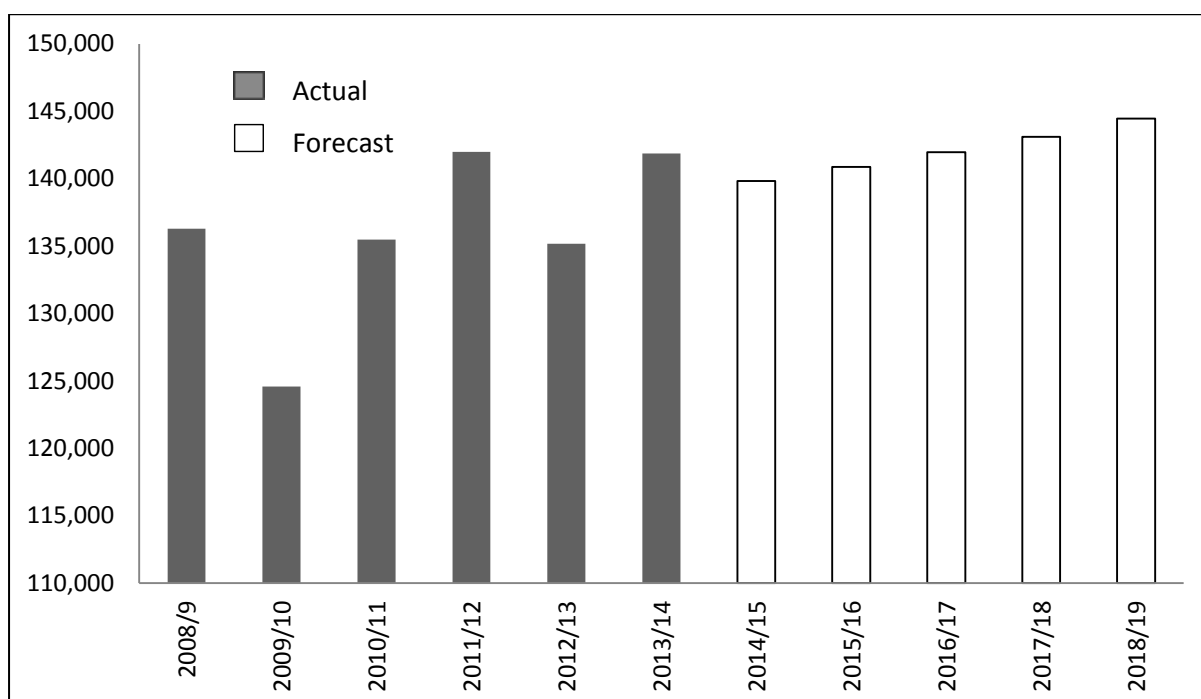
In 2013/14, the total value of imports to the Cook Islands was \$141.9 million, an increase of 4.9 per

cent from 2012/13. Imports for 2013/14 were predominantly made up of food and live animals (24.7 per cent); machines, transport and equipment (21.7 per cent); minerals and fuel (17.5 per cent); and miscellaneous manufactured goods (which includes finished or consumer goods) (11.4 per cent).

Data from the 12 months ending in September 2014 shows that imports decreased by 5.4 per cent compared to September 2013. Much of this decline was due to a \$4.6 million decline (a 39.6 per cent decline) in the import of machinery and equipment. In fact, without the significant contribution from machinery imports (assumedly for construction projects) imports fell just 1.6 per cent from the previous 12 months to September. The decline is assumed not to continue in future periods, with the importation of machinery now closer to its average level of around \$6.5 million a quarter.

Imports are expected to fall by 1.4 per cent in 2014/15, due mainly to declines experienced so far in the 2014/15 year (mainly in machinery), before growing by 0.7 per cent in 2016/17.

Chart 5.14 Value of total imports 2008/09 to 2018/19, (\$'000)



For 2013/14, it is estimated that import leakage from the Cook Islands was approximately 39 per cent – or more simply, that for every dollar spent in the Cook Islands economy, 39 cents went to foreign production. This is because of the Cook Islands heavy reliance on imported products to meet local demand (including that derived from the tourism industry).

5.7.2 Goods Exports

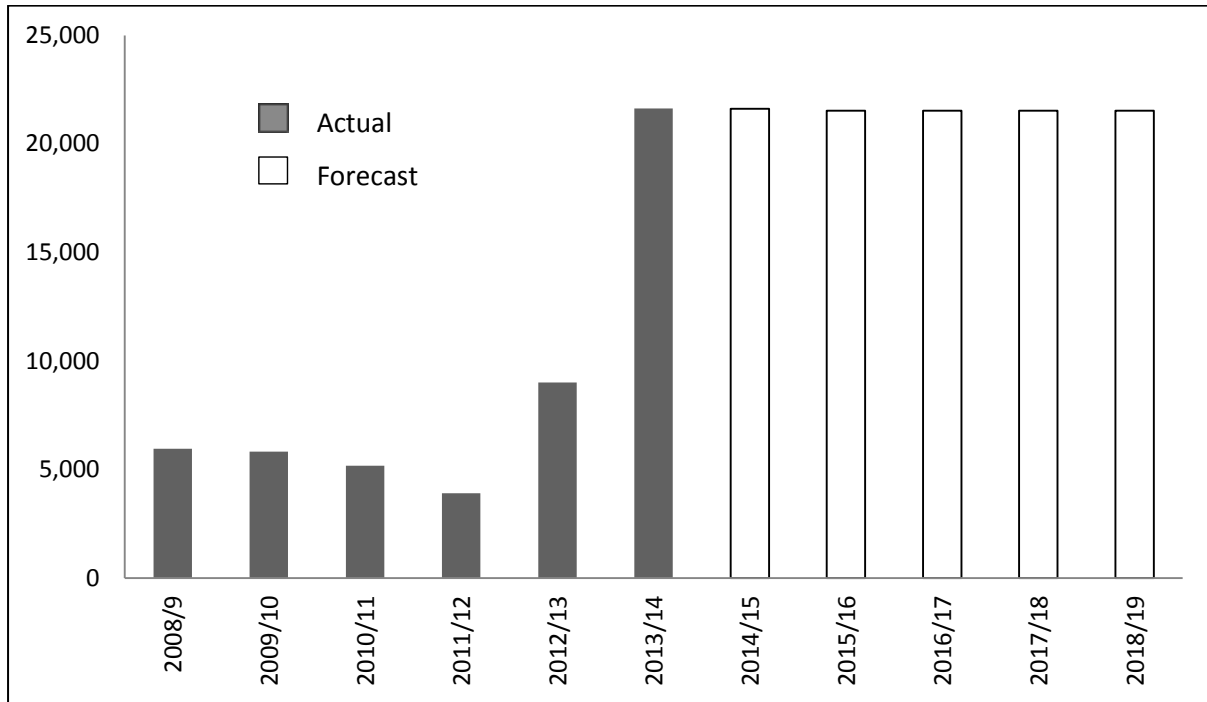
Total goods exports in 2013/14 grew to \$21.6 million, a \$12.6 million (40.1 per cent) increase on 2012/13, driven by a \$12.8 million increase in the export of fish. The growth in fish exports is due to the arrangement with Chinese fishing vessels (Huanan) being able to offload catch at Avatiu harbour via subsidised fuel costs.

For 2013/14, it is estimated that for every dollar earned in the economy, approximately 63 cents is derived from foreign sources (although this is almost exclusively driven by tourism, with a small contribution from goods exports).

It is expected that total goods exports declined 0.1 per cent in 2014/15 due to declines in noni exports more than offsetting a small increase in pearl exports. Exports are then forecast to decline

0.4 per cent in 2015/16, due largely to declines in non-fish exports. If the arrangement with Huanan is expanded above the present levels, these forecasts will need to be revised to accommodate the additional fish exports.

Chart 5.15 Total exports 2008/09 to 2018/19, (\$'000)



5.7.3 Balance of Trade

A negative merchandise balance of \$118.2 million is estimated for 2014/15, declining to a deficit of \$119.3 million in 2015/16. The decline is largely driven by a domestic demand for imports growing faster than exports.

Tourism dominates the services trade, with estimates for tourism spend reaching \$220.9 million for 2014/15, and \$227.3 million in 2015/16.

When estimated services trade is included, the forecast balance of trade is a surplus of \$102.7 million for 2014/15, and \$108.0 million in 2015/16. This trade surplus is expected to grow in line with tourism spending rising faster than the associated increases in imports (as at least a portion of tourism spending is attributable to local labour and business owners).

Chart 5.16 Balance of Merchandise (goods) Trade 2008/09 to 2018/19, (\$'000)

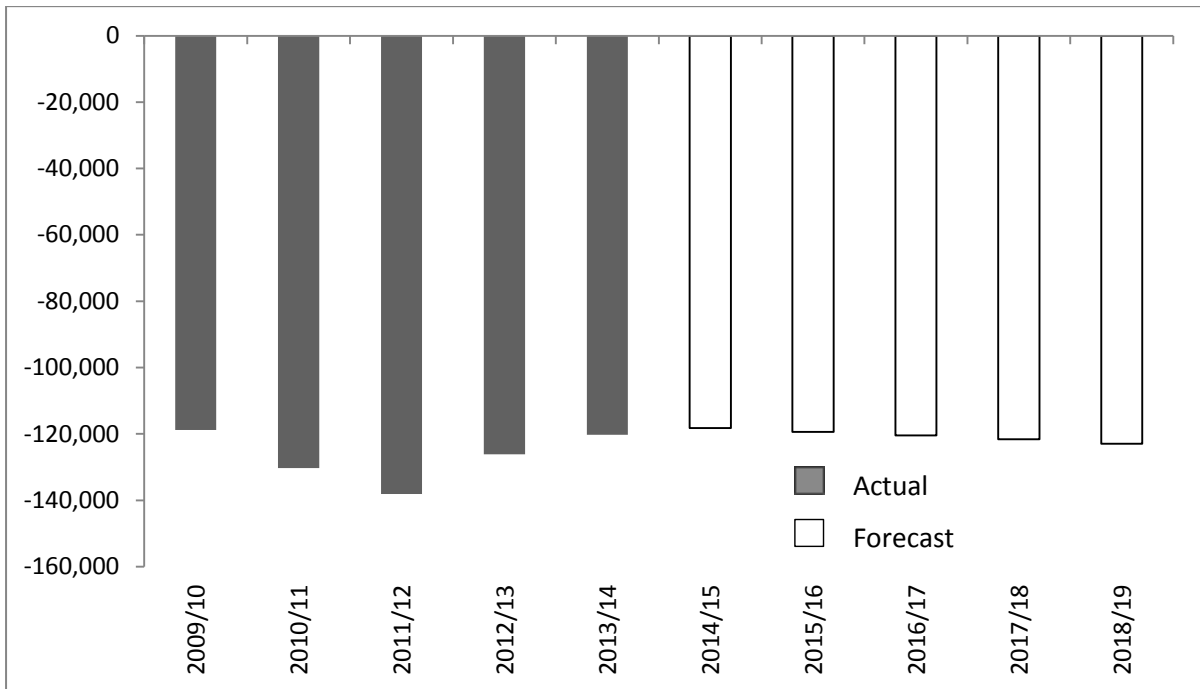


Chart 5.17 Balance of Services Trade 2008/09 to 2018/19, (\$'000)

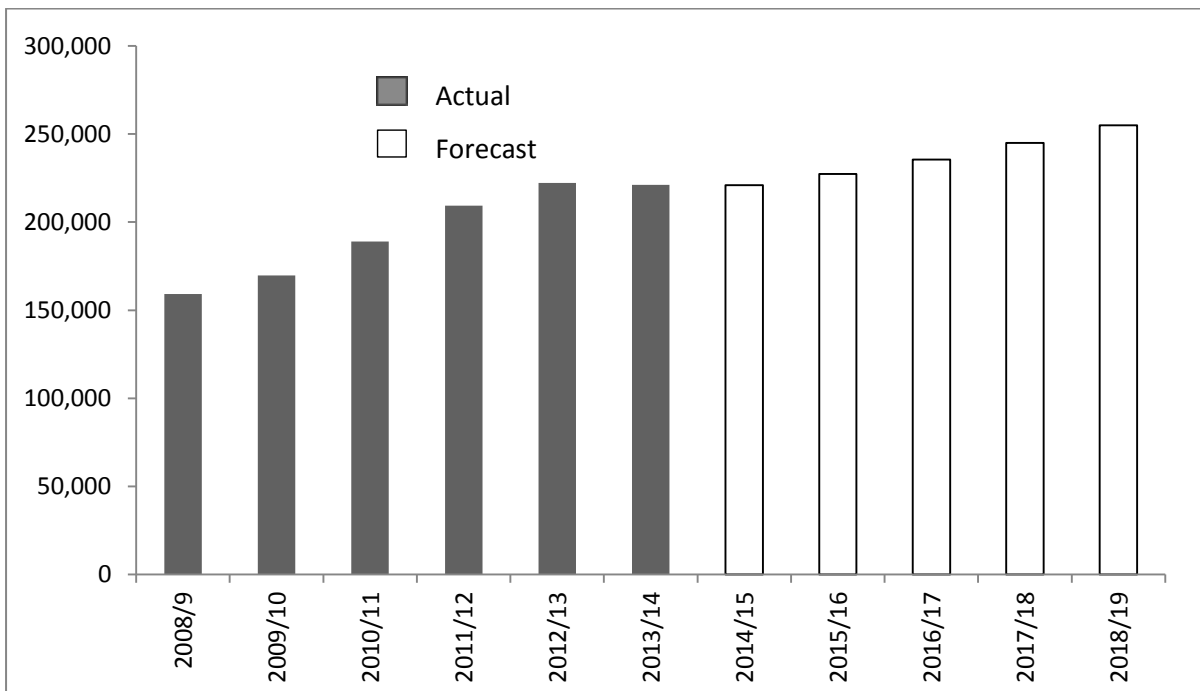
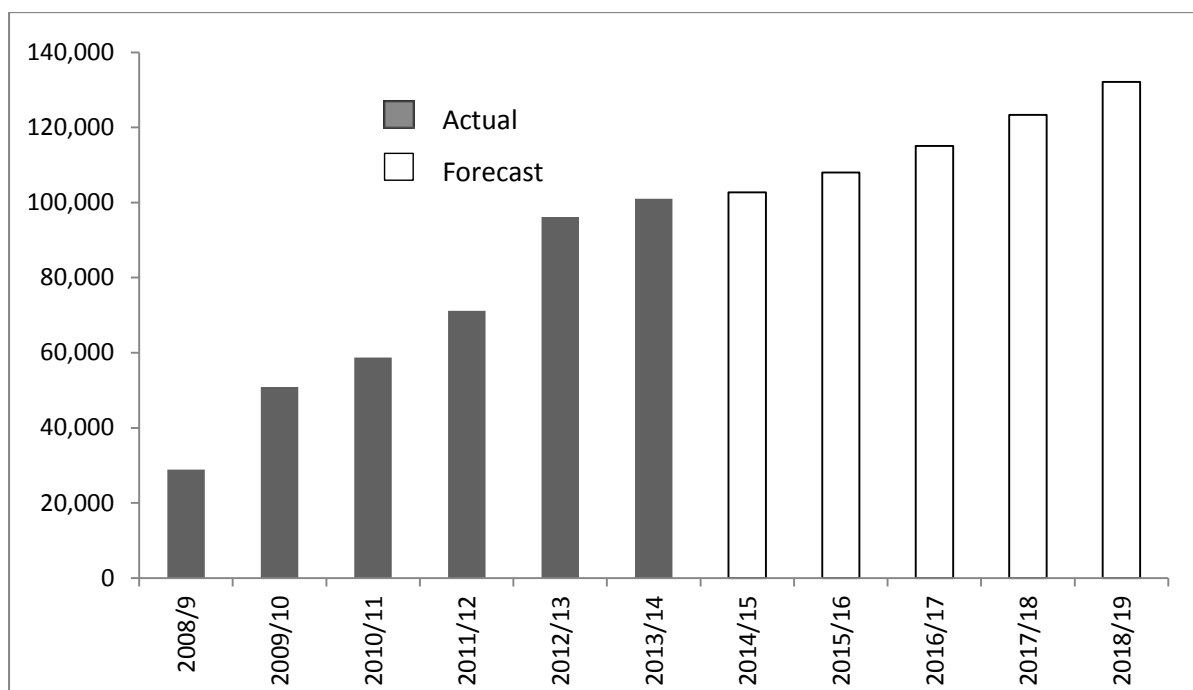


Chart 5.18 Overall Balance of Trade 2008/09 to 2018/19, (\$'000)



5.8 Banking and Finance

The Reserve Bank of Australia reports (March 2015) that there has been a decline in financial stability over the last six months, with international financial markets being more volatile following the divergent central bank actions around the world. The US Federal Reserve has withdrawing its monetary stimulus (although interest rates remain near all time lows) while the Euro area is still vulnerable. The stability in US markets, along with a falling oil price, has drawn international financial markets back towards developed economies (particularly the US) at the expense of emerging economies whose capital flows are becoming more volatile and unpredictable. The low interest rate environment in developed markets has also been encouraging more risk-taking behaviour among investors. Importantly for the Cook Islands, Australian and New Zealand financial markets remain stable.

Domestically, there have been positive developments, but non-performing loans and credit rationing remain an issue. The implementation of the Banking Review has been delayed, with future progress likely to be slow. According to the Financial Supervisory Commission, the local banking sector has begun to address the pool of non-performing loans (NPLs), with NPLs falling from 10.36 per cent in the June quarter 2014 to 8.6 per cent in the September quarter of 2014. Some of this improvement has come about through increased efforts to improve loan performance, with the remainder coming from writing off bad debts (with associated effects on profitability and company tax revenue).

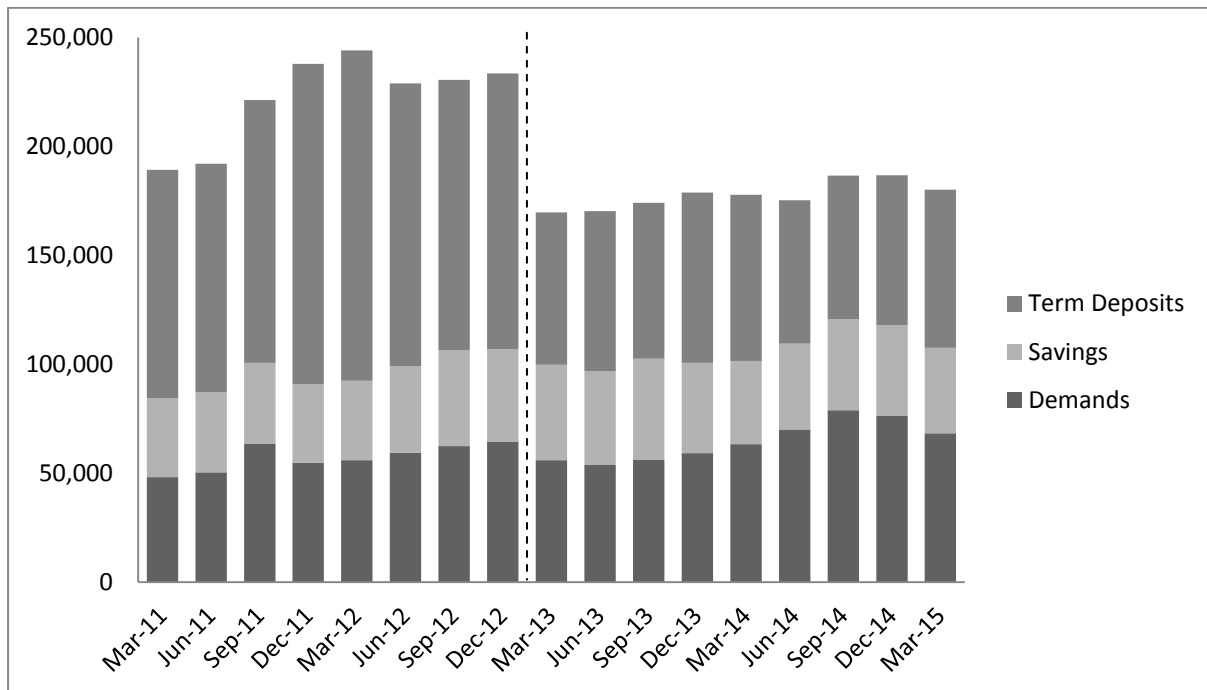
The recent efforts by BCI to lower interest rates for existing and new customers, along with the entry of the Bank of the South Pacific (BSP) and the departure of Westpac is likely to drive some competitive pricing on both deposit and loan offerings.

5.8.1 Deposits

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

Total deposits increased \$2.4 million between March 2014 and March 2015, to a total of \$180.2 million.

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

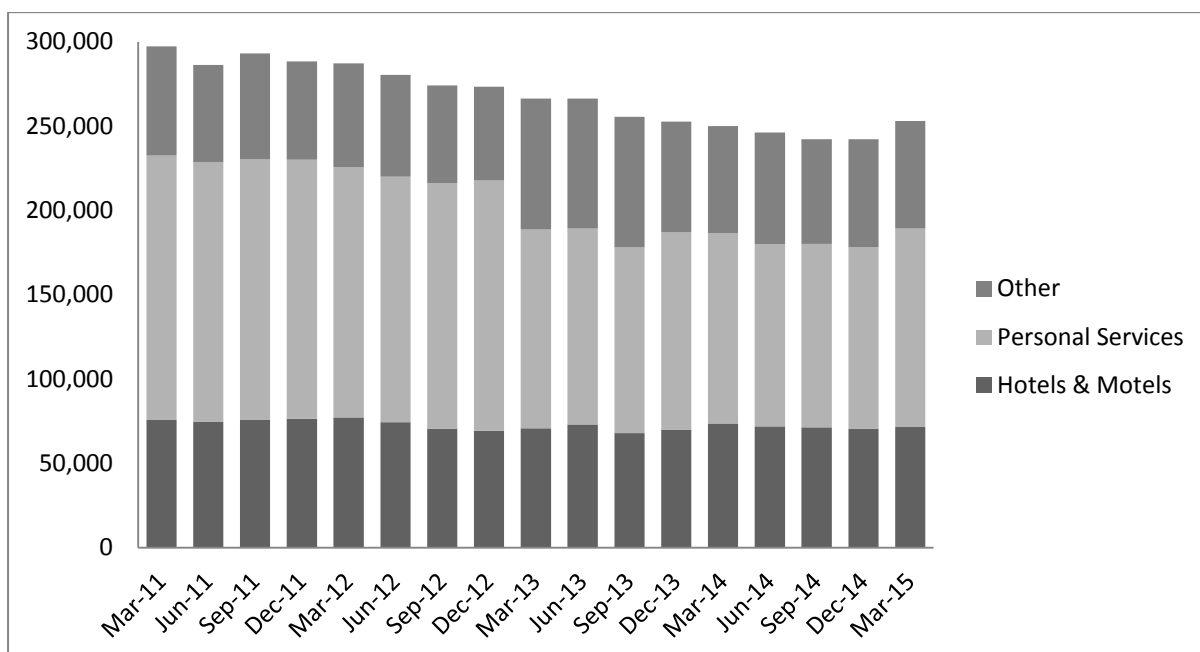


5.8.2 Loans

The overall total value of loans has been in a slow but steady decline since 2008, due largely to declines in personal credit, with March 2015 being the only exception. Total loans increased \$3.0 million between March 2014 and March 2015, to a total loan pool of \$253.0 million. Most of the increase was due to a \$5.0 million increase in personal services.

The on-going portfolio of non-performing loans, together with lenders engaging in credit rationing, is expected to weigh on loan growth going forward. However, the entry of BSP is expected to narrow interest rate spreads through price competition. It is difficult to see what effects this will have on the overall credit market, but the response is likely to be positive.

Chart 5.20 The Total Value of Loans, March 2011 to March 2015, (\$000)



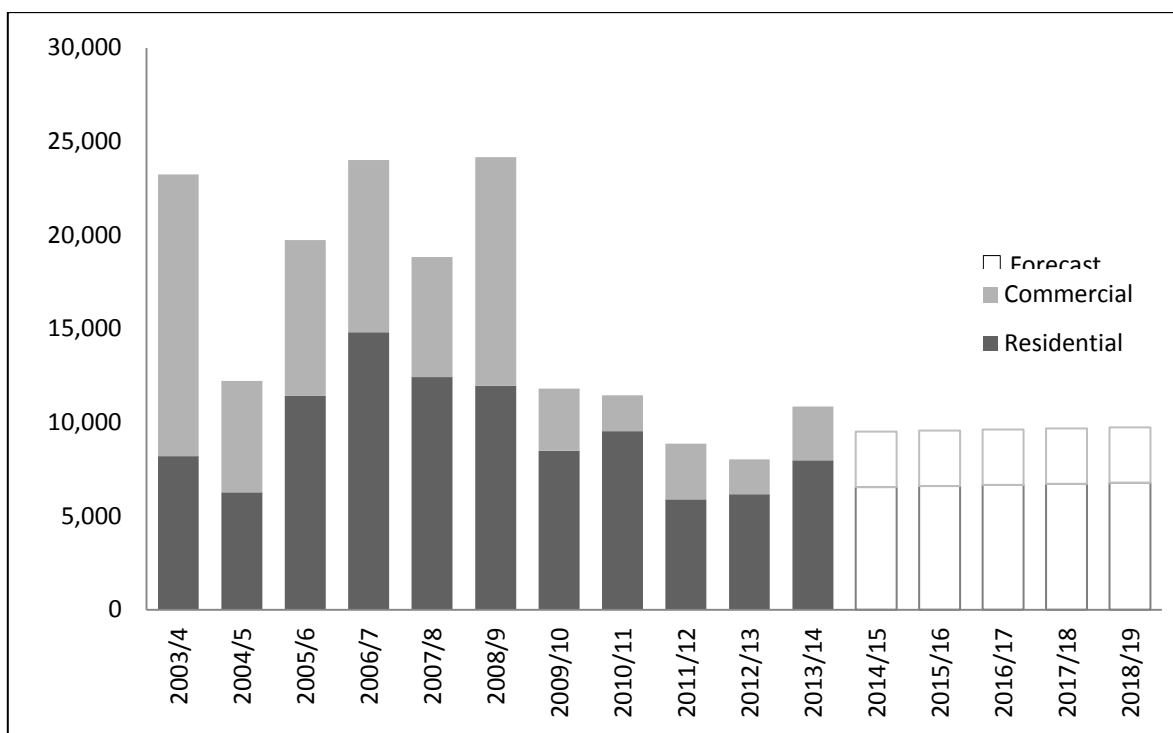
5.8.3 Housing and Construction

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

Despite total residential approvals being 8.9 per cent higher in 2014 than 2013, the value of approvals for residential construction in the December quarter 2014 were the lowest on record, at just \$0.3 million. Commercial approvals were higher however, at \$1.6 million, the highest since December 2011.

There is no data on actual work completed, and building times are likely to be extremely variable. For this reason commercial building approvals were not forecast due to their volatility and long lead times before construction. Residential approvals are less volatile however, so are more likely to give an indication of forward building activity. Using the current level of approvals, residential building activity is currently estimated to fall in 2014/15 by 17.8 per cent due largely to the low level of approvals in the December quarter 2014. Activity is then expected to increase by around 0.8 per cent from 2015/16 onwards.

Chart 5.21 Value of building approvals 2003/04 to 2018/19 (\$000)



5.9 Financial Services Industry

The financial services industry is estimated to collect fees of a net value of \$1.29 million for services undertaken in 2014/15. In 2015/16, net value of services is expected to be slightly higher at \$1.43 million due to changes in USD exchange rates, as registration fees are generally denominated in USD.

There has been slight decline in trust and limited liability company (LLC) registrations and an increase in company registrations for 2014/15. The Financial Supervisory Commission estimates no significant annual growth in the number of new international companies, LLCs, trusts and foundations registrations in 2015/16. Foundations continue to be registered at a slow rate. Captive Insurance is the newest service, with legislation passed in June 2013. The first captive registration occurred in April 2015.

New products and services as well as amended legislation for existing services are part of the effort to grow and diversify client markets. The International Companies Act is in the process of being overhauled and is expected to be passed in 2015/16. Focus continues on promotion of the Cook Islands in Asia, particularly for trusts, foundations, and companies. Promotion of captive insurance in the next year will be targeted to the Australia and New Zealand corporate markets, as well as to existing clients.

The industry continues to comply with international regulatory standards. At the end of 2013, numerous amendments to existing industry legislation were enacted to address areas of improvement highlighted in the country's 2012 OECD Global Forum Phase One Peer Review. The Phase Two Peer Review took place in May 2014 and a positive report was adopted at the Global Forum's session in early 2015. New legislation has also been passed to allow banks and trustee companies to comply with international tax information exchange agreements (namely FATCA out of the United States) and each financial institution has registered under FATCA. 2015/16 will see a follow up report to the Asia Pacific Group Mutual Evaluation Report on Anti-Money Laundering and Know Your Customer laws and practices ("MER"). The next MER is expected to be conducted with an on-site inspection in late 2017 and the report adopted and made public in July 2018.

5.10 Sensitivity Analysis

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

Scenario 1: Capital projects experience slippage similar to that experienced in the last two years – Capital projects contribute a substantial amount to the local economy and missed deadlines delay the economic benefit from wages, contractor fees, and the benefit of the completed infrastructure.

This scenario focuses mainly on activity being provided by local contractors, and allows for an additional 10 percentage slippage of current projects. This is in addition to the base assumption that only half of the currently budgeted projects will be fully implemented in the year they are budgeted for.

Scenario 2: Delay in the main capital projects – The capital investment pipeline is dependent on a handful of key infrastructure projects, mainly Te Mato Vai, renewable energy and the Apii Nikao rebuild. The renewable projects have a relatively small local production component, but Te Mato Vai has significant use of local labour.

This scenario allows for Te Mato Vai timelines to be extended by around 6 months, with local contractors being the main group affected.

Scenario 3: Weaker than expected tourism arrivals – if the weaker than anticipated tourism arrivals from key markets occurs in 2015/16 year, the tourism arrivals will need to be revised downwards. In particular, if growth in New Zealand arrivals does not offset declines in Australian tourists.

This scenario assumes that New Zealand arrivals do not grow in 2015/16, and that Australian arrivals continue the declines observed in 2014/15. The results indicate the ongoing importance of New Zealand tourist growth.

Table 5.12 Sensitivity Analysis

| Scenario | Impact on nominal GDP in 2015/16 (percentage contribution) | Impact on real GDP in 2015/16 (percentage contribution) | Impact on total revenue | |
|--|--|---|-------------------------|-----------------|
| | | | 2015/16 (\$000) | 2016/17 (\$000) |
| Scenario 1: Slippage in capital projects | -1.0 | -1.0 | -776 | -567 |
| Scenario 2: Delay in major projects | -0.9 | -0.9 | -771 | -100 |
| Scenario 3: Weak tourist arrivals | -1.0 | -1.0 | -888 | -1,492 |

6 Classification of Functions of Government (COFOG)

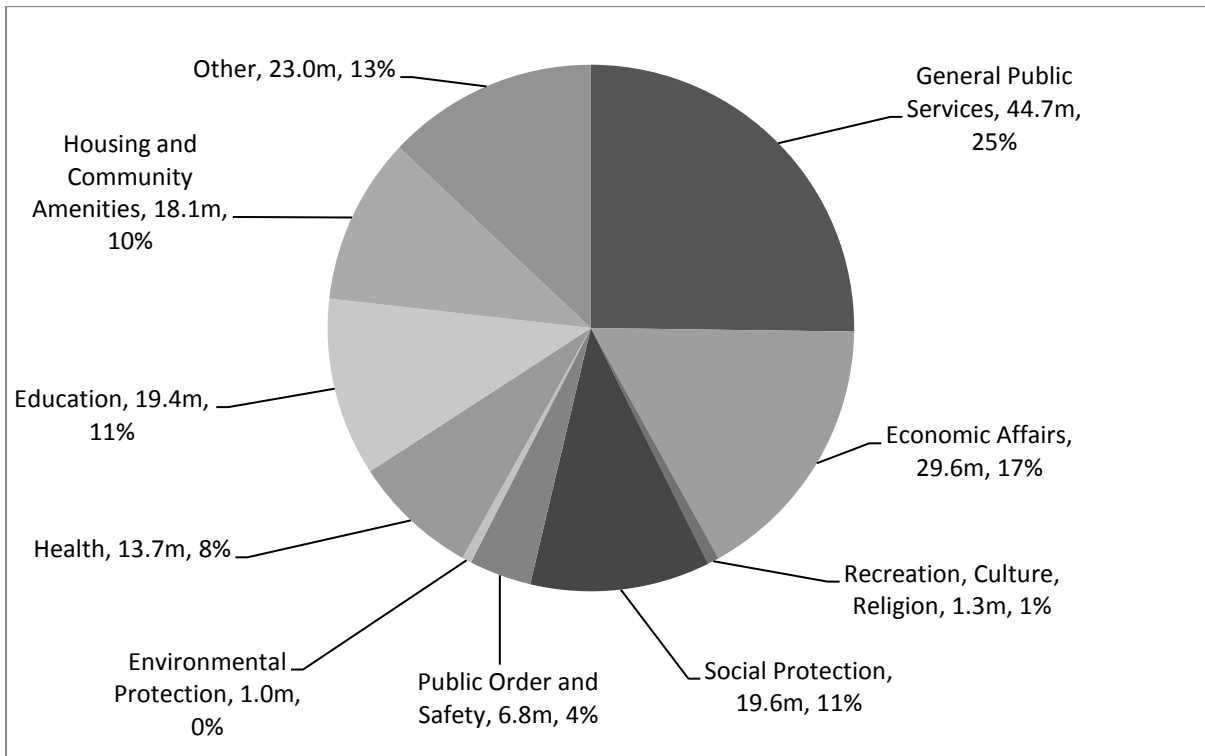
The Classification of the Functions of Government (COFOG) classifies government expenditure data by the purpose for which the funds are used. This standard classification allows for comparisons on functional expenditure across different jurisdictions

The COFOG has 10 main functions at the highest level and 69 functions at the second (sub-functional) level. Table 6.1 and Chart 6.1 classify the budget 2015/16 in the 10 main functional level.

Table 6.1 Classification of Functions of Cook Island Government Budget 2015/16

| COFOG Codes | Sector | Government Spending 2015/16 (\$ million) | Percentage % | ODA Spending 2015/16 (\$ million) | Percentage % |
|-----------------------------------|---------------------------------|--|--------------|-----------------------------------|--------------|
| 701 | General Public Services | 44.7 | 19.7% | 20.9 | 42% |
| | MFEM | 17.2 | 7.6% | 20.8 | 42% |
| | Parliament | 3.3 | 1.5% | 0.0 | 0% |
| | Outer Islands | 12.5 | 5.5% | 0.0 | 0% |
| | Ministerial | 1.7 | 0.7% | 0.0 | 0% |
| | Other | 10.0 | 4.4% | 0.1 | 0% |
| 704 | Economic Affairs | 29.6 | 13.1% | 12.8 | 26% |
| | Tourism | 21.6 | 9.5% | 0.0 | 0% |
| | Marine Resources | 1.8 | 0.8% | 1.08 | 2% |
| | Agriculture | 1.0 | 0.4% | 0.3 | 1% |
| | Other | 5.2 | 2.3% | 11.4 | 23% |
| 708 | Recreation, Culture, Religion | 1.3 | 0.6% | 0.0 | 0% |
| | Sport | 0.2 | 0.1% | 0.0 | 0% |
| | Culture | 1.0 | 0.5% | 0.0 | 0% |
| 710 | Social Protection | 19.6 | 8.7% | 0.4 | 1% |
| | Internal Affairs | 19.6 | 8.7% | 0.4 | 1% |
| 703 | Public Order and Safety | 6.8 | 3.0% | 0.6 | 1% |
| | Policing | 3.9 | 1.7% | 0.3 | 1% |
| | Justice | 2.2 | 1.0% | 0.3 | 1% |
| | Crown Law | 0.7 | 0.3% | 0.0 | 0% |
| 705 | Environmental Protection | 1.0 | 0.5% | 5.8 | 12% |
| 707 | Health | 13.7 | 6.0% | 0.4 | 1% |
| 709 | Education | 19.4 | 8.6% | 0.1 | 0% |
| 706 | Housing and Community Amenities | 18.1 | 8.0% | 8.0 | 16% |
| | ICI | 15.8 | 7.0% | 3.8 | 8% |
| | CIIC | 2.3 | 1.0% | 4.2 | 9% |
| | Other | 23.0 | 10.2% | 0.0 | 0% |
| | Gross Debt servicing | 4.7 | 2.1% | 0.0 | 0% |
| | Contingency | 0.2 | 0.1% | 0.0 | 0% |
| | Contingency Depreciation | 5.4 | 2.4% | 0.0 | 0% |
| | Expenditure Loans | 9.5 | 4.2% | 0.0 | 0% |
| | Debt Servicing | 2.2 | 1.0% | 0.0 | 0% |
| | Other | 1.0 | 0.4% | 0.0 | 0% |
| Total Government Spending | | 177.10 | 78% | 0.00 | 0% |
| ODA Contribution | | 49.12 | 22% | 49.12 | 100% |
| Total Appropriation Amount | | 226.22 | 100% | 49.12 | 100% |

Chart 6.1 Classification of Functions of Cook Island Government Budget 2015/16



Outside of general government expenditure, economic affairs is the largest area of Government expenditure, particularly tourism, which receives the largest amount of total funding of all areas of spending. Tourism spending is dominated by the underwrites of the two long haul flights to Los Angeles and Sydney.

Social protection (Internal Affairs and social welfare), education, and housing and community amenities (which includes general infrastructure) are the next largest areas with between 10 per cent to 11 per cent each.

7 Revenue

7.1 Total Revenue

Total Crown revenue (including ODA) is estimated to reach \$189.4 million in 2015/16, representing an increase of \$28.3 million on the \$161.1 million estimated to be received in 2014/15.

Revenue is measured in various manners:

- Total GFS operating revenue, which includes all revenue from taxation, non-taxation and other government sources;
- Total underlying operating revenue, which excludes the impact of official development assistance; and
- Total taxation revenue, which incorporates general taxation only.

As illustrated in Chart 7.1, total revenue mostly consists of general taxation (57 per cent), with a significant contribution from grants from other governments (26 per cent). The remaining revenue is from sources such as the sales of goods and services, dividends from SOE's, fines and interest on deposits held by Government.

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

**Table 7.1 Total GFS Revenue 2014/15 to 2018/19 (Transactions affecting Net worth)
(\$000)**

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|--------------------------------|-------------------|-------------------|---------------------|----------------------|----------------------|
| Taxes | 113,615 | 108,514 | 109,470 | 110,224 | 111,766 |
| Social Contribution | 20 | 44 | 44 | 44 | 44 |
| Grants | 32,498 | 49,115 | 46,485 | 26,139 | 5,547 |
| Other Revenue | 15,090 | 31,706 | 28,632 | 28,472 | 19,482 |
| Total Operating Revenue | 161,223 | 189,380 | 184,632 | 164,879 | 136,839 |
| Growth on Previous Year | | 17.5% | -2.5% | -10.7% | -17.0% |

Chart 7.1 Total GFS Revenue 2015/16 (Transactions affecting Net worth)

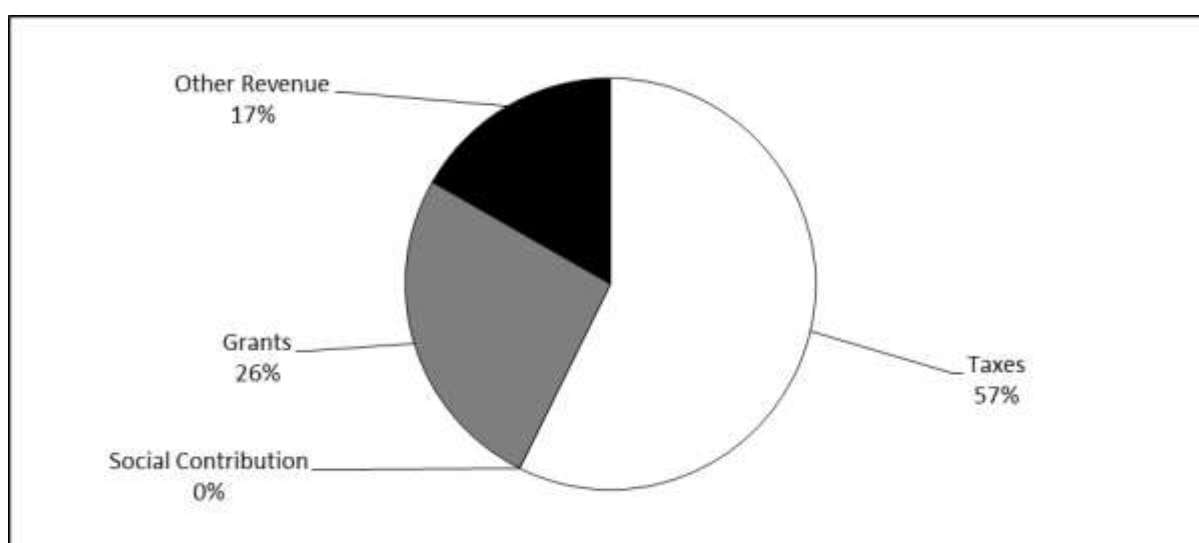


Table 7.2 Total Underlying Operating Revenue 2014/15 to 2018/19 (excluding ODA) (\$'000)

| | 2014/15 Actual \$'000 | 2015/16 Budget \$'000 | 2016/17 Estimate \$'000 | 2017/18 Projected \$'000 | 2018/19 Projected \$'000 |
|--|--------------------------|--------------------------|----------------------------|--------------------------------|--------------------------------|
| Taxation Revenue | 101,246 | 102,914 | 103,871 | 104,624 | 106,645 |
| Other Crown Revenue | 17,069 | 17,881 | 14,423 | 14,295 | 14,346 |
| Trading Revenue | 5,720 | 5,720 | 5,720 | 5,720 | 5,720 |
| Interest on Loans to Subsidiaries | 684 | 684 | 702 | 676 | 676 |
| Dividends | 2,115 | 2,020 | 2,020 | 2,020 | 2,020 |
| Interest on Balances | 1,848 | 1,885 | 1,885 | 1,885 | 1,885 |
| Higher Modality Partnership NZ | 0 | 7,910 | 8,175 | 8,130 | 0 |
| Public Sector Strengthening-processes and systems MFEM | 0 | 1,250 | 1,350 | 1,390 | 0 |
| Total Operating Revenue | 128,682 | 140,264 | 138,146 | 138,739 | 131,292 |
| Growth on Previous Year | | 9.0% | -1.5% | 0.4% | -5.4% |

Chart 7.2 Total Operating Revenue 2014/15 to 2018/19

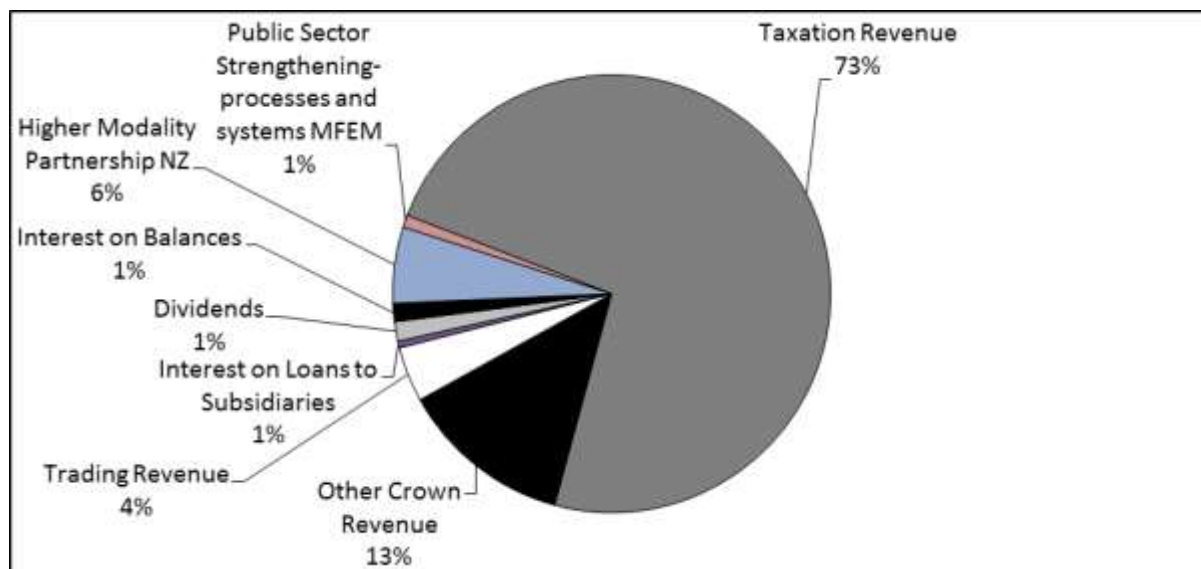


Table 7.3 GFS in comparison to previous budget standard formats 2014/15 to 2018/19 (\$'000)

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|--|-------------------|-------------------|---------------------|----------------------|----------------------|
| Revenue - Statement of Fiscal Responsibility | 128,682 | 140,315 | 138,197 | 138,790 | 131,292 |
| Plus - Grants | 32,498 | 49,115 | 46,485 | 26,139 | 5,547 |
| Plus - Interest on ODA | 70 | 70 | 70 | 70 | 70 |
| Revenue as per GFS Operating Statement | 161,250 | 189,500 | 184,752 | 164,999 | 136,909 |

Table 7.4 GFS reconciliation with previous classification 2014/15 to 2018/19 (\$'000)

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|--|-------------------|-------------------|---------------------|----------------------|----------------------|
| GFS Classification Taxes | 113,615 | 108,514 | 109,470 | 110,224 | 111,766 |
| Less: | | | | | |
| Fisheries Revenue | 11,546 | 9,787 | 10,018 | 10,018 | 10,018 |
| Motor Vehicle Registration | 775 | 875 | 875 | 875 | 875 |
| Motor Vehicle Dealers | 5 | 5 | 5 | 5 | 5 |
| Previous Classification Taxes | 101,289 | 97,847 | 98,572 | 99,326 | 100,868 |
| GFS Other Revenue | 15,090 | 31,706 | 28,632 | 28,472 | 34,308 |
| Plus: | | | | | |
| Fisheries Revenue | 11,546 | 9,787 | 10,018 | 10,018 | 10,018 |
| Motor Vehicle Registration | 775 | 875 | 875 | 875 | 875 |
| Motor Vehicle Dealers | 5 | 5 | 5 | 5 | 5 |
| Social Contribution | 20 | 44 | 44 | 44 | 44 |
| Previous Classification Other Revenue | 27,436 | 42,417 | 39,574 | 39,414 | 45,250 |
| Total Underlying Revenue | 128,725 | 140,264 | 138,146 | 138,740 | 146,118 |

7.2 Revenue Initiatives for 2015/16

Changes in the estimates of underlying revenue are made up of two types, parameter adjustments and policy decisions. Parameter adjustments result from factors outside of the immediate control of the Government, whereas policy decisions reflect the direct impact of the Government's decisions. The Government has made the following policy decisions.

Sale of Circulating Currency Cook Islands Coins

In August 2013, the Government announced that the Government would launch a set of new coins to celebrate the 50th anniversary of Cook Islands self-government on 4 August 2015.

MFEM will be responsible for delivering the Cook Islands' coinage reform and managing the process of distributing new coins and withdrawing old coins from circulation. All coin designs will be released in conjunction with a public awareness campaign to be launched mid-year.

The majority of the impact (seiniorage) will be felt in 2015/16 as the coins begin to go into circulation

Fisheries catch

For the 2015 calendar year, a total of 930 fishing days out of the 1,250 days allocated to the Cook Islands have been assigned to purse seine fishing fleets with an average price per day of \$10,000. The Government has entered into purse seine fishing agreements with three fishing companies.

Other revenue changes

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

Five per cent indexation of the levies on tobacco, alcohol, and sweetened drinks

Table 7.5 Indexation of Tobacco, Alcohol and Sweetened Drink Levies

| | 2014/15 Estimate | 2015/16 Budget | 2016/17 Projected | 2017/18 Projected | 2019/20 Projected |
|---|---------------------|-------------------|----------------------|----------------------|----------------------|
| Indexation of Tobacco, Alcohol and Sweetened drink levies | 0 | 188,000 | 386,000 | 595,000 | 814,000 |
| Total Revenue | 0 | 188,000 | 386,000 | 595,000 | 814,000 |

As announced at the time of the 2013 Tax Review, the annual indexation of all tobacco, alcohol, and sweetened drinks will increase at a rate of five per cent a year to reduce the affordability of these products over time. The rate of five per cent was selected so that the excise on these products will grow at rate higher than annual average inflation (which is around three per cent).

Over the past three years, the level of taxation on tobacco has increased substantially, but there is strong evidence that importers frontloaded their inventory orders to avoid the increased taxation in the short term, keeping their own import costs lower. However, retail prices to consumers increased in line with announced excise increases. This had the desired effect of increasing the cost of these products to consumers but importers gained a windfall profit at the expense of the Government and consumers. It is estimated that this windfall cost the taxpayer around \$2 million in lost revenue over 2013/14 and 2014/15.

The annual indexation on these products will take effect from 1 July 2015.

Table 7.6 Personal Income Tax

| | 2014/15 Estimate | 2015/16 Budget | 2016/17 Projected | 2017/18 Projected | 2019/20 Projected |
|-------------------------|---------------------|-------------------|----------------------|----------------------|----------------------|
| Personal income tax cut | 0 | -300,000 | -750,000 | -900,000 | -900,000 |

As part of the 2013 Tax Review, personal income tax rates were significantly reduced, with the intention of further reducing the share of income tax of the lower income bracket of incomes between \$11,000 and \$30,000. Consistent with this intention, the Government intends to further lower the lower income tax rate from 18.5 per cent in 2015, to 17.5 per cent from 1 January 2016, and 17.0 per cent from 1 January 2017.

Each half-percentage point reduction in income tax for this income bracket amounts to around \$300,000 in lost revenue per calendar year, and an increase of up to \$95 a year in individual incomes (up to \$190 a year for dual income households).

Table 7.7 Third Debt and Collections Officer

| | 2014/15 Estimate | 2015/16 Budget | 2016/17 Projected | 2017/18 Projected | 2019/20 Projected |
|-------------------------------|---------------------|-------------------|----------------------|----------------------|----------------------|
| Personnel | 0 | 38,000 | 38,000 | 38,000 | 38,000 |
| Operating | 0 | 4,000 | 4,000 | 4,000 | 4,000 |
| Revenue – Personal Income Tax | 0 | 125,000 | 250,000 | 250,000 | 250,000 |
| Net Budget Impact | 0 | 83,000 | 208,000 | 208,000 | 208,000 |

Ongoing compliance is a key to consolidating the tax base, the employment of an additional debt and return collection officer will assist in managing the large number of debt cases and intervene earlier where taxpayer's are falling behind meeting their obligations. It is estimated that the current stock of outstanding tax debt is around \$20 million, current collection is around 20 per cent of the stock.

Table 7.8 Customs Port Examination Unit

| | 2014/15 Estimate | 2015/16 Budget | 2016/17 Projected | 2017/18 Projected | 2019/20 Projected |
|--------------------------|---------------------|-------------------|----------------------|----------------------|----------------------|
| Personnel | 0 | 25,000 | 25,000 | 25,000 | 25,000 |
| Total Expenditure | 0 | 25,000 | 25,000 | 25,000 | 25,000 |

Estimates provided by a pilot program suggest that revenue is being lost due to the low examination rate of imports coming into the country via the main ports. Customs currently examine approximately five per cent of cargo arriving through the sea ports. With these extra resources the aim is to increase this examination rate to 15 per cent.

The additional funding will be used to fund part time customs officers to be contracted over the three day period when ships arrive into port, under the direction of an existing senior customs officer.

Table 7.9 Post Clearance Audit Officer

| | 2014/15 Estimate | 2015/16 Budget | 2016/17 Projected | 2017/18 Projected | 2019/20 Projected |
|-------------------------------|---------------------|-------------------|----------------------|----------------------|----------------------|
| Personnel | 0 | 34,000 | 34,000 | 34,000 | 34,000 |
| Operating | 0 | 4,000 | 4,000 | 4,000 | 4,000 |
| Revenue – Personal Income Tax | 0 | 125,000 | 250,000 | 250,000 | 250,000 |
| Net Budget Impact | 0 | 87,000 | 212,000 | 212,000 | 212,000 |

The greater automation of Customs activities in 2013/14 requires a post clearance audit function. These audits are necessary as most import entries will be filed and cleared electronically. A trial of this position was conducted in 2014; ten per cent of an FTE provided additional income of \$0.140 million in re-assessed duty.

Table 7.10 Impact of Policy decisions Underlying Operating Revenue

| Statement of Government Operations | 2015/16 Budget | 2016/17 Estimates | 2017/18 Projected | 2017/18 Projected |
|---|-------------------|----------------------|----------------------|----------------------|
| Revenue Parameter adjustments | -1,896 | 705 | -469 | 1,065 |
| VAT | -267 | 1,257 | 758 | 1,502 |
| Income tax | 1,147 | 1,990 | 1,733 | 2,127 |
| Company tax | -1,957 | -1,015 | -1,150 | -943 |
| Import levies | -977 | -1,401 | -1,696 | -1,755 |
| Withholding tax | 0 | 0 | 0 | 0 |
| Departure tax | -101 | -126 | -115 | 134 |
| FSC Vested Assets | 260 | 0 | 0 | 0 |
| Revenue Decisions | 15,186 | 15,559 | 15,485 | 6,185 |
| Fishing Licenses | 1,367 | 5,098 | 5,098 | 5,098 |
| Indexation of Tobacco, Alcohol and Sweetened drink levies | 188 | 386 | 595 | 814 |
| Personal income tax cut | -300 | -750 | -900 | -900 |
| Company tax - Third debt collection officer | 125 | 125 | 125 | 125 |
| VAT - Third debt collection officer | 125 | 125 | 125 | 125 |
| Import duty - Customs Port Examination Unit | 100 | 100 | 100 | 100 |
| Import duty - Post Clearance Audit Officer | 210 | 210 | 210 | 210 |
| Sale of NZ coins | 961 | 0 | 0 | 0 |
| Smelting of Old Coins | 135 | 0 | 0 | 0 |
| Sale of Circulating Currency Cook Islands Coins | 3,142 | 809 | 762 | 762 |
| Financial Services Development Authority | -14 | -14 | -14 | -14 |
| Instant Fines | -45 | -45 | -45 | -45 |
| Permits | -32 | -32 | -32 | -32 |

| Statement of Government Operations | 2015/16 Budget | 2016/17 Estimates | 2017/18 Projected | 2017/18 Projected |
|--|---------------------------|------------------------------|------------------------------|------------------------------|
| Bank of the Cook Islands - dividend | -76 | -76 | -76 | -76 |
| Drivers Licences | -100 | -100 | -100 | -100 |
| Motor Vehicle Registration | 100 | 100 | 100 | 100 |
| Interest on loans to subsidiaries | 18 | 18 | 18 | 18 |
| Foreign Investment Fees | 5 | 5 | 5 | 5 |
| International Shipping Licence | -5 | -5 | -5 | -5 |
| Liquor Licencing | 4 | 4 | 4 | 4 |
| Tattslotto Grants | -30 | -30 | -30 | -30 |
| Employer Liabilities | 24 | 24 | 24 | 24 |
| Tax Clawback on Public Sector Strengthening (personal income tax) | 33 | 1 | 2 | 2 |
| Higher Modality Partnership NZ | 7,910 | 8,175 | 8,130 | 0 |
| Public Sector Strengthening-processes and systems MFEM | 1,250 | 1,350 | 1,390 | 0 |
| Shipping Registration | 91 | 81 | 0 | 0 |
| Revenue Decisions | 3,702 | 202 | 202 | 202 |
| Fisheries Catch | 3,500 | 0 | 0 | 0 |
| Trading Revenue Adjustments | | | | |
| Tourism | 152 | 152 | 152 | 152 |
| Infrastructure Cook Islands | 50 | 50 | 50 | 50 |
| Total Revenue Changes | 16,992 | 16,466 | 15,218 | 7,452 |

7.3 Taxes

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

7.3.1 Direct Taxation

Table 7.11 Total Direct Taxation 2014/15 to 2018/19 (\$'000)

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|------------------------------|---------------------------|---------------------------|-----------------------------|------------------------------|------------------------------|
| Income tax | 21,897 | 22,192 | 21,889 | 21,898 | 22,292 |
| Company tax | 11,187 | 10,625 | 11,204 | 11,275 | 11,490 |
| Withholding tax | 388 | 0 | 0 | 0 | 0 |
| Total Direct Taxation | 33,472 | 32,817 | 33,094 | 33,173 | 33,782 |
| Growth on Previous Year | | -2.0% | 0.8% | 0.2% | 1.8% |

Chart 7.3 Total Direct Taxation 2015/16

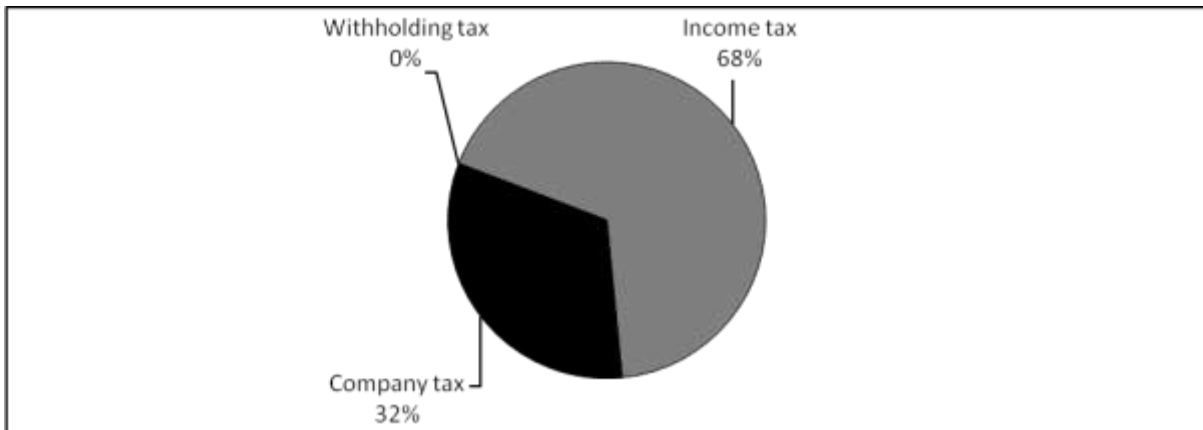
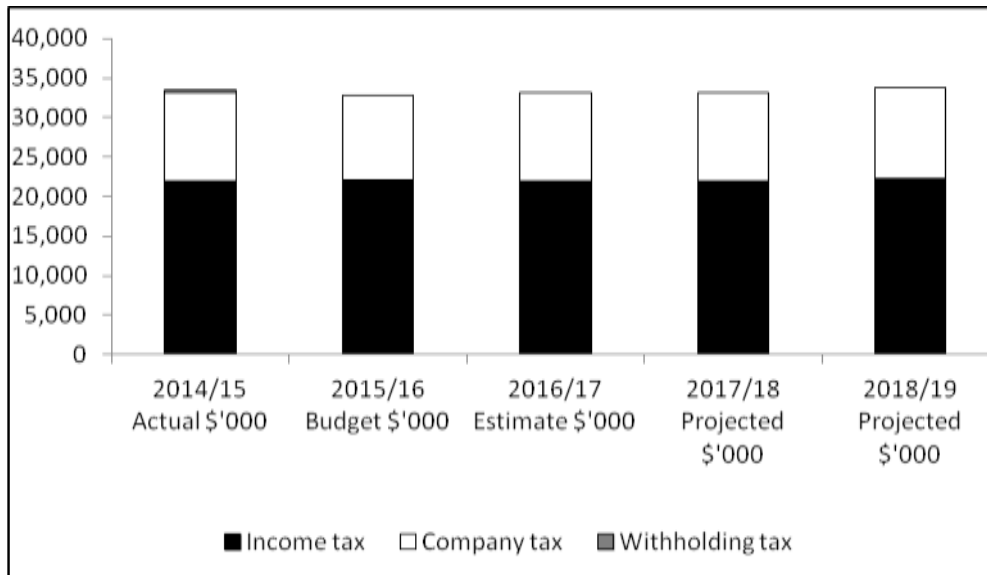


Chart 7.4 Total Direct Taxation 2015/16



Direct taxation (which includes company tax, income tax and withholding tax) is expected to decrease by 2.0 per cent in 2015/16.

Income tax is expected to reach \$22 million in 2015/16, with company tax falling to around \$10 million.

Company taxes are expected to decrease in 2015/16 due to the continuing write down in some non-performing assets and increased competition within the banking sector.

The 15 per cent withholding tax applies only on dividends generated by local companies which are repatriated overseas. This item cannot be reasonably forecast. As a result, no income is forecast, but it is expected to be collected.

7.3.2 Indirect taxation

Table 7.12 Total Indirect Taxation 2014/15 to 2018/19 (\$'000)

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|----------------------------------|-------------------|-------------------|---------------------|----------------------|----------------------|
| VAT | 49,063 | 50,316 | 50,601 | 50,854 | 51,598 |
| Departure tax | 7,655 | 7,817 | 8,015 | 8,251 | 8,527 |
| Import levies | 11,099 | 11,956 | 12,154 | 12,362 | 12,738 |
| Motor Vehicle Registration | 775 | 875 | 875 | 875 | 875 |
| Motor Vehicle Dealers | 5 | 5 | 5 | 5 | 5 |
| Fisheries Revenue | 11,546 | 9,787 | 10,018 | 10,018 | 10,018 |
| <i>Fisheries - US Treaties</i> | 4,280 | 4,280 | 780 | 780 | 780 |
| <i>Fisheries - Catch Revenue</i> | 1,700 | 1,700 | 1700 | 1700 | 1700 |
| <i>Fishing Licences</i> | 5,566 | 3,807 | 7538 | 7538 | 7538 |
| Total Indirect Taxation | 80,143 | 80,755 | 81,668 | 82,366 | 83,761 |
| Growth on Previous Year | | 0.8% | 1.1% | 0.9% | 1.7% |

Indirect taxation (which includes VAT, departure tax, import levies, motor vehicle registration, motor vehicle dealers and fisheries revenue) is expected to increase by 0.8 per cent in 2015/16.

VAT is expected to reach over \$50 million in 2015/16, a \$1.0 million increase on the estimated outcome for 2014/15 due to the full-year impact of the VAT increase to 15 per cent on 1 April 2014.

Departure Tax is estimated to be \$7.9 million in 2015/16, representing an increase of \$0.2 million on the \$7.7 million estimated outcome for 2014/15. This increase is due to the two per cent increase in departure tax to \$66.30. The two per cent increase is part of the annual indexation of departure tax to maintain the real value of the tax over time.

Import and excise-equivalent duties are estimated to increase in 2015/16, an increase of \$0.9 million on the \$11.0 million estimated outcome for 2014/15. Import levies are expected to grow in line with increased tariffs on tobacco products 1 July 2014, although inventory movements between financial years have complicated accurate forecasting of the revenue profile with suppliers shifting tobacco purchases forward to avoid increased tax rates.

Motor Vehicle Registration is estimated at a conservative \$0.9 million in 2015/16 representing an increase of \$0.1 million on the \$0.8 million provisional actual for 2014/15. The increase is supported by an increase in the number of vehicles imported, namely, motorbikes with engine capacity over 100cc.

Fisheries Revenue is estimated to be \$9.8 million in 2015/16. Fisheries revenue is composed of the Fisheries US treaties, Catch Revenue and Fishing Licences which is estimated to total \$10.0 million in the forward years.

The revenue from Motor Vehicle Dealers is estimated to remain constant over the years representing no change from the amount estimated for 2014/15.

Chart 7.5 Total Indirect Taxation 2014/15

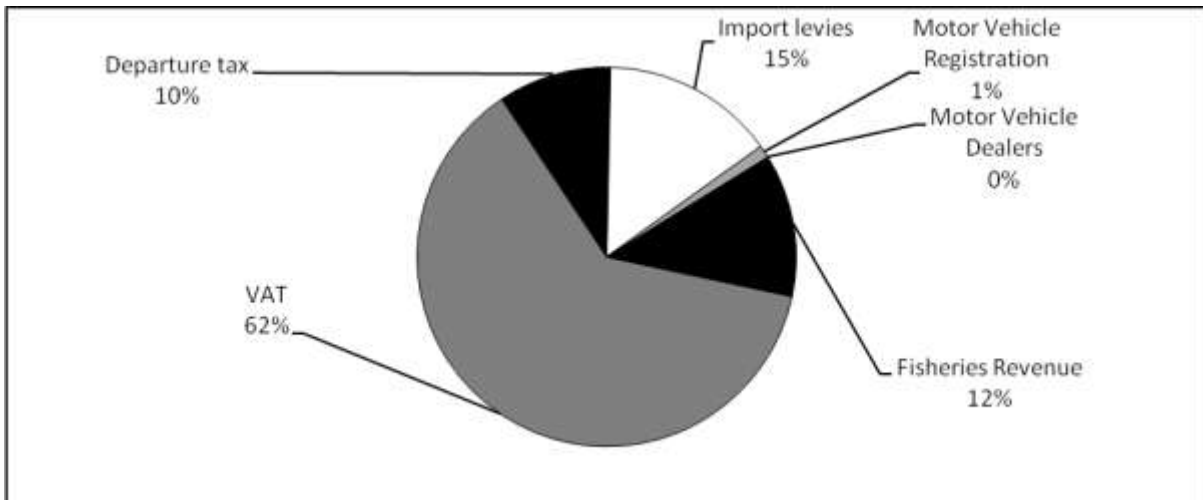
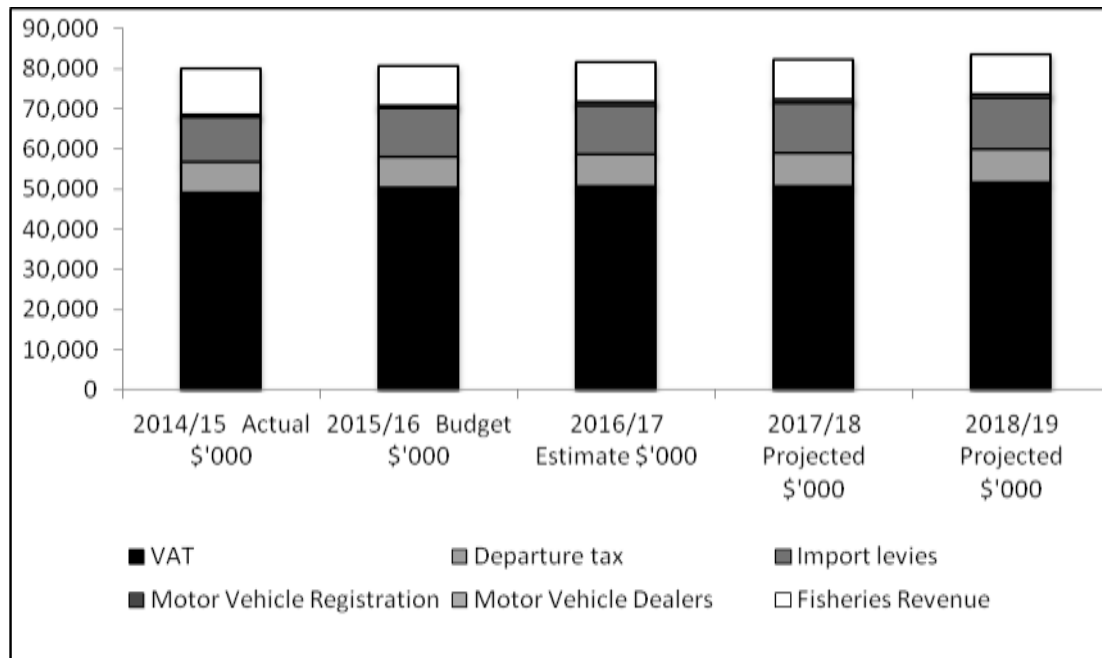


Chart 7.6 Total Indirect Taxation 2014/15 to 2018/19



7.3.3 Social Contributions

Table 7.13 Social Contributions 2014/15 to 2018/19 (\$'000)

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|-------------------------|-------------------|-------------------|---------------------|----------------------|----------------------|
| Employer Liabilities | 20 | 44 | 44 | 44 | 44 |
| Total | 20 | 44 | 44 | 44 | 44 |
| Growth on Previous Year | | 120.0% | 0.0% | 0.0% | 0.0% |

Social contributions are receipts from either employers on behalf of their employees, or from employees that secures entitlement to social benefits for the contributors, their dependents, or their survivors. The contributions may be compulsory or voluntary. The revenue classified under this category is the Employers Liability Insurance.

7.3.4 Grants

Table 7.14 Grants 2014/15 to 2018/19 (\$'000)

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|---|-------------------|-------------------|---------------------|----------------------|----------------------|
| Current grants from foreign governments | 9,635 | 21,481 | 17,899 | 18,222 | 3,817 |
| Capital grants from foreign governments | 22,793 | 27,635 | 28,586 | 7,917 | 1,730 |
| Interest on ODA Deposits | 70 | 70 | 70 | 70 | 70 |
| Total | 32,498 | 49,185 | 46,555 | 26,209 | 5,617 |
| Growth on Previous Year | | 51.4% | -5.3% | -43.7% | -78.6% |

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

Estimated current grants from development partners (foreign governments) in the 2015/16 also include receipts for committed capital projects in the Capital plan for the period 2015/16 to 2017/18.

7.3.5 Other Revenue

Table 7.15 Other Revenue 2014/15 to 2018/19 (\$'000)

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|--|-------------------|-------------------|---------------------|----------------------|----------------------|
| Interest | 2,532 | 2,569 | 2,587 | 2,561 | 2,561 |
| Dividends | 2,115 | 2,020 | 2,020 | 2,020 | 2,020 |
| Administrative fees | 8,272 | 7,916 | 7,666 | 7,666 | 7,666 |
| Incidental sales by nonmarket establishments | 705 | 4,838 | 1,409 | 1,362 | 1,362 |
| Fines, penalties, and forfeits | 1,340 | 70 | 70 | 70 | 70 |
| Miscellaneous and unidentified revenue | 20 | 26 | 26 | 26 | 26 |
| Total | 14,984 | 17,439 | 13,778 | 13,704 | 13,704 |
| Growth on Previous Year | | 16.4% | -21.0% | -0.5% | 0.0% |

7.3.6 Interest

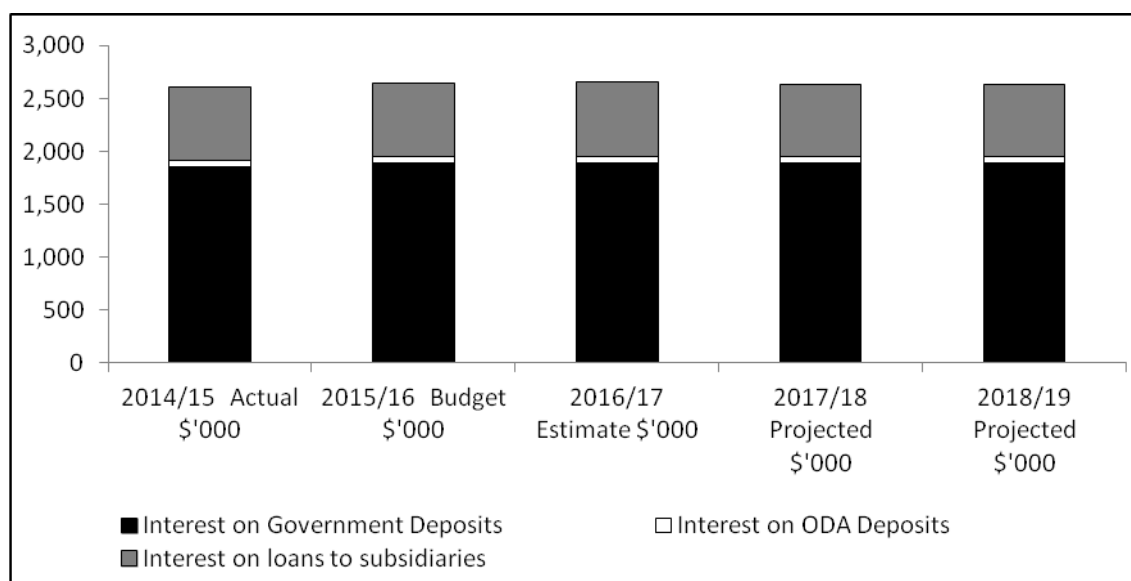
Interest revenue is estimated to be \$2.6 million in 2014/15, increasing slightly in the outer years 2015/16 to 2016/17.

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

Table 7.16 Total Interest 2014/15 to 2018/19 (\$'000)

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|-----------------------------------|-------------------|-------------------|---------------------|----------------------|----------------------|
| Interest on Government Deposits | 1,848 | 1,885 | 1,885 | 1,885 | 1,885 |
| Interest on ODA Deposits | 70 | 70 | 70 | 70 | 70 |
| Interest on loans to subsidiaries | 684 | 684 | 702 | 676 | 676 |
| Total | 2,602 | 2,639 | 2,657 | 2,631 | 2,631 |
| Growth on Previous Year | | 1.4% | 0.7% | -1.0% | 0.0% |

Chart 7.7 Total Interest 2014/15 to 2018/19



7.3.7 Dividends

Total dividends due to the Crown are estimated to reach \$2 million in 2015/16. This represents a decrease of \$0.1 million on the \$2.1 million actuals for 2014/15.

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

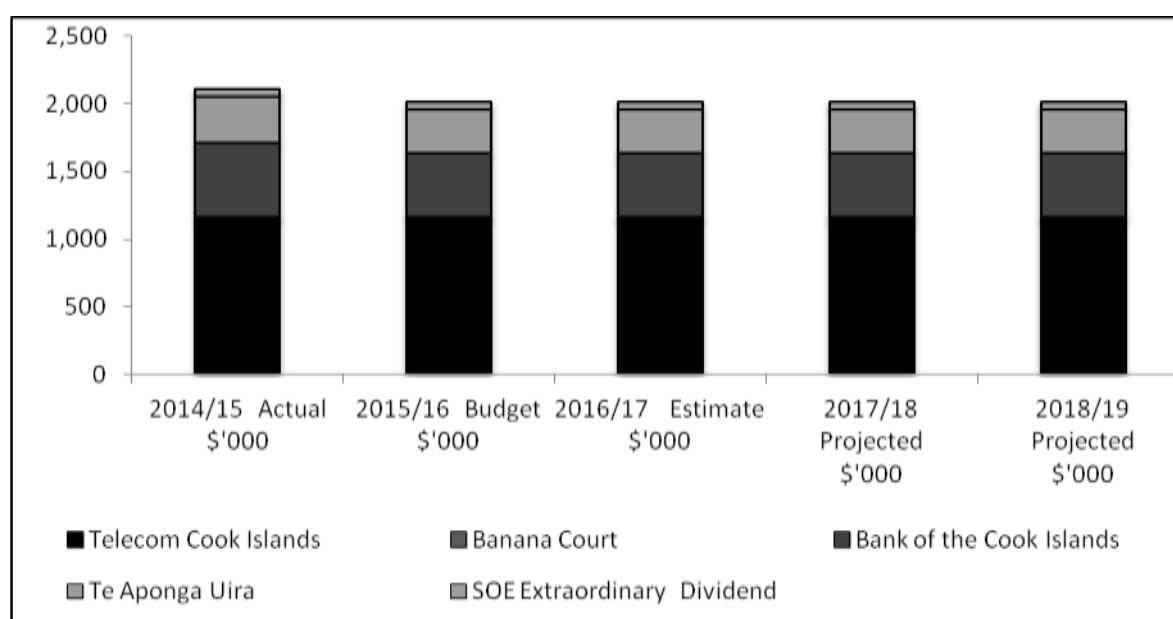
Bank of the Cook Islands (BCI) Dividend - is estimated to reach \$0.5 million in 2015/16, a slight decrease on the \$0.6 million provisional actuals for 2014/15.

Telecom Cook Islands Holdings (representing the government's 40 per cent ownership) is expected to provide a consistent dividend of \$1.2 million over the outer years.

Table 7.17 Total Dividends 2014/15 to 2018/19 (\$'000)

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|--------------------------|-------------------|-------------------|---------------------|----------------------|----------------------|
| Telecom Cook Islands | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 |
| Banana Court | 10 | 10 | 10 | 10 | 10 |
| Bank of the Cook Islands | 557 | 481 | 481 | 481 | 481 |
| Te Aponga Uira | 338 | 319 | 319 | 319 | 319 |
| SOE Capital User Charge | 60 | 60 | 60 | 60 | 60 |
| Total | 2,115 | 2,020 | 2,020 | 2,020 | 2,020 |
| Growth on Previous Year | | -4.5% | 0.0% | 0.0% | 0.0% |

Chart 7.8 Total Dividends 2014/15 to 2018/19



7.3.8 Administrative Fees

A number of administrative fees are collected by agencies of government. These include regulatory charges which are returned to the crown and trading revenue which are retained by agencies. Total Regulatory fees are estimated to be \$7.9 million in 2015/16 and are made up of:

- Financial Services Fees – \$0.26 million in revenue is estimated to be received in 2015/16 representing a decrease of \$0.02 million on the \$0.28 million provisional actual for 2014/15.
- Immigration Fees – \$0.58 million in revenue is estimated to be received in 2015/16 representing a decrease of \$0.01 million on the \$0.59 million provisional actual for 2014/15.
- Tattslotto Grants – \$0.12 million in revenue is estimated to be received in 2015/16 representing a decrease of \$0.02 million on the provisional actual for 2014/15. This is expected to remain constant over the outer years. \$0.12 million of the proceeds from the Tattslotto grants is channelled through to CISNOC via a POBOC and any additional funds received will be returned back to the Crown. Noting that previous debt owed by CISNOC was carried by the Crown.
- Censorship Fees – \$0.01 million in revenue is estimated to be received in 2015/16. Total fees are anticipated to remain unchanged in the outer years.

- Permits – \$0.02 million in revenue is estimated to be received in 2015/16 representing a slight decrease of \$ 0.04 million on the \$0.06 provisional actual for 2014/15. This is due to a revision of fee structures for the Firearm Fee which is expected to Increase from 1 July 2014.
- Driver’s License – \$0.18 million in revenue is estimated to be received in 2015/16 representing a slight decrease of \$0.17 on the \$0.35 million provisional actual for 2014/15. In April 2014 the Transport Act was amended whereby visitors from overseas with valid driver’s licences did not require obtaining a Cook Islands driver’s license. Overseas licences could now be used for a period of 6 months here in the Cook Islands on classes they hold on their overseas driver’s licence.
- Research Fee – is estimated to remain constant for 2015/16 and outer years. Research fees are issued by the Office of the Prime Minister to individuals who wish to conduct any official research on the Cook Islands.
- Shipping Registration – \$0.14 million in revenue is estimated to be received in 2015/16 representing an increase of \$0.01 million from the \$0.13 million provisional actual for 2014/15. The agreement between Maritime Cook Islands (MCI) and the Government, under which MCI operates the Cook Islands Ship Registry, provides for a base fee and a turnover fee. The turnover fee becomes payable when the three year moving average of MCI’s sales is positive. The growth factor for the forecast period is 5.5% which is based on an approximately 35% increase in the three year moving average of MCI’s sales. The 5.5% Growth Factor is applied to MCI’s sales (estimated at \$4,500,000) to achieve the turnover fee payable by MCI. If this turnover fee is greater than the base fee then MCI has to pay the difference between the Turnover fee and the base fee (paid quarterly) in one lump sum in July of the following year. MCI Financial year runs from January to December.
- International Shipping License – \$0.01 million in revenue is estimated to be received in 2015/16 representing a slight decrease on provisional actual for 2014/15.
- Liquor License – \$0.03 million in revenue is estimated to be received in 2015/16 representing a slight increase on the provisional actual for 2014/15.
- Upper Air Space Management – \$0.51 million in revenue is estimated to be received in 2015/16 representing an increase of \$0.01 million on the \$0.50 million provisional actual for 2014/15. The Cook Islands receives a portion of funds paid by airlines using the upper airspace of four Pacific nations (Samoa, Tonga, Cook Islands and Niue) estimates for the outer years are expected to increase at a constant rate.

Ministry Trading Revenue – \$5.72 million in revenue is estimated to be received in 2015/16 representing a slight increase on the \$5.61 million provisional actuals for 2014/15. Trading revenue provides a means of recovery for operational costs incurred in delivering services.

Table 7.18 Administrative Fees 2014/15 to 2018/19 (\$'000)

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|--|-------------------|-------------------|---------------------|----------------------|----------------------|
| Financial Services Fees | 276 | 262 | 262 | 262 | 262 |
| FSC Vested Assets | 500 | 260 | 0 | 0 | 0 |
| Immigration Fees | 587 | 584 | 584 | 584 | 584 |
| IMO Subscription - Maritime Cook Islands | 63 | 63 | 63 | 63 | 63 |
| Tattslotto Grants | 143 | 120 | 120 | 120 | 120 |
| Censorship Fees | 12 | 12 | 12 | 12 | 12 |
| Permits | 56 | 24 | 24 | 24 | 24 |
| Drivers Licences | 350 | 180 | 180 | 180 | 180 |
| Research Fee | 1 | 1 | 1 | 1 | 1 |
| Shipping Registration | 130 | 140 | 150 | 150 | 150 |
| International Shipping Licence | 15 | 10 | 10 | 10 | 10 |
| Liquor Licensing | 26 | 30 | 30 | 30 | 30 |
| Upper Air Management Agreement | 498 | 510 | 510 | 510 | 510 |
| Total Trading Revenue | 5,614 | 5,720 | 5,720 | 5,720 | 5,720 |
| Total | 8,272 | 7,916 | 7,666 | 7,666 | 7,666 |
| Growth on Previous Year | | -4.3% | -3.2% | 0.0% | 0.0% |

7.3.9 Incidental Sales by Nonmarket Establishments

Sales of Numismatic Currency – \$0.5 million in revenue is estimated to be received in 2015/16 representing a constant trend in the forward years.

Sale of Circulating Currency– \$4.3 million in revenue is estimated to be received in 2015/16 a \$4.1 million dramatic increase on the estimated outcome for 2014/15. The 2015/16 estimate of \$4.3 million is due to the renewal of stock of Cook Islands demonials circulating currency.

Table 7.19 Incidental Sales by Nonmarket Establishments 2014/15 to 2018/19 (\$'000)

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|--------------------------------------|-------------------|-------------------|---------------------|----------------------|----------------------|
| Circulating Currency - Notes & Coins | 205 | 4,338 | 909 | 862 | 862 |
| Numismatics | 500 | 500 | 500 | 500 | 500 |
| Total | 705 | 4,838 | 1,409 | 1,362 | 1,362 |
| Growth on Previous Year | | 586.2% | -70.9% | -3.4% | 0.0% |

7.3.10 Fines, Penalties and Forfeits

Court Services – \$0.05 million in revenue is estimated to be received in 2015/16 representing no change on the provisional actual for 2014/15.

Instant Fines – \$0.02 million in revenue is estimated to be received in 2015/16 representing a decrease of \$0.04 million on provisional actual for 2014/15. No changes are expected for the outer years.

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

Table 7.20 Fines, Penalties and forfeits 2014/15 to 2018/19 (\$'000)

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|--------------------------------|-------------------|-------------------|---------------------|----------------------|----------------------|
| Court Services | 50 | 50 | 50 | 50 | 50 |
| Instant Fines | 65 | 20 | 20 | 20 | 20 |
| Fishing Fines | 1,225 | 0 | 0 | 0 | 0 |
| Total | 1,340 | 70 | 70 | 70 | 70 |
| Growth on Previous Year | | -94.8% | 0.0% | 0.0% | 0.0% |

7.3.11 Miscellaneous and Unidentified Revenue

Foreign Investment Fees – \$0.03 million in revenue is estimated to be received in 2015/16 representing a slight increase on provisional actual 2014/15. No change is expected for the outer years.

The application for Foreign Investment is a set fee of \$750 for any application. An expected increase is anticipated in 2015/16 based on the assumption that foreign investment applicants will increase in Public Sector Projects such as Te Mato Vai and Renewable Energy.

Table 7.21 Miscellaneous and Unidentified Revenue 2014/15 to 2018/19 (\$'000)

| | 2014/15 Actual | 2015/16 Budget | 2016/17 Estimate | 2017/18 Projected | 2018/19 Projected |
|--------------------------|-------------------|-------------------|---------------------|----------------------|----------------------|
| Foreign Investment -BTIB | 20 | 26 | 26 | 26 | 26 |
| Total | 20 | 26 | 26 | 26 | 26 |
| Growth on Previous Year | | 27.7% | 0.0% | 0.0% | 0.0% |

8 Expenditure

8.1 Total Expenditure

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

Total Crown expenditure will be \$149.4 million in 2015/16, an increase of \$8.7 million for 2015/16 estimated at the time of the 2014/15 budget. The projected expenditure is expected to decline by \$2 million in 2016/17, \$1.2 million in 2017/18 and \$12.5million in 2018/19.

Table 8.1 Total GFS Expenditure 2014/15 to 2018/19 (Transactions affecting Net worth) (\$'000)

| | 2014/15 Budget | 2015/16 Budget | 2016/17 Estimates | 2017/18 Projected | 2018/19 Projected |
|-------------------------------|-------------------|-------------------|----------------------|----------------------|----------------------|
| Compensation of employees | 48,704 | 50,183 | 48,975 | 48,851 | 48,685 |
| Use of goods and services | 42,242 | 48,964 | 46,594 | 45,680 | 33,249 |
| Depreciation | 9,785 | 9,775 | 11,768 | 11,784 | 11,771 |
| Interest | 2,137 | 2,087 | 1,962 | 1,686 | 2,085 |
| Subsidies | 15,026 | 14,926 | 14,926 | 14,926 | 15,026 |
| Grants | 0 | 155 | 5 | 5 | 0 |
| Social benefits | 17,501 | 17,887 | 17,746 | 17,748 | 17,570 |
| Other expense | 5,323 | 5,457 | 5,457 | 5,457 | 5,267 |
| | 140,722 | 149,437 | 147,434 | 146,139 | 133,654 |
| Less ODA Current | 17,527 | 21,481 | 17,899 | 18,222 | 3,817 |
| Underlying Expenditure | 123,195 | 127,956 | 129,535 | 127,917 | 129,837 |

Chart 8.1 Total GFS Expenditure 2015/16 (Transactions affecting Net worth)

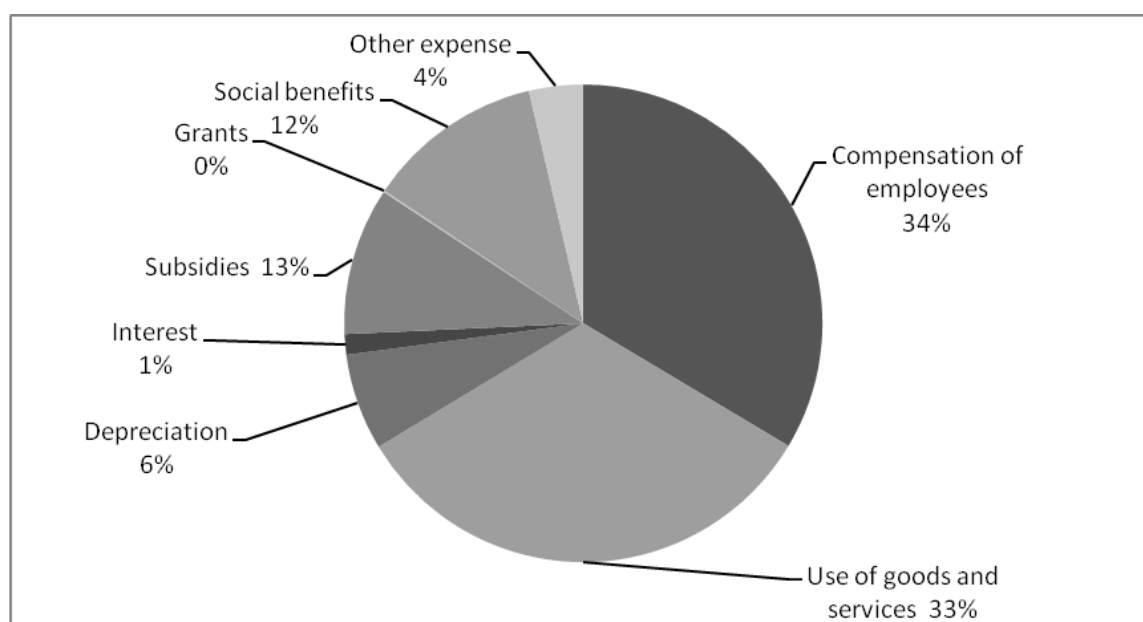
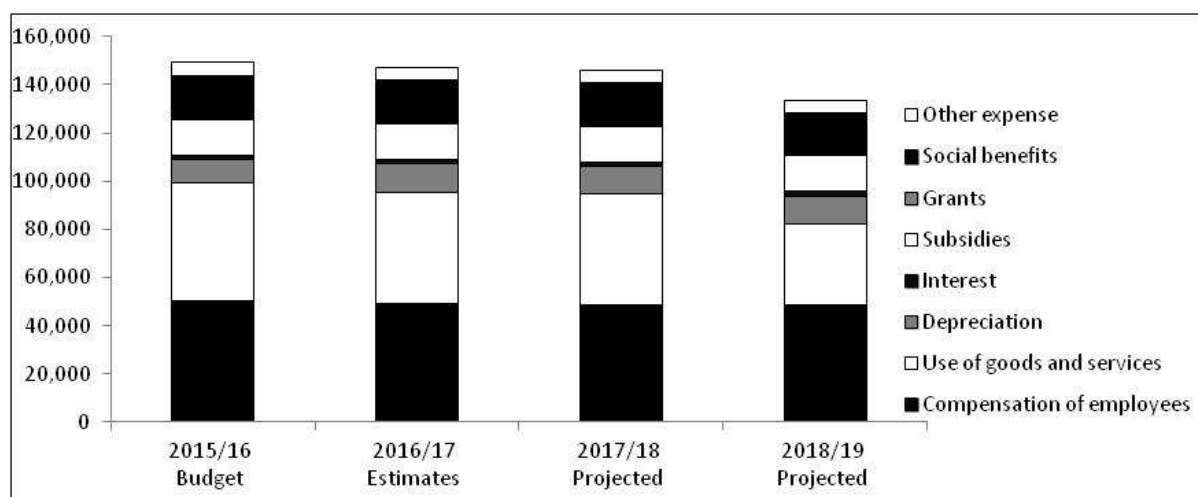


Chart 8.2 Total GFS Expenditure 2015/16 (Transactions affecting Net worth)



Operating expenditure refers to expenditure on the delivery of government’s core outputs by the public service. Operating expenditure is predominately made up of compensation of employees (34 per cent), use of goods and services (33 per cent), subsidies (13 per cent), social benefits (12 per cent) and other operating expenditure (4 per cent). Total operating expenditure is estimated to come in at \$149.4 million for 2015/16.

Compensation to Employees (formerly Personnel)

The compensation to employee’s expenditure estimated for 2015/16 has increased to \$50.2 million, this represents a \$1.4 million increase in comparison to the estimated outcome for 2014/15.

Use of Goods and Services (formerly operating expenditure)

The total operating expenditure estimated for 2015/16 has increased to \$49.0 million. Overall, this an additional \$6.7 million increase in comparison to the estimated outcome for 2014/15. This is mainly due increase in agency baselines.

Consumption of Fixed Capital (formerly Depreciation)

Total depreciation for 2015/16 is estimated to be \$9.775 million, accounting for a \$0.010 million decrease on the 2014/15 estimated outcome as a result of government owned assets being written off by the Crown.

Debt Servicing Payments

Debt servicing payments incorporate both interest and principal payments for 2015/16, the total is estimated to be \$6.793 million, a increase of \$0.240 million from what was estimated in 2014/15. An amount of \$7.986 million is transferred into a the Loan Reserve Fund annually (which includes the retained interest earned in the LRF). This is different from the actual debt service which is the total amount transferred out of the LRF. Readers should refer to the Debt chapter for more information; it also includes the estimate movement of the LRF over the next four years.

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

Table 8.2 Total Operating Expenditure 2014/15 to 2018/19 (\$000)

| | 2014/15 Estimated Spend | 2015/16 Budget | 2016/17 Estimate | 2017/18 Forecast | 2018/19 Forecast |
|---|-------------------------------|-------------------|---------------------|---------------------|---------------------|
| Operating Expenditure | | | | | |
| Ministry Outputs | 65,566 | 70,850 | 70,222 | 69,808 | 65,757 |
| <i>Personnel</i> | 46,477 | 48,541 | 48,000 | 47,875 | 46,660 |
| <i>Operating</i> | 15,357 | 18,535 | 18,433 | 18,152 | 15,317 |
| <i>Depreciation</i> | 3,732 | 3,774 | 3,789 | 3,782 | 3,780 |
| Payments on Behalf of the Crown | 47,527 | 54,594 | 51,976 | 51,060 | 45,412 |
| Operational Support Airport Authority | 2,048 | 2,048 | 2,048 | 2,048 | 2,048 |
| Payment to BCI for Outer Islands Services | 181 | 120 | 120 | 120 | 120 |
| Concessional Loan to Vanilla Farmers (BCI) | 0 | 150 | 0 | 0 | 0 |
| Jubilee Jumpstart Primary School Saver | 0 | 230 | 0 | 0 | 0 |
| Public Service Retirement Package | 0 | 672 | 12 | 41 | 41 |
| Ports Authority – Social Responsibility | 0 | 110 | 110 | 110 | 110 |
| Te Aponga Uira | 350 | 380 | 380 | 380 | 380 |
| Debt Interest contribution to loan reserve fund * | 2,227 | 2,246 | 2,246 | 2,246 | 2,246 |
| Asset Management (CIIC) | 1,800 | 1,798 | 1,798 | 1,798 | 1,798 |
| Crown Infrastructure Depreciation | 2,920 | 2,920 | 3,682 | 3,682 | 3,682 |
| Transfer to Disaster Response Trust Fund | 400 | 50 | 50 | 50 | 50 |
| Depreciation Contingency Fund | 3,100 | 2,490 | 4,338 | 4,338 | 3,929 |
| Disaster/ Contingency Operating Expenses | 190 | 100 | 100 | 100 | 100 |
| Total Operating Expenses | 126,310 | 138,758 | 137,083 | 135,783 | 125,674 |

*Note: these figures are the amortised debt interest payment to the Loan Reserve Fund (LRF), and are not the actual debt interest (which is recorded in the GFS and financial statements). Debt interest payments are taken from the LRF.

Chart 8.3 Total Operating Expenditure 2015/16

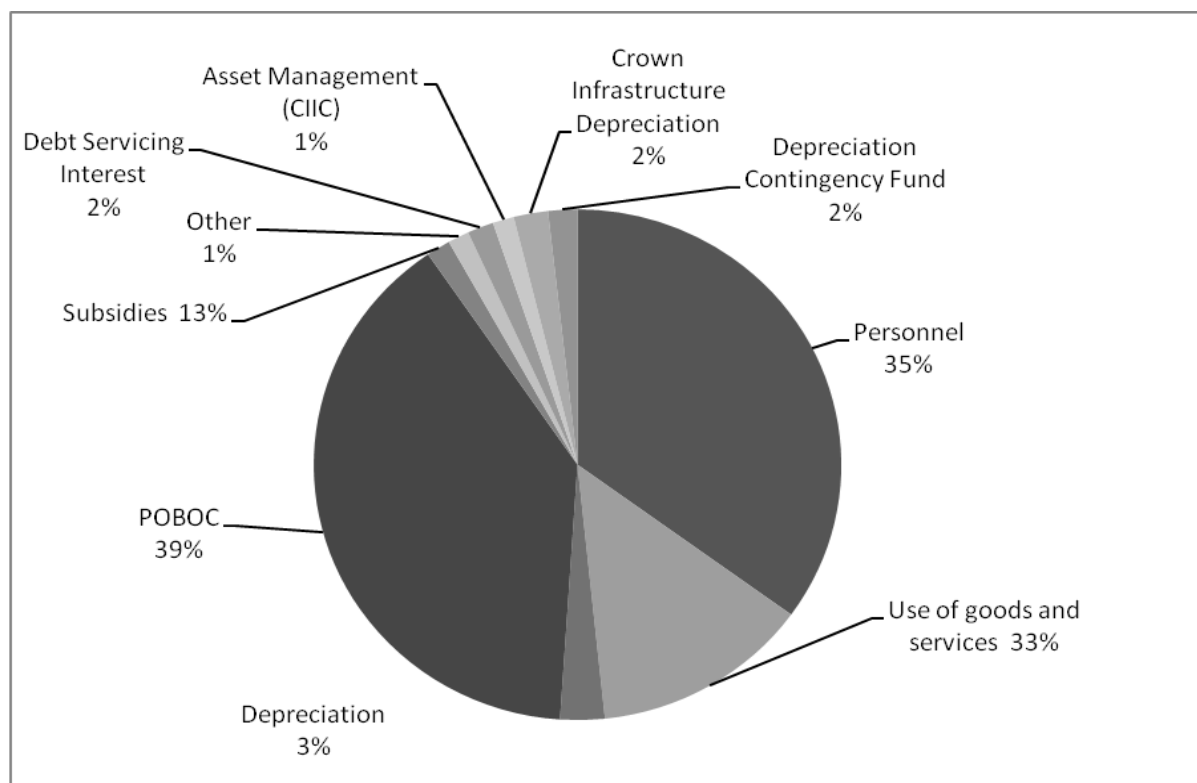
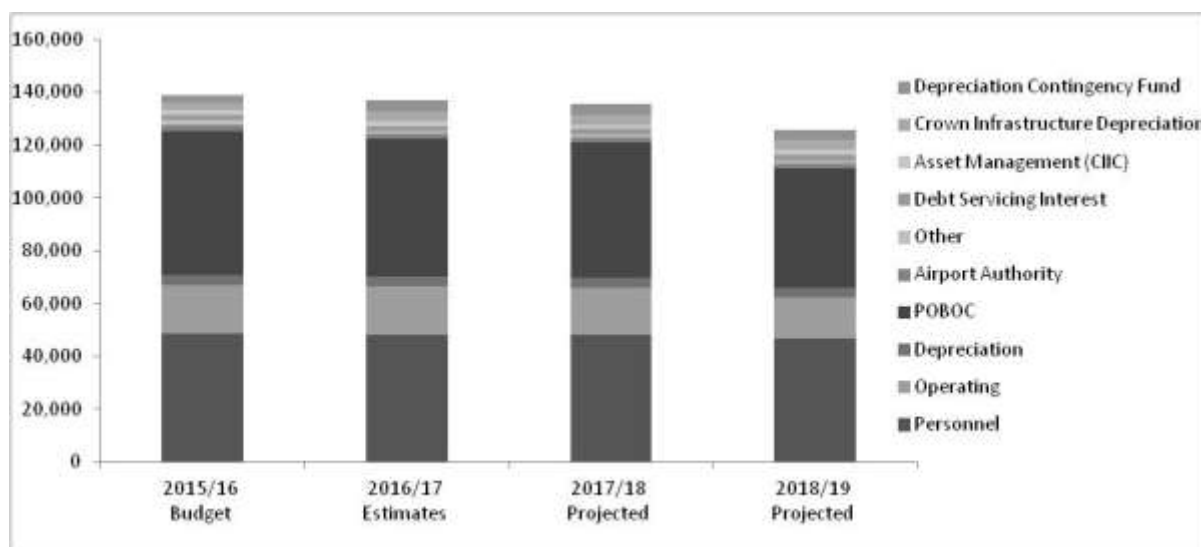


Chart 8.4 Total Operating Expenditure 2014/15 to 2018/19 (\$000)



8.2 New Expenditure Initiatives

The Government has approved new spending initiatives totalling \$14.9 million in 2015/16, \$11.6 million in 2016/17, \$11.2 million in 2017/18 and \$1.8 million in 2018/19. A summary of the new initiatives is provided in Table 8.3 below however for the full details on each new initiative, please refer to Table 8.4 onwards.

Table 8.3 Summary of New Initiatives in Operating Expenditure 2015/16 to 2018/19 (\$000)

| Summary of New Initiatives | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|--|---------------|---------------|---------------|--------------|---------------|
| GFS Contribution Increase | 44 | 44 | 44 | 44 | 176 |
| Technical Adjustments | 21 | 45 | 183 | 183 | 390 |
| Celebrate Our Environment | 295 | 220 | 320 | 220 | 1,055 |
| Improve Economic Productivity | 3,753 | 1,055 | 675 | 675 | 6,158 |
| Improve Service Delivery to the Community | 1,957 | 1,566 | 1,568 | 1,570 | 6,661 |
| Improving International Obligations | 147 | 62 | 62 | 62 | 333 |
| Celebrating our people | 432 | 5 | 5 | 5 | 417 |
| Improving Public Sector Service Productivity | 387 | 523 | 513 | 513 | 1,162 |
| Higher Modality Partnerships | 8,910 | 9,275 | 9,270 | - | 27,455 |
| Total Expenditure | 15,082 | 11,659 | 11,248 | 1,880 | 39,869 |

8.3 GSF Contribution Increase

Table 8.4 GSF Contribution Increase 2015/16 to 2018/19 (excludes ODA) (\$000)

| Description | 2015/16 Budget | 2016/17 Forecasts | 2017/18 Forecasts | 2018/19 Forecasts |
|--|-------------------|----------------------|----------------------|----------------------|
| <i>GSF Contribution Increase</i> | 44 | 44 | 44 | 44 |
| GSF Contribution for Ministry of Agriculture | 2 | 2 | 2 | 2 |
| GSF Contribution for Ministry of Education | 13 | 13 | 13 | 13 |
| GSF Contribution for Ministry of Finance and Economic Management | 2 | 2 | 2 | 2 |
| GSF Contribution for Ministry of Foreign Affairs and Immigration | 2 | 2 | 2 | 2 |
| GSF Contribution for Ministry of Health | 9 | 9 | 9 | 9 |
| GSF Contribution for Infrastructure Cook Islands | 2 | 2 | 2 | 2 |
| GSF Contribution for Ministry of Internal Affairs | 1 | 1 | 1 | 1 |
| GSF Contribution for Ministry of Justice | 2 | 2 | 2 | 2 |
| GSF Contribution for Ministry of Marine Resources | 2 | 2 | 2 | 2 |
| GSF Contribution for Ministry of Transport | 1 | 2 | 1 | 1 |
| GSF Contribution for Audit Office | 1 | 1 | 1 | 1 |
| GSF Contribution for Cook Islands Police | 4 | 4 | 4 | 4 |
| GSF Contribution for National Environment Services | 1 | 1 | 1 | 1 |
| GSF Contribution for Pa Enua | 2 | 2 | 2 | 2 |

GSF Contribution Increase 12.1% - 13.0%

Various Agencies - GSF Contribution Increase 12.1% - 13.0%

Currently 242 employees in Government are members of the New Zealand Government Superannuation Fund. The NZGSF is a defined benefit scheme where employers are required to make a contribution. The employer's contribution has been increased from 12.1 to 13.0 per cent.

The proposed increase is effective as of 1 July 2015 and the Cook Islands government public servants on this scheme will be entitled to this increase, the full cost has not been provided and agencies will be expected to absorb some of the cost

8.4 Technical Adjustments

Table 8.5 Technical Adjustments 2015/16 to 2018/19 (excludes ODA) (\$000)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|---|-----------|------------|-------------|-------------|-------------|
| <i>Technical Adjustments</i> | 21 | -45 | -183 | -183 | -390 |
| Tourism (Trading Revenue increase) | 152 | 152 | 152 | 152 | 608 |
| Infrastructure Cook Islands (Trading Revenue increase) | 50 | 50 | 50 | 50 | 200 |
| Outer Islands | 17 | 13 | 13 | 13 | 56 |
| Pa Enua Machinery and RE depreciation | 762 | 762 | 762 | 762 | 3,048 |
| Reduction in Crown Depreciation Reserve | -762 | -762 | -762 | -762 | -3,048 |
| Transfer personnel from PM Support Office to Minister Brown | -20 | -20 | -20 | -20 | -80 |
| Transfer personnel from PM Support Office to Minister Brown | 20 | 20 | 20 | 20 | 80 |
| Technical Advisor on Marae Moana (Movement from POBOC) | -40 | -40 | -40 | -40 | -160 |
| Technical Advisor on Marae Moana (Movement from POBOC) | 40 | 40 | 40 | 40 | 160 |
| Debt Interest | -198 | -260 | -398 | -398 | -1,254 |

8.5 Celebrating Our Environment

Table 8.6 Celebrate Our Environment 2015/16 to 2018/19 (excludes ODA) (\$000)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|---|------------|------------|------------|------------|--------------|
| <i>Celebrate Our Environment</i> | 295 | 220 | 320 | 220 | 1,055 |
| Assistance with media relations | 25 | 0 | 0 | 0 | 25 |
| Fishing Officer in Mitiaro | 20 | 20 | 20 | 20 | 80 |
| FADS | 50 | 50 | 50 | 50 | 200 |
| Fisheries Development in the Pa Enea | 100 | 100 | 100 | 100 | 400 |
| E Waste | 50 | 0 | 100 | 0 | 150 |
| Natural Disaster Response Fund | 50 | 50 | 50 | 50 | 200 |

Ministry of Marine Resources

Assistance with Media Relations

MMR will be provided with an additional \$25,000 to enhance the Ministry's ability to communicate on key fishery issues to ensure that the public debate is balanced and that a more balanced set of facts is presented for public discourse.

Ministry of Marine Resources – Fishing Officer in Mitiaro

MMR has a network of fisheries officers in some of the Pa Enea. This additional funding will allow for a fishery officer to be employed on Mitiaro. Ultimately it the Government will aim to have at least one fisheries officer on all inhabited islands and to have complete coverage in supporting and reporting on artisanal fishing and game fishing within the entire Cook Islands waters.

Ministry of Marine Resources – Fish Aggregating Devices in the Southern Group

Fish aggregating devices have been shown to significantly increase catch rates and are particularly important for the southern islands where the waters are less productive and catches are highly seasonal.

The Government is targeting the placement of 13 FADs on Rarotonga, seven on Aitutaki, and four on each of the remaining southern island groups. Presently there are just 11 on Rarotonga, 3 on Aitutaki and 1 on each of the southern islands.

Ministry of Marine Resources – Pa Enea Fisheries Development Facility

The Fisheries Development Facility in the Pa Enea under the Ministry of Marine Resources is to be distributed to assist with domestic fisheries development programs. These programmes include activities held by local fishing clubs, local fishermen, and Cook Islands fishing association.

National Environment Service - Recommencing E Waste Collection on a two year basis

Waste management in the Cook Islands continues to be a major concern, particularly with e-waste and the lack of suitable recycling or disposal options available to Cook Islanders. The National Environment Services have indicated that this is an issue amongst all Pacific Countries. Funding will be provided every two years to assist in the collection of E Waste to ensure that the Cook Islands remain a clean and green environment.

Ministry of Finance and Economic Management - Natural Disaster Response Fund

The Natural Disaster Response Fund acts as a source of immediate funding for disaster response in the event that a national emergency is declared. The Government has committed to increasing the value of the fund to \$1 million, and is setting aside \$50,000 a year until the fund reaches appropriate levels.

This fund works in conjunction with the Pacific Catastrophe Risk Insurance scheme (provided

through the World Bank) to ensure that the Cook Islands have financial resources made immediately available in the event of a major disaster.

In 2014/15 the Executive Council passed an order to transfer \$300,000 into the Natural Disaster Response Fund, as at the end of June 2015 it will have an estimated \$879,000 set aside for an immediate response when required.

8.6 Improve Economic Productivity

Table 8.7 Improve Economic Productivity 2015/16 to 2018/19 (excludes ODA) (\$000)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|---|--------------|--------------|------------|------------|--------------|
| <i>Improve Economic Productivity</i> | 3,753 | 1,055 | 675 | 675 | 6,158 |
| CINSF costs associated with Privy Council Appeal | 70 | 0 | 0 | 0 | 70 |
| International Seabed Authority Work | 0 | 50 | 50 | 50 | 150 |
| Support for Vanilla Growers | 50 | 50 | 0 | 0 | 100 |
| Concessional Loan to Vanilla Farmers (BCI) | 150 | 0 | 0 | 0 | 150 |
| Continued compliance effort in offshore taxation | 80 | 80 | 0 | 0 | 160 |
| 2017 Baseline Funding to Conduct the National Census | 0 | 250 | 0 | 0 | 250 |
| Border Management System Ongoing maintenance fees | 68 | 135 | 135 | 135 | 473 |
| Establishment of an SOE to manage Consortia on Deep Sea Minerals Harvesting | 175 | 175 | 175 | 175 | 700 |
| Purchase and sale of coins | 2,845 | 0 | 0 | 0 | 2,845 |
| Ongoing Long Haul Underwrite Savings | -600 | -600 | -600 | -600 | -2,400 |
| FSC Subsidy to meet depreciation expense | -35 | -35 | -35 | -35 | -140 |
| Additional Funding for tourism marketing on up gauge of fleet | 950 | 950 | 950 | 950 | 3,800 |

Crown Law - CINSF costs associated with Privy Council Appeal

The CINSF litigation cost is in respect to costs associated with the Government defending the appeal made to the Privy Council in London.

Seabed Mining Authority - Seabed Mineral Activities

With the approval of the Cook Islands application to the International Seabed Authority there is now a contractual obligation to develop national legislation and regulate seabed mineral activities in the international area. This funding will assist in the developing of this new legislation to contract responsibilities and manage seabed minerals activities in our ISA contract area.

Additional funding has also provided to cover shortfall in contractual obligations with Commonwealth Secretariat.

Ministry of Agriculture - Support for Vanilla Growers

Quality vanilla is an agricultural commodity in high demand, and the Cook Islands is well positioned to enter into the market for high quality vanilla. Raising the production of export quality vanilla is a key initiative for the government. Additional resourcing of \$100,000 will be provided over two years to assist the Ministry of Agriculture to obtain technical assistance in the area and a further \$150,000 will be provided to the revolving credit scheme to free up almost \$250,000 in concessional funding for vanilla growers.

MFEM Resources - Continued compliance effort in offshore taxation

Review has recently been carried out on the Revenue Management Division of MFEM by the IMF. The review with other anecdotal evidence, points to a need to strengthen the audit area, particularly in the area of capturing hotel room sales to overseas wholesalers.

2017 Baseline Funding to Conduct the National Census

There is a strong need for the next census report to be developed with a wealth of information

consisting of demographic, social and economic situation of the Cook Islands in 2017. The information provided in the census is very important as it displays and presents an overview of the Cook Islands.

Border Management System Ongoing maintenance fees

MFEM together with MFAI implemented a Border Management System which will require an annual maintenance from 01/01/2016.

Purchase and sale of coins

In August 2013, Minister Brown announced that the Government will launch a set of new coins to celebrate the 50th anniversary of Cook Islands self government on 4 August 2015. MFEM will be responsible for delivering the Cook Islands' coinage reform and managing the process of distributing new coins and withdrawing old coins from circulation. All coin designs will be released in conjunction with a public awareness campaign to be launched mid-year. More information will be provided regarding the public awareness campaign closer to the time of the official launch.

8.7 Improve Service Delivery to the Community

Table 8.6 Total Operating Expenditure 2015/16 to 2018/19 (\$000)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|--|--------------|--------------|--------------|--------------|--------------|
| <i>Improve Service Delivery to the Community</i> | 1,957 | 1,566 | 1,568 | 1,570 | 6,661 |
| Additional Expenditure for Education | 50 | 50 | 50 | 50 | 200 |
| Localisation of Education Advisor | 8 | 8 | 8 | 8 | 32 |
| UNESCO operating costs | 7 | 7 | 7 | 7 | 28 |
| Upgrading school based management | 132 | 132 | 132 | 132 | 528 |
| Increasing social impact fund for service to the disabled and mental illness and Outer Islands | 60 | 60 | 60 | 60 | 240 |
| Civil Engineering Support for ICI | 110 | 110 | 110 | 110 | 440 |
| New Medical positions for Ministry of Health | 123 | 123 | 123 | 123 | 492 |
| Debt and Recovery Officer | 40 | 40 | 40 | 40 | 160 |
| Ombudsman rental cost | 10 | 10 | 10 | 10 | 40 |
| Ports Authority – Social Responsibility Cost | 30 | 30 | 30 | 30 | 120 |
| Te Aponga - Social Responsibility Cost | 110 | 110 | 110 | 110 | 440 |
| Customs Port Examination Unit | 25 | 25 | 25 | 25 | 100 |
| Post Clearance Audit Officer | 30 | 30 | 30 | 30 | 120 |
| Provision for Inter Island Shipping | 500 | 500 | 500 | 500 | 2,000 |
| Cook Islands Primary Schools 50 years Saver | 230 | - | - | - | 230 |
| Increase 70+ pension (\$650 per month) Stage 1 | 87 | 88 | 89 | 90 | 354 |
| Increase 70+ pension (\$660 per month) Stage 2 | - | 88 | 89 | 90 | 267 |
| Police Youth Program | 45 | 45 | 45 | 45 | 180 |
| Security for Schools | 250 | 100 | 100 | 100 | 550 |
| Penrhyn Government Representative | 10 | 10 | 10 | 10 | 40 |
| Aitutaki Standby Generator | 100 | 0 | 0 | 0 | 100 |

Additional Expenditure for Education

Ministry of Education – Operating Expenditure

Additional operating expenditure has been provided for the ongoing costs of the Ministry of Education.

Ministry of Education – Localisation of an Education Advisor

Extra resourcing of \$8,000 per annum will be provided to the Ministry of Education employ a local employee to support students with different learning needs. This extra funding will allow 18 months of counter partying between the current expatriate staff member and a local, qualified and experienced teacher so that the position becomes sustainable locally.

Ministry of Education – UNESCO Costs

The Cook Islands National Commission for UNESCO was transferred to the management of the Ministry of Education effective October 2011, an additional \$7,000 per annum will be provided to the Ministry to support it in its UNESCO efforts.

Ministry of Education – School Based Management

The Government will resource the Ministry by an additional \$132,000 per annum to fund School based management teams. These teams are led by the Principal, and are responsible for the day to day operation and management of the school along with governance activities such as policy development, qualification accreditation, curriculum management and student pastoral care. In recognition of these additional responsibilities, “management units” are allocated for particular tasks within a school.

Ministry of Internal Affairs - Increasing the Social Impact Fund for Service to the Disabled and Mental illness and to the Pa Enua

The NGO, specifically Te Vaerua and Te Kainga who are currently qualified to receive funds under the SIF POBOC are undertaking some great work in assisting with the Cook Islands people. The NGO find that the outer islands require further assistance and are unable to help with the minimal financial assistance they have available.

Infrastructure Cook Islands - Civil Engineering Support for Infrastructure

Resourcing of \$110,000 will be provided to ICI to recruit civil engineers to increase the ability and capacity of the agency to deliver capital projects in a timely manner. The civil engineering resource will be responsible for undertaking the role of planning, technical design and preparation of project documents for allocated capital projects.

Ministry of Health - New Medical Positions for the Ministry of Health

The Cook Islands health workforce is diverse, includes a wide range of roles and professional skills and is facing a number of challenges similar to those experienced in the Pacific region and globally, in particular staff shortages.

The Cook Islands meets the WHO minimum threshold of 2.5 well trained healthcare workers per 1000 population. However this threshold is the minimum required and as the Cook Islands health workforce is expected to cover 2 million kilometres of ocean with 5 isolated islands in the north and 6 in the south, this does not meet the aspirations of Te Marae Ora, or the population in general with regard to the desired level and quality of health service provision.

In order to achieve a performing workforce, health employees need to be productive, available, responsive and competent. The human resource challenge for any organisation is striving to have the right people with the right skill mix in the right place at the right time.

Ombudsman – Increased Rental Cost

Additional rental cost will be provided for rental increases associated with the existing office space.

Ministry of Finance and Economic Management

Revenue Management Division currently has insufficient resources to address the current stock of outstanding tax debt (estimated at \$20m in 2014/15) and annual tax return collection. Current debt collection is around 20 per cent of the annual debt stock, suggesting that some tax payers are not making their annual obligations. This can be alleviated through the employment of a third Debt & Return Collection Officer.

The recruitment of another Debt & Return Collection Officer will help manage the large number of debt cases and intervene earlier where taxpayer’s are falling behind

An Oceania Customs Organisation (OCO) diagnostic report in late 2013 suggested that significant revenue was being lost due to the low examination rate of imports coming into the country via the main ports. Customs currently examine approximately 5 per cent of cargo arriving through the sea ports. With extra resources the aim is to increase this examination rate to 15 per cent.

The additional funding will be used to fund part time customs officers to be contracted over the 3 day periods when ships arrive into port, under the direction of an existing senior customs officer.

With Customs becoming automated in 2013/14 there is an opportunity (and expectation by donors) for the carrying out of Post Clearance Audits (PCAs). These audits will be necessary as most Customs entries will be filed and cleared electronically. We have also identified some border security gaps that need attention. Both the PCAs and border security gaps are unable to be carried out by already stretched staffing resources in Customs.

On RMD's 2014 trial of this position, when an officer spent 10 per cent of their time undertaking this role they recovered an additional \$141,682 in re-assessed duty.

SOE Responsibility Cost

At the height of sailing season, yachts quite often by-pass Rarotonga because there is no safe harbour for shelter for a week or two as much of the wharf are occupied. There are also occasions when the Authority is requested to waive port charges at both Avatiu and Aitutaki on cargo such as those intended for emergency relief purposes.

Ministry of Internal Affairs Increase in 70+ pension to \$650 a month

The Government has committed to a phased increase in the old age pension (aged 70 and over) from a rate of \$400 a month in 2011 to a rate of \$800 a month. Currently, old age pensioners receive \$625 per month. With the additional funding provided in this Budget, monthly payments will increase by \$10 per month from 1 July 2015 to \$650 per month and a further \$10 a month from 1 July 2016 to \$660 a month.

Ministry of Finance and Economic Management – The Cook Islands Primary School Saver

Government have created a savings scheme for all Cook Islands primary school students for the 50th Anniversary. This will result in primary students entering into a term deposit where \$50 is deposited at the start and interest will accumulate over the next 5 years. If the deposit is still available in students account at the end of the 5 year term, students will receive governments \$50 plus interest contribution.

Ministry of Finance and Economic Management - Public Sector Strengthening

A retirement package is now made available for public servants over the age of 60 who voluntarily retire from the Public Service. This will create opportunities for Cook Island graduates returning back home and young Cook Islanders who are seeking work in the Public Service.

Cook Islands Police - Police Youth Program

Over the last few years, the Cook Islands Police has been exploring ways to steer some youth away from crime. Previous partnerships with the New Zealand Defence Force, New Zealand Blue Lights Youth and the New Zealand Police for Youth Development and Youth Leadership courses have shown success in this area.

The Government will now provide an ongoing \$45,000 per annum to the Cook Islands Police force to run a similar style course on an ongoing basis. It is hoped that the programme may also attract private sector funding from the community.

School Security

The arson attacks on the schools highlight the ongoing high risk of arson attacks on schools

especially bearing in mind that no arrests have yet been made in relation to such attacks. The physical presence of security personnel, even over a limited time period after hours, does act as deterrence to uninvited school invasions. This needs to be combined with real time video/electronic surveillance which we propose to trial in one school.

8.8 Improving International Obligation

Table 8.7 Total Operating Expenditure 2015/16 to 2018/19 (\$000)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|--|------------|-----------|-----------|-----------|------------|
| <i>Improving International Obligation</i> | 147 | 62 | 62 | 62 | 333 |
| Joining the international labour organisation | 6 | 6 | 6 | 6 | 24 |
| Payment of tax on behalf of ADB employees | 11 | 11 | 11 | 11 | 44 |
| Agriculture Conference | 40 | 0 | 0 | 0 | 40 |
| Running the FEMM and FTMM | 45 | 0 | 0 | 0 | 45 |
| Foreign Affairs officer for MFAI | 35 | 35 | 35 | 35 | 140 |
| Consul General Accommodation Allowance | 10 | 10 | 10 | 10 | 40 |

Ministry of Foreign Affairs - Joining the International Labour Organisation

The Cook Islands will shortly become a member of the International Labour Organisation (ILO), which will come at a cost of \$6,000 per annum. The ILO membership will provide access to technical services, advisory services, seminars and workshops, training and fellowships and execution of technical cooperation of projects and programs.

Ministry of Finance and Economic Management - Payment of tax on behalf of ADB employees

Under the agreement between the ADB and the Cook Islands Government, employees of the ADB are not obligated to pay the tax component of their income, this has been accommodated by MFEM paying the obligations on their behalf.

Ministry of Finance/Ministry of Agriculture - Conferences

The next Pacific Plant Protection Organisation (PPPO) next regional meeting will be hosted by the Cook Islands in August/September 2015. The Ministry of Agriculture will be supporting the internal costs associated with this meeting.

In October 2015, the Cook Islands will host both the FEMM and FTMM and provide the necessary support in line with regional arrangements.

Ministry of Foreign Affairs Resources – Extra Resources for The International Division

The International Division of MFAI manages diplomatic relations and cooperation programs with over xx countries. The Division's output is managed by two staff and has been at this staffing level for the last ten years which has seen a greater number of cooperation programmes available to the Cook Islands and a corresponding increase in transitional issues and management of communication with foreign missions.

Extra resources have also been provided to cover the costs of the Consulate in Auckland, New Zealand.

8.9 Celebrating our People

Table 8.8 Total Operating Expenditure 2015/16 to 2018/19 (\$000)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|--|-------------|----------|----------|----------|-------------|
| <u>Celebrating our people</u> | -432 | 5 | 5 | 5 | -417 |
| Security Resourcing for the 50 th Anniversary for Cook Islands Police | 50 | 0 | 0 | 0 | 50 |
| Transfer Te Maeva Nui Funds | -522 | 0 | 0 | 0 | -522 |
| Hosting Te Maeva Nui participants at schools | 35 | 0 | 0 | 0 | 35 |
| Cook Islands Student Association Support | 5 | 5 | 5 | 5 | 20 |

Cook Islands Police - Security Resourcing for the 50th Anniversary for Cook Islands Police

The Cook Islands Police will be provided with an additional \$50,000 in 2015/16 to accommodate the increase cost of delivering Policing operations during the 50th Anniversary.

Ministry of Culture

Te Maeva Nui funds have been re-allocated to assist in the transportation in 2014/15 for the Pa Enea groups who will be involved in the Te Maeva Nui 50th Celebration.

Additional funds are also provided to the Ministry of Culture to assist in the hosting of the overseas teams who will be joining the 50th Celebration for the Te Maeva Nui.

Ministry of Foreign Affairs - Cook Islands Student Association Support

The Government will make available \$5,000 per annum to support Cook Islands students studying at universities in New Zealand to host the annual 'Taokotainga' event. This fund will assist students to ensure that they are supported by our people back home and that they continue to keep our culture alive and bringing our people together.

8.10 Improve Public Service Productivity

Table 8.9 Total Operating Expenditure 2015/16 to 2018/19 (\$000)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|---|------------|--------------|------------|--------------|--------------|
| <u>Improve Public Service Productivity</u> | 387 | - 523 | 513 | - 513 | 1,162 |
| HOM leave | 84 | 84 | 84 | 84 | 336 |
| HOMs leave | -84 | -84 | -84 | -84 | -336 |
| Centralisation of Payroll and HR Functions | 50 | 50 | 50 | 50 | 200 |
| Agency Payroll and HR Efficiency Gain | -56 | -56 | -56 | -56 | -224 |
| Information Technology and Network centralisation | 40 | 40 | 40 | 40 | 160 |
| Agency IT Efficiencies | -56 | -56 | -56 | -56 | -224 |
| Centralisation of Finance Functions | 0 | 100 | 150 | 150 | 400 |
| Agency Finance Function Efficiency | 0 | -105 | -174 | -174 | -453 |
| Minimum Wage Partial Increase | 24 | 24 | 24 | 24 | 96 |
| Agency Productivity Savings | -101 | -101 | -101 | -101 | -404 |
| Agency Retirement Savings | 341 | -564 | -535 | -535 | -1,293 |
| Civil list – QR Allowance | 25 | 25 | 25 | 25 | 100 |
| Increased Resources for Police | 10 | 10 | 10 | 10 | 40 |
| Increased Resources for Ministry of Justice | 60 | 60 | 60 | 60 | 240 |
| Aitutaki Capital Implementation | 50 | 50 | 50 | 50 | 200 |

Please see the detailed breakdown below for each section provided in the table above to Improve Public Service Productivity.

HOM's leave accrual to Public Service Commissioner

Table 8.10 Total Operating Expenditure 2015/16 to 2018/19 (\$'000)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|---|------------|------------|------------|------------|-------------|
| <u>Agency HOMS Leave Accrual</u> | 84 | 84 | 84 | 84 | 336 |
| HOM Leave accrual | 84 | 84 | 84 | 84 | 336 |
| <u>Agency HOMS Leave Liability</u> | -84 | -84 | -84 | -84 | -336 |
| Marine Resources | -7 | -7 | -7 | -7 | -28 |
| MFEM | -8 | -8 | -8 | -8 | -32 |
| Education | -8 | -8 | -8 | -8 | -32 |
| OPM | -7 | -7 | -7 | -7 | -28 |
| Justice | -7 | -7 | -7 | -7 | -28 |
| Agriculture | -6 | -6 | -6 | -6 | -24 |
| ICI | -6 | -6 | -6 | -6 | -24 |
| Internal Affairs | -6 | -6 | -6 | -6 | -24 |
| Transport | -5 | -5 | -5 | -5 | -20 |
| OPSC | -6 | -6 | -6 | -6 | -24 |
| Culture | -5 | -5 | -5 | -5 | -20 |
| MFAI | -6 | -6 | -6 | -6 | -24 |
| Health | -6 | -6 | -6 | -6 | -24 |

Office of the Public Service Commissioner – HOMS Remuneration

The HOM's POBOC commenced in July 2012, and was guided by a policy that includes the recruitment and remuneration of the 13 Heads of Departments. The HOMS salaries budget was reallocated to OPSC's personnel budget in 2014/15. The budget allocation did not take into account payroll leave accruals for these HOMS, this will now be transferred from the relevant agencies.

The Public Service Commissioner will have full control over the remuneration of the HOMS. The total budget for Output 4 – Leadership is \$1.2 million per annum.

Centralisation of Agency Payroll and HR Functions

Table 8.11 Total Operating Expenditure 2015/16 to 2018/19 (\$'000)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|---|------------|------------|------------|------------|-------------|
| <u>Centralisation of Payroll</u> | 50 | 50 | 50 | 50 | 200 |
| Centralisation of Payroll | 50 | 50 | 50 | 50 | 200 |
| <u>Agency Payroll and HR Efficiency Gain</u> | -56 | -56 | -56 | -56 | -224 |
| Agriculture | -1 | -1 | -1 | -1 | -4 |
| Audit | -1 | -1 | -1 | -1 | -4 |
| BTIB | -1 | -1 | -1 | -1 | -4 |
| Education | -12 | -12 | -12 | -12 | -38 |
| Culture | -1 | -1 | -1 | -1 | -4 |
| Environment | -1 | -1 | -1 | -1 | -4 |
| MFAI | -1 | -1 | -1 | -1 | -4 |
| Crown Law | -1 | -1 | -1 | -1 | -4 |
| ICI | -2 | -2 | -2 | -2 | -8 |
| Intaff | -1 | -1 | -1 | -1 | -4 |
| Justice | -2 | -2 | -2 | -2 | -8 |
| MFEM | -3 | -3 | -3 | -3 | -12 |
| Health | -10 | -10 | -10 | -10 | -40 |
| OPM | -1 | -1 | -1 | -1 | -4 |
| OPSC | -2 | -2 | -2 | -2 | -8 |
| Parliament | -1 | -1 | -1 | -1 | -4 |
| Police | -4 | -4 | -4 | -4 | -16 |
| Tourism | -2 | -2 | -2 | -2 | -8 |
| Transport | -1 | -1 | -1 | -1 | -4 |
| Marine Resources | -1 | -1 | -1 | -1 | -4 |
| Pa Enea | -7 | -7 | -7 | -7 | -28 |

Ministry of Finance and Economic Management – Centralisation of Payroll Functions

MFEM together with the Office of the Public Service Commission (OPSC) have purchased a payroll/Human Resource Management Information system (HRMIS) which will require additional human resources. The system can efficiently and effectively process payroll services and is integrated with the HRMIS to centralize, for example, annual leave recording. There are currently more than 1,100 employees with direct access to the payroll system.

The new position will enable the Ministry to continue on managing the system, providing better user support and liaising with the software provider, Payglobal on system specific issues and solutions,

Information Technology and Network Centralisation

Table 8.12 Total Operating Expenditure 2015/16 to 2018/19 (\$000)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|--|------------|------------|------------|------------|-------------|
| <u>Agency IT and Network Centralisation</u> | 40 | 40 | 40 | 40 | 160 |
| IT and Network Centralisation | 40 | 40 | 40 | 40 | 160 |
| <u>Agency IT Efficiencies</u> | -56 | -56 | -56 | -56 | -224 |
| Agriculture | -2 | -2 | -2 | -2 | -8 |
| Audit | -2 | -2 | -2 | -2 | -8 |
| BTIB | -1 | -1 | -1 | -1 | -4 |
| Culture | -2 | -2 | -2 | -2 | -8 |
| Environment | -2 | -2 | -2 | -2 | -8 |
| MFEM | -7 | -7 | -7 | -7 | -28 |
| MFAI | -2 | -2 | -2 | -2 | -8 |
| ICI | -5 | -5 | -5 | -5 | -20 |
| Intaff | -3 | -3 | -3 | -3 | -12 |
| Justice | -6 | -6 | -6 | -6 | -24 |
| MMR | -4 | -4 | -4 | -4 | -16 |
| OPM | -3 | -3 | -3 | -3 | -12 |
| Parliament | -2 | -2 | -2 | -2 | -8 |
| Police | -9 | -9 | -9 | -9 | -36 |
| Tourism | -2 | -2 | -2 | -2 | -8 |
| Transport | -2 | -2 | -2 | -2 | -8 |
| CIIC | -2 | -2 | -2 | -2 | -8 |

Office of the Prime Minister – Centralisation of ICT

The centralisation of ICT management in the Office of the Prime Minister has seen some significant improvements in the IT infrastructure of the Cook Islands. There are now 1,173 users with direct access to the ESSD payroll software, 589 users on the cookislands.gov.ck email system. The infrastructure has a number of servers both physical and virtual and an increasing number of mobile devices joining the system.

The additional staff member will assist in ensuring information management and support deliverables are met as the National ICT office builds its capacity to meet the expectation that of delivering all ICT responsibilities for the whole of government. This additional person is central to improving access to and the dissemination of information through the various mediums enabled by information technology.

Agency Centralisation of Finance Functions

Table 8.13 Total Operating Expenditure 2015/16 to 2018/19 (\$000)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|--|----------|-------------|-------------|-------------|-------------|
| <u>Agency Centralisation of Finance Functions</u> | 0 | 100 | 150 | 150 | 400 |
| Centralisation of Finance Activities | 0 | 100 | 150 | 150 | 400 |
| <u>Agency Centralisation of Finance Functions</u> | 0 | -105 | -174 | -174 | -453 |
| Agriculture | 0 | -1 | -2 | -2 | -5 |
| Audit | 0 | -3 | -3 | -3 | -9 |

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|--------------------------|---------|---------|---------|---------|-------|
| BTIB | 0 | -1 | -2 | -2 | -5 |
| Education | 0 | -17 | -26 | -26 | -69 |
| Culture | 0 | -1 | -2 | -2 | -5 |
| CIC | 0 | -1 | -2 | -2 | -5 |
| Environment | 0 | -2 | -3 | -3 | -8 |
| FSDA | 0 | -1 | -2 | -2 | -5 |
| HOS | 0 | -1 | -2 | -2 | -5 |
| MFAI | 0 | -3 | -5 | -5 | -13 |
| Crown Law | 0 | -1 | -2 | -2 | -5 |
| ICI | 0 | -3 | -5 | -5 | -13 |
| Intaff | 0 | -2 | -3 | -3 | -8 |
| Justice | 0 | -3 | -5 | -5 | -13 |
| MFEM | 0 | -5 | -8 | -8 | -21 |
| Health | 0 | -16 | -24 | -24 | -64 |
| Ombudsman | 0 | -1 | -2 | -2 | -5 |
| OPM | 0 | -2 | -3 | -3 | -8 |
| OPSC | 0 | -3 | -5 | -5 | -13 |
| PARLIAMENT | 0 | -1 | -2 | -2 | -5 |
| POLICE | 0 | -5 | -8 | -8 | -21 |
| Pearl Authority | 0 | -1 | -2 | -2 | -5 |
| Tourism | 0 | -7 | -11 | -11 | -29 |
| Transport | 0 | -1 | -2 | -2 | -5 |
| Marine Resources | 0 | -2 | -3 | -3 | -8 |
| Seabed Minerals | 0 | -1 | -2 | -2 | -5 |
| Prime Minister | 0 | -1 | -2 | -2 | -5 |
| Deputy Prime Minister | 0 | -1 | -2 | -2 | -5 |
| Leader of the Opposition | 0 | -1 | -2 | -2 | -5 |
| Minister Brown | 0 | -1 | -2 | -2 | -5 |
| Minister Turepu | 0 | -1 | -2 | -2 | -5 |
| Minister Nicholas | 0 | -1 | -2 | -2 | -5 |
| Minister Glassie | 0 | -1 | -2 | -2 | -5 |
| Pa Enuā | 0 | -14 | -24 | -24 | -62 |

The Cook Islands Government understands the need to have a proper and effective financial information system for decision making and monitoring purposes. The government also recognises the need to better manage the public service and its core functions to help deliver a proficient system that will encourage efficiency in policy making decision. The government is therefore centralising finance and accounting functions.

Civil List – QR Allowance

To provide for the QR's additional allowances as per his employment contract to cover expenses.

Increased Resources for the Police and Ministry of Justice

The law and order sector, in particular the Cook Islands Police and Ministry of Justice have carried out job-sizing reviews with the Office of the Public Service Commission and there were employees that were being paid under the minimum of their band. Under the Public Service Act 2009, Government has a legal obligation to fund public servants within the approved salary bands.

In order to achieve the appropriate salary band, staff performance assessments are undertaken. 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.

Minimum Wage Partial Increase

Table 8.14 Minimum Wage Partial Increase 2015/16 to 2018/19 (excludes ODA) (\$000)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|--|---------|---------|---------|---------|-------|
| <u>Minimum Wage Partial Increase</u> | 24 | 24 | 24 | 24 | 96 |
| Minimum Wage Partial Increase - Ministry of Justice | 3 | 3 | 3 | 3 | 12 |
| Minimum Wage Partial Increase - Ministry of Health | 5 | 5 | 5 | 5 | 20 |
| Minimum Wage Partial Increase - Infrastructure Cook Islands | 1 | 1 | 1 | 1 | 4 |
| Minimum Wage Partial Increase - Office of the Prime Minister | 1 | 1 | 1 | 1 | 4 |
| Minimum Wage Partial Increase - Ministry of Transport | 1 | 1 | 1 | 1 | 4 |
| Minimum Wage Partial Increase – Pa Enuā | 13 | 13 | 13 | 13 | 52 |

Various Ministries – Minimum Wage Increase

In the public sector there is a small portion of workers who are on the minimum wage, with most of these minimum wage workers being employed by Island Governments in the Pa Enuā. The minimum hourly wage has now increased to \$6.25 an hour. Only partial increases have been provided with agencies being required to absorb the remaining wage costs within their existing appropriations

Agency General Productivity Savings

Table 8.15 Total Operating Expenditure 2015/16 to 2018/19 (\$000)

| Description | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|---|-------------|-------------|-------------|-------------|-------------|
| <u>Agency General Productivity Savings</u> | -101 | -101 | -101 | -101 | -404 |
| Audit | -1 | -1 | -1 | -1 | -4 |
| BTIB | -2 | -2 | -2 | -2 | -8 |
| Culture | -3 | -3 | -3 | -3 | -12 |
| Environment | -1 | -1 | -1 | -1 | -4 |
| MFAI | -6 | -6 | -6 | -6 | -24 |
| Crown Law | -1 | -1 | -1 | -1 | -4 |
| FSDA | -1 | -1 | -1 | -1 | -4 |
| ICI | -4 | -4 | -4 | -4 | -16 |
| Intaff | -1 | -1 | -1 | -1 | -4 |
| Justice | -5 | -5 | -5 | -5 | -20 |
| MFEM | -7 | -7 | -7 | -7 | -28 |
| MMR | -3 | -3 | -3 | -3 | -12 |
| OPM | -2 | -2 | -2 | -2 | -8 |
| OPSC | -1 | -1 | -1 | -1 | -4 |
| PARLIAMENT | -1 | -1 | -1 | -1 | -4 |
| Pearl Authority | -2 | -2 | -2 | -2 | -8 |
| Tourism | -29 | -29 | -29 | -29 | -116 |
| Transport | -1 | -1 | -1 | -1 | -4 |
| Seabed Minerals | -1 | -1 | -1 | -1 | -4 |
| Prime Minister | -1 | -1 | -1 | -1 | -4 |
| Minister Nicholas | -1 | -1 | -1 | -1 | -4 |
| Pa Enuā | -27 | -27 | -27 | -27 | -108 |

Various Agencies – Overall Productivity Savings

Ongoing productivity savings have been sought from agencies, Pa Enuā and few ministerial offices a reduction in the use of goods and services. The operating reduction across government will need to be found by heads of agencies and should not reduce current core operations but rather take into account a reduction in discretionary spending.

8.11 Payments on Behalf of the Crown

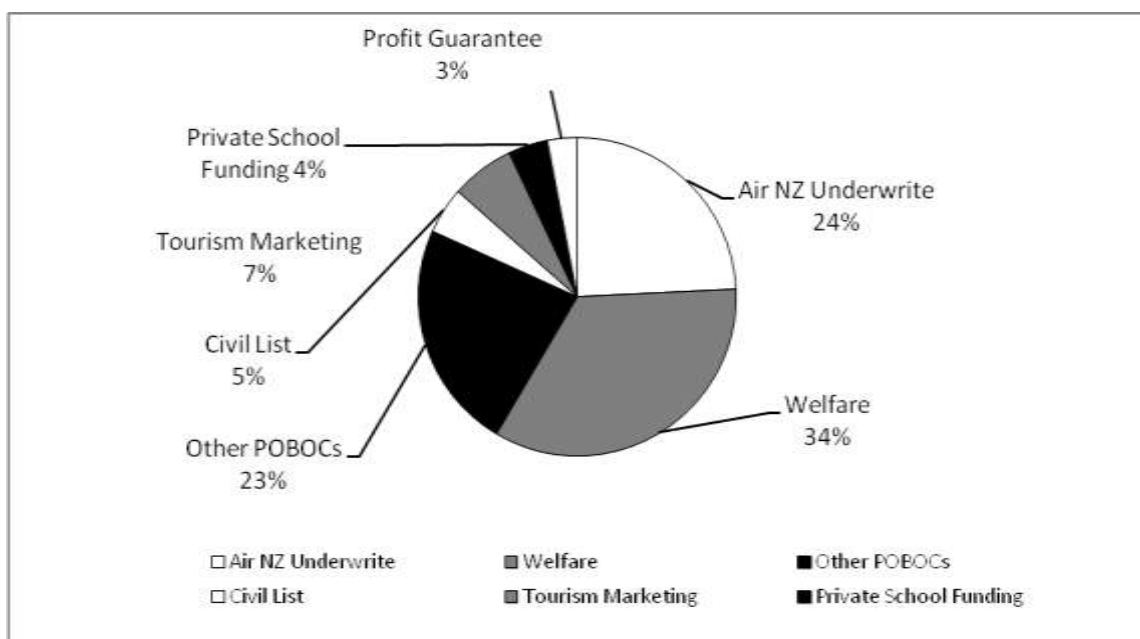
Payments on Behalf of Crown (POBOCs) have increased by \$4.1 million to a total of \$49.5 million in 2015/16 in comparison to the budget 2014/15 of \$45.4.

Government POBOC's comprise of a large variety of payments to Ministries that serve different purposes. The POBOC's of significant value can be seen below in Table 8.16.

Table 8.16 POBOC Summary 2015/16 – 2018/19 (\$'000)

| POBOCS | 2014/15 Estimated Outcome | 2015/16 Budget \$'000 | 2016/17 Projected \$'000 | 2017/18 Projected \$'000 | 2018/19 Projected \$'000 |
|------------------------|---------------------------------|-----------------------------|--------------------------------|--------------------------------|--------------------------------|
| Air NZ Underwrite | 10,500 | 12,000 | 12,000 | 12,000 | 12,000 |
| Welfare Benefits | 16,541 | 16,968 | 17,057 | 17,059 | 17,149 |
| Other POBOCs | 12,134 | 7,463 | 7,624 | 8,372 | 10,932 |
| Civil List | 2,634 | 2,349 | 2,349 | 2,349 | 2,349 |
| Tourism Marketing | 2,236 | 5,100 | 4,850 | 4,850 | 2,950 |
| Private School Funding | 1,982 | 2,147 | 2,147 | 2,147 | 2,147 |
| Profit Guarantee | 1,500 | 1,500 | 1,500 | 750 | 0 |
| Total POBOCS | 47,527 | 47,527 | 47,527 | 47,527 | 47,527 |

Chart 8.5 POBOC Summary for 2015/16



Based on Chart 8.5, it is evident that the Underwrite of long haul services and Welfare POBOCs equate to a large portion of the total POBOC appropriation for 2015/16. More detail on each of the POBOC's with significant value is provided below.

8.12 Subsidies

Table 8.17 Air New Zealand Underwrite of Los Angeles and Sydney Aircrafts

| 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|------------|------------|------------|------------|
| 12,000,000 | 12,000,000 | 12,000,000 | 12,000,000 |

This supports two non-commercial long haul services operated by Air New Zealand from Los Angeles

to Rarotonga and from Sydney to Rarotonga. The 2015/16 Budget estimates that the underwrite will be \$12.0 million.

Table 8.18 Apex - Profit Guarantee POBOC

| 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|-----------|-----------|---------|---------|
| 1,500,000 | 1,500,000 | 750,000 | 0 |

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. The payment comes to an end in December 2017.

Table 8.19 Provision for Outer Island Shipping

| 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---------|---------|---------|---------|
| 500,000 | 500,000 | 500,000 | 500,000 |

The Government has committed to policy regarding shipping routes to the outer islands of the Pa Enua. The estimated expense is to indicate the intended size of the subsidy/underwriting of shipping routes, but will be subject to change depending on the final arrangements.

8.13 Use of Goods and Services

Table 8.20 Civil List

| 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|-----------|-----------|-----------|-----------|
| 2,349,105 | 2,349,105 | 2,349,105 | 2,349,105 |

The purpose of the Civil list POBOC is to provide funding for salaries, allowances, constituency travel and other privileges for Parliamentarians that are provided for under the *Remuneration Tribunals Order 2009/4 (the Act)*.

Table 8.21 Marketing – Tourism Growth Strategy

| 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|----------|-----------|-----------|-----------|
| 5,100,00 | 4,850,000 | 4,850,000 | 2,950,000 |

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

Table 8.22 Tertiary Training Institutions

| 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---------|---------|---------|---------|
| 759,855 | 759,855 | 759,855 | 759,855 |

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

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

Table 8.23 Pharmaceuticals

| 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---------|---------|---------|---------|
| 667,800 | 667,800 | 667,800 | 667,800 |

The purpose of the Pharmaceuticals POBOC is to purchase items from essential medicine list (EML) as approved by the Pharmacy and Therapeutics Committee for distribution to the public as prescribed by registered Medical Professionals.

An annual budget is allocated to purchase the EML items and medical consumables such as bandages, gloves, syringes, needles etc. Freight is inclusive of this budget allocation.

There are 376 items on the EML (as per the approved 2015 listing) of which 116 are NCD drugs (31% of EML). The NCD drug items are in the following categories:

- cardiovascular (- 53);
- diabetes (- 6);
- respiratory (-10);
- DMARDs and Gout (8);
- behavioural and anticonvulsants (- 17);
- antineoplastics (-4)and
- palliative care-(18).

Table 8.24 Waste Management

| 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---------|---------|---------|---------|
| 550,000 | 550,000 | 550,000 | 550,000 |

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

8.14 Social Assistance - Welfare POBOC

Table 8.25 Welfare POBOC

| 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|------------|------------|------------|------------|
| 16,967,788 | 17,056,660 | 17,058,542 | 17,149,431 |

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

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

Table 8.26 Welfare Benefits Types

| | 2015-16 Budget | 2016-17 Estimate | 2017-18 Estimate | 2018-19 Estimate |
|--|-------------------|---------------------|---------------------|---------------------|
| Legislated Payments | | | | |
| 1 Old Age Pension | 12,479,194 | 12,658,706 | 12,840,998 | 12,840,998 |
| 2 Child Benefit | 2,700,720 | 2,646,706 | 2,593,771 | 2,593,771 |
| 3 Newborn Allowance | 250,000 | 250,000 | 250,000 | 250,000 |
| 4 Destitute and Infirm Persons Payment | 396,000 | 396,000 | 396,000 | 396,000 |
| 5 Government-funded Paid Maternity Leave | 120,000 | 120,000 | 120,000 | 120,000 |
| 6 Caregiver's Allowance | 376,200 | 376,200 | 376,200 | 376,200 |
| 7 Christmas Bonus | 283,714 | 281,697 | 279,770 | 279,770 |

| | 2015-16 Budget | 2016-17 Estimate | 2017-18 Estimate | 2018-19 Estimate |
|--|-------------------|---------------------|---------------------|---------------------|
| 8 Funeral Allowance | 170,000 | 170,000 | 170,000 | 170,000 |
| 9 Power Subsidy | 87,210 | 87,210 | 87,210 | 87,210 |
| 10 Special Assistance | 100,000 | 100,000 | 100,000 | 100,000 |
| 11 Bank of Cook Islands Transaction Fees | 147,000 | 147,000 | 147,000 | 147,000 |

Table 8.27 Details on Welfare Payments

| | Payment Rate | Beneficiaries 2014/15 Budget | Beneficiaries 2015/16 Estimated | Assumptions |
|--|-----------------|------------------------------------|---------------------------------------|---|
| Legislated Welfare Payments | | | | |
| Child Benefit (monthly) | 66 | 3,400 | 3,480 | The number of eligible children up to age 12 is expected to increase slightly. |
| New Born Allowance* | 1,000 | 250 | 250 | The number of births is expected to remain stable. |
| Old Age Pension - 60 to 69 years of age (monthly) | 500 | 1,100 | 1,030 | The number of pensioners in this age group is expected to fall slightly based on actual trends. |
| Old Age Pension - 70 years of age and over (monthly) | 640 | 690 | 727 | The number of pensioners in this age group is expected to grow slightly due to current trends showing people living longer in this age group. |
| Destitute and Infirm Persons Payment (monthly) | 165 | 202 | 220 | An increase in the number of people receiving these payments based on current trends. |
| Non-legislated Welfare Payments | | | | |
| Caregiver's Allowance (monthly) | 165 | 175 | 176 | Maintenance of the current number of people that will qualify for caregiver's allowance based on current trends. |
| Christmas Bonus* | 50 | 5,565 | 5,633 | An increase in the number of beneficiaries expected to receive payment in December 2014 due to an overall increase in beneficiaries. |
| Funeral Allowance* | 2,400 | 70 | 70 | Estimated number of old age beneficiaries expected to receive funeral assistance. |
| Power Subsidy (quarterly) | 66 | 330 | 330 | Estimated number of old age beneficiaries expected to receive power subsidy. |
| Other Payments | | | | |
| Government-funded Paid Maternity Leave*** | 1,500 | 100 | 80 | The number of births by working women in the private sector based on actual trends in 2014-15. |

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 at the minimum wage based on a 40 hour work week.

8.15 Welfare Payments

Legislated Entitlements

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

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

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

Child Benefit

The Child Benefit is provided to parents, or guardians, of children under the age of 12. The rate of the payment is \$66 per month and is paid in two monthly instalments on the 1st and the 16th of each month. This was raised from \$40 to \$50 per month in 2002 and to \$60 in 2003. On 1 March 2014, it was increased by 10% to \$66 as part of the tax reform package. On average, it is estimated that there will be approximately 3,500 children eligible for this payment in 2015-16.

New Born Allowance

The New Born Allowance is provided as a lump sum payment to mothers on the birth of a child born in the Cook Islands. The rate of the payment is \$1,000. This was raised from \$200 to \$300 in 2004 and to the current rate in November 2010. It is estimated that there will be approximately 250 eligible births in 2015-16. Applications for payment must be made within six months of the birth of the child.

Old Age Pension

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

For eligible Cook Islanders aged between 60 and 69, the rate of payment is \$500 a month from 1 July 2015 the payment will be \$650 a month for those aged 70 and over. Payments are paid in two monthly instalments on the 1 and the 16 of each month.

On average, it is estimated that there will be approximately 1,030 eligible beneficiaries aged between 60 and 69 years and 727 eligible beneficiaries aged 70 and over in 2015/16.

Destitute and Infirm Persons Payment

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

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

On 1 March 2014, the rate was increased by 10% to \$165 as part of the tax reform package. It is paid in two monthly instalments on the 1st and the 16th of each month. On average, it is estimated that there will be approximately 220 beneficiaries eligible for this payment in 2015/16.

Government Funded Paid Maternity Leave payment

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

employment, or equivalent, prior to maternity leave.

The Government has allocated \$120,000 in 2015-16 to assist private sector employers in meeting the new maternity leave obligations by introducing a new payment to pay for 6 weeks maternity leave for all eligible working women who give birth.

The Government funded payment will be paid at the minimum wage at 40 hours per week. The payment will increase from \$240 a week to \$250 a week as a consequence of the increase in the minimum wage from \$6 per hour to \$6.25 per hour on 1 July 2015. The rate of payment is set at the equivalent of \$250 per week for six weeks.

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

On average, it is estimated that there will be approximately 80 women eligible for this payment in 2015-16.

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

Non-legislated Welfare Payments

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

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

Caregiver's Allowance

The Caregiver's Allowance is provided to people that are required to provide substantial day to day care to elderly Cook Islands pensioners or people with permanent disabilities who have high care needs and do not have capacity to access such care. The rate of payment was increased by 10 per cent from \$150 per month to \$165 per month as part of the tax reform package. It is paid in two monthly instalments on the 1st and the 16th of each month. On average, it is estimated that there will be approximately 180 people caring for eligible beneficiaries in 2015-16.

Christmas Bonus

A Christmas Bonus of \$50 is a bonus payment expected to be paid out to all eligible beneficiaries in December 2015 as a contribution from the Government to assist with costs at that time of the year. It is estimated that there will be approximately 5,600 people eligible for this assistance in 2015-16.

Funeral Allowance

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

Power Subsidy

A power subsidy may be provided, subject to an income test, for beneficiaries of the aged, destitute or infirm relief payment. People receiving an overseas old age pension are not entitled to this benefit regardless of their total income. The rate of subsidy was increased by 10 per cent from \$60 per quarter to \$66 per quarter as part of the tax reform package. The subsidy is provided directly to Te Aponga Uira to offset the power bills of eligible Rarotonga based beneficiaries and directly to individuals for eligible beneficiaries on the outer islands.

Special Assistance

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

Bank of Cook Islands Transactions

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

8.16 Health - Patient Referral Payments

Table 8.28 Patient Referrals

| 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---------|---------|---------|---------|
| 550,000 | 550,000 | 550,000 | 550,000 |

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

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

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

8.17 Current Miscellaneous Other Expense

Table 8.29 SOE to manage Consortia on Deep Seabed Minerals Harvesting

| 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---------|---------|---------|---------|
| 175,000 | 175,000 | 175,000 | 175,000 |

CIIC have been granted a Seabed Minerals Exploration Licence of a valuable deep sea manganese nodule area in international waters. This opportunity have been taken to develop a joint venture agreement that will lead to company being formed to undertake exploratory and potentially mining activities in our waters.

Table 8.31 Private School Funding POBOC

| 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|-----------|-----------|-----------|-----------|
| 2,147,027 | 2,147,027 | 2,147,027 | 2,007,027 |

The Education Act (2012) allows for the establishment of private schools. The Act also allows for the

registration of private tertiary and TVET providers in addition to pre-primary, primary and secondary providers.

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

All private schools receive 100 per cent equivalent funding to government schools for professional staff salaries and operating costs based on enrolment. No funds are provided for maintenance of grounds or buildings or their construction. Funding is conditional on the school being open to education and quality assurance and financial audit to ensure compliance with education regulations and guidelines and foster the provision of quality education. This policy of 100 per cent equivalent funding has been in place since 2007/08. Prior to this time, private schools received varying amounts of funding (50 – 95 per cent equivalent) depending on the level of integration into the public education system. Donor funds are used to supplement POBOC where necessary.

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

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

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

Chart 8.6 Total Private School Enrolments for 2015

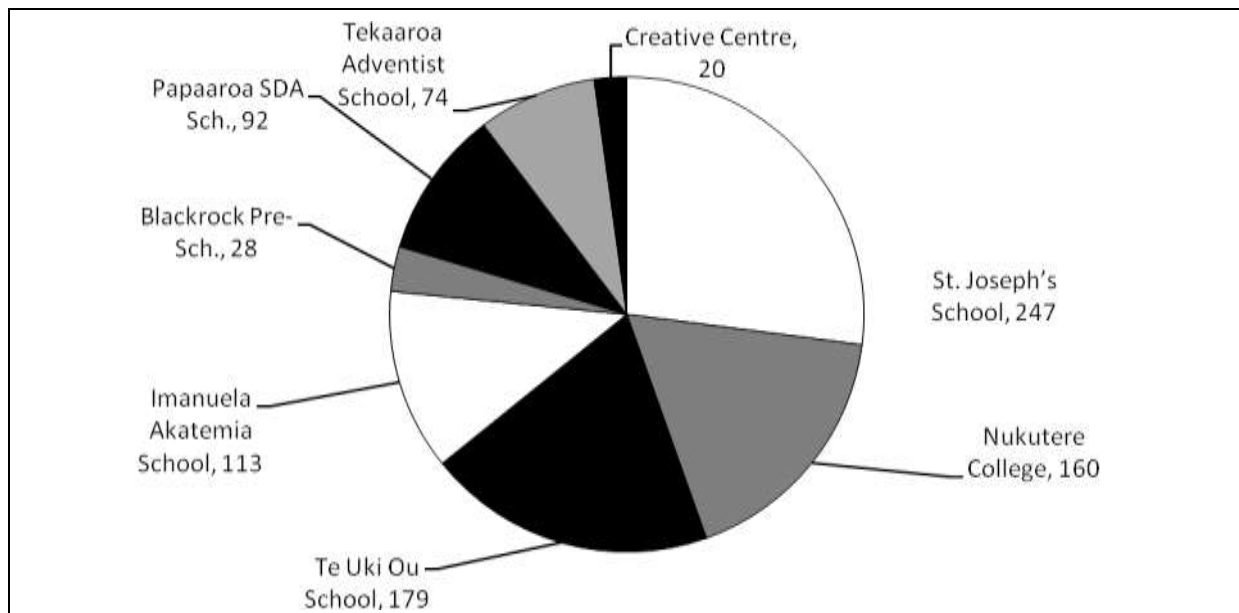


Chart 8.7 Total Rarotonga Public School Enrolments for 2015

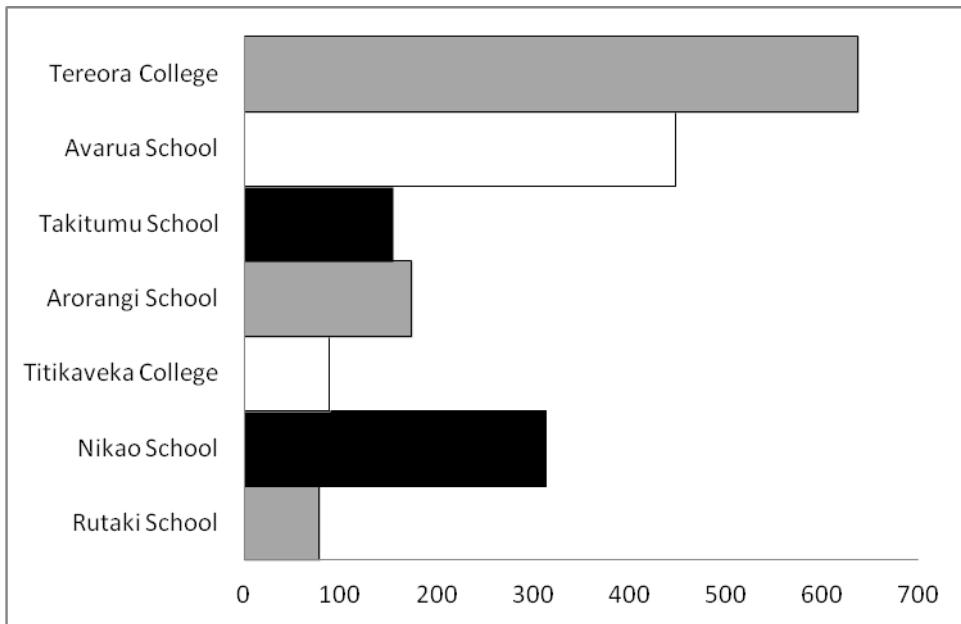


Chart 8.8 Total Government Pa Enua School Enrolments for 2015

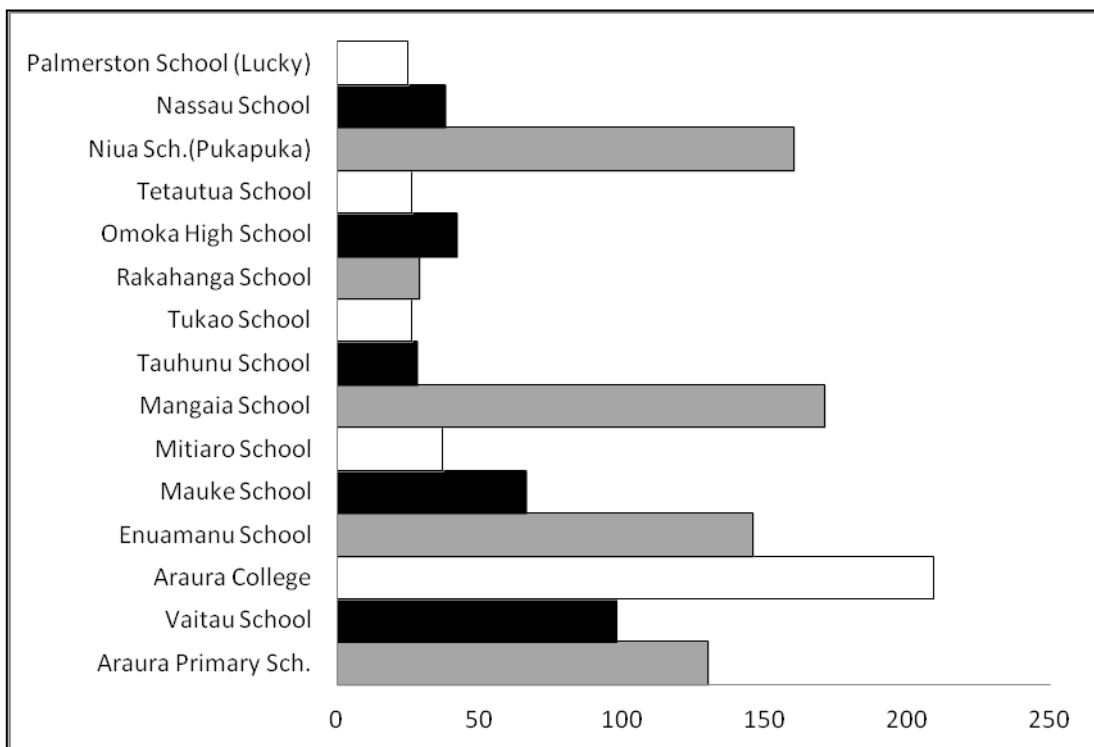


Table 8.32 Regional and International Organisation Contributions 2015/2016

| Organisation | Currency | Foreign | Exchange | NZD |
|---|----------|-----------|----------|----------------|
| | | Amount | Rate * | Equivalent |
| Secretariat of the Pacific Commission (SPC) | XPF | 5,200,000 | 64.6923 | 80,381 |
| African, Caribbean & Pacific Group States (ACP) | EUR | 9,544 | 0.5421 | 17,605 |
| Asia Pacific Telecommunity (APT) | USD | 4,549 | 0.8470 | 5,371 |
| Commonwealth Fund for Technical Cooperation (CFCT) | GBP | 5,431 | 0.3680 | 14,759 |
| Commonwealth Local Government Forum (CLGF) | GBP | 2,190 | 0.3680 | 5,951 |
| Comprehensive Nuclear-Test-Ban Treaty (CTBTO) | USD | 1,466 | 0.8470 | 1,731 |
| Comprehensive Nuclear-Test-Ban Treaty (CTBTO) | EUR | 79 | 0.5421 | 146 |
| Comprehensive Nuclear-Test-Ban Treaty (CTBTO) | USD | 5,463 | 0.8470 | 6,449 |
| Comprehensive Nuclear-Test-Ban Treaty (CTBTO) | EUR | 565 | 0.5421 | 1,042 |
| Commonwealth Youth Program (CYP) | GBP | 8,885 | 0.3680 | 24,144 |
| Food and Agriculture Organisation (FAO) | USD | 2,594 | 0.8470 | 3,062 |
| FAO (Rotterdam Convention) | EUR | 1,907 | 0.5421 | 3,518 |
| FAO (Rotterdam Convention) | USD | 402 | 0.8470 | 474 |
| Forum Fisheries Agency (FFA) | USD | 14,962 | 0.8470 | 17,664 |
| Pacific Islands Forum Secretariat (PIFS) | FJD | 43,274 | 1.1836 | 36,561 |
| Global Forum on Tax Transparency | EUR | 15,000 | 0.5265 | 28,490 |
| International Criminal Court | EURO | 3325 | 0.5421 | 6,133 |
| International Maritime Organisation | USD | 56702.3 | 0.8470 | 66,944 |
| International Seabed Authority | USD | 487 | 0.8470 | 574 |
| International Tribunal for the Law of the Sea | EUR | 792 | 0.5421 | 1,460 |
| Organisation for the Prohibition of Chemical Weapons (OPCW) | EUR | 686 | 0.5421 | 1,265 |
| Pacific Immigration Directors Conference (PIDC) | AUD | 1000 | 0.6666 | 1,500 |
| Pacific ICT Regulatory Resource Centre (PIRRC) | USD | 500 | 0.8470 | 590 |
| South Pacific Regional Environment Programme (SPREP) | USD | 10,184 | 0.8470 | 12,023 |
| South Pacific Regional Fisheries Management Organisation (SPRFMO) | NZD | 13,696 | 1.0000 | 13,696 |
| United Nations Convention to Combat Desertification (UNCCD) | EURO | 373.00 | 0.5421 | 688 |
| United Nations Convention to Combat Desertification (UNCCD) | USD | 67.00 | 0.8470 | 79 |
| United Nations Development Programme (UNDP) | USD | 34,502 | 0.8470 | 40,734 |
| UNEP (Convention on Biological Diversity) | USD | 418 | 0.8470 | 493 |
| UNEP (Conservation of Migratory Species) | USD | 4,833 | 0.8470 | 5,706 |
| United Nations Educational Scientific & Cultural Organisation | USD | 6,584 | 0.8470 | 7,773 |
| UNESCO | EUR | 2,968 | 0.5421 | 5,474 |
| United Nations Framework Convention on Climate Change (UNFCCC) | USD | 777 | 0.8470 | 917 |
| UNFCCC (Climate Change) | USD | 486 | 0.8470 | 573 |
| United Nations Population Fund (UNFPA) | NZD | 1,500 | 1.0000 | 1,500 |
| Western and Central Pacific Fisheries Commission (WCPFC) | USD | 16,087 | 0.8470 | 18,992 |
| World Health Organisation | USD | 8,940 | 0.8470 | 10,554 |
| WHO (Framework Convention on Tobacco Control) FCTC | USD | 124 | 0.8470 | 146 |
| World Meteorological Organisation | CHF | 12,490 | 0.8937 | 13,975 |
| International Civil Aviation Organisation | NZD | 72,000 | 1.0000 | 72,000 |
| Pacific Aviation Safety Office | NZD | 22,482 | 1.0000 | 22,482 |
| TCI- Maritime Shipping Service | NZD | 79,191 | 1.0000 | 79,191 |
| International Labour Organisation | NZD | 6,000 | 1.0000 | 6,000 |
| TOTAL | | | | 638,824 |

9 Tax Expenditure

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

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

To identify what a tax expenditure is, a normative or a benchmark tax structure must be established.¹ 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 2012; and
- Customs Tariff Act 2012.

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

9.1 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. These concessions are estimated to cost around \$600,000 in 2014/15.

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 (BTIB).

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

The estimated cost to revenue of the concessions provided by BTIB in 2014/15 is \$30,000.

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.

The estimated cost to revenue of the concession provided in 2014/15 is estimated to be \$450,000.

4. Concessions for non-Cook Islanders.

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

¹Swift, 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 Accessed 17 May 2012

The estimated cost to revenue of the concession provided in 2014/15 is estimated to be \$60,000.

5. Levy free jet fuel.

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

9.2 Income Tax

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

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

The estimated cost to revenue of this deduction provided is estimated to be \$250,000 based on 2013 rebate claims and deductions made.

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

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

The estimated cost to revenue of this exemption is approximately \$500,000 a year.

3. Income of Queen's Representative.

The income of the Queen's Representative is exempt.

The cost of this exemption is estimated to be \$30,000 a year.

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

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

5. Income from approved superannuation funds.

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

6. Income derived by charitable organisations.

All income derived by charitable organisations is exempt of tax. There are an estimated 30 and 40 charitable organizations in any given year.

7. Income derived by promoters of amateur sports.

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

8. Income derived under a government approved supplementary scheme.

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

9. Income derived by consular and diplomatic personnel.

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

It is estimated that this concession costs around \$100,000 a year, but this is offset somewhat by the reciprocal treatment of Cook Islands diplomatic staff based in New Zealand being exempt from New Zealand taxation.

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

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

11. 95 per cent of incomes derived upon retirement.

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

9.3 Value Added Tax

1. Consistent with the VAT application globally, financial services provided by domestic trading banks are exempt of VAT.
2. Attendance dues paid to private schools are exempt of VAT.
3. Goods imported by non-profit and religious organisations, schools and for disaster relief are exempt of VAT upon importation.

The estimated cost of providing this exemption in this year is estimated to be \$100,000 based on exemptions given in 2014/15.

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

The estimated cost to revenue of the concession provided in 2014/15 is estimated to be \$20,000.

10 Crown Debt and Net Worth

10.1 Gross Debt owed by the Crown

Total gross debt owed by the Crown as at 30 June 2016 is estimated to reach \$109.1million, a variance of \$3.9 million from what was estimated for the same period in the 2014/15 Half-year Economic and Fiscal Update (HYEFU). Table 10.1 shows the movement was due to unfavourable changes in the exchange rate, with all major trading currencies except the Euro (EUR) appreciating against the New Zealand dollar (NZD).

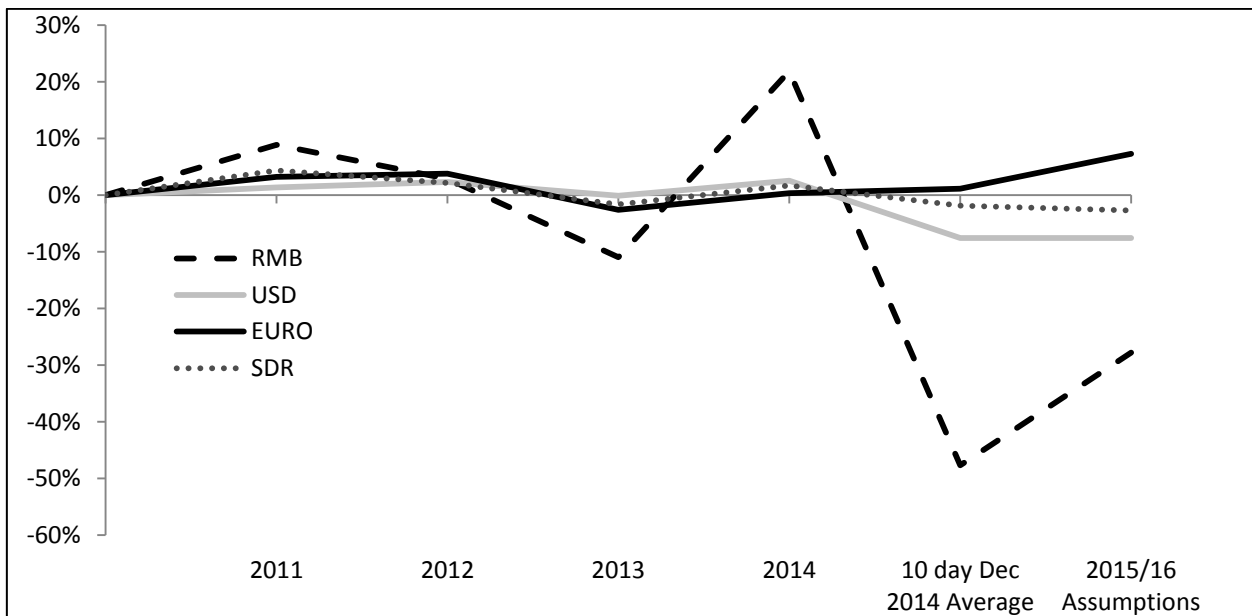
The renewable energy project is also expected to commence the drawdown of the \$12.9 million ADB loan towards the end of 2015/16 (during the construction phase of the project).

Table 10.1 Reconciliation on 2015/16 Loan Movement

| Movement Reconciliation | \$ Million |
|---|--------------|
| Initial estimated gross debt for 30 June 2016 (2014/15 HYEFU) | 102.0 |
| Movement during the period | |
| Commenced drawdown of ADB renewable energy loan | 3.2 |
| Unrealised exchange (gain)/loss | 3.9 |
| Total movement during the period | 7.2 |
| Estimated gross debt for year ending 30 June 2016 (2015/16 Budget) | 109.1 |

The exchange rates assumptions for the 2015/16 Budget have been recommended by Bancorp Treasury Services Ltd ("Bancorp "). Historical changes in major exchange rates against the NZD are reflected in Chart 10.1.

Chart 10.1 Changes in Major Exchange Rates



The cause for this unfavourable movement in exchange rate was a 9.8 per cent appreciation of the US dollar (USD) against the NZD, a 5.8 per cent appreciation of the Chinese Renminbi (RMB), and a 5.1 per cent appreciation of the Special Drawing Right (SDR). These changes were offset to a small degree by an 11.6 per cent depreciation of Euro (EUR) against the NZD.

Table 10.2 shows the movement between exchange rates used during the 2014/15 HYEFU and the exchange rate assumptions recommended by Bancorp for the 2015/16 Budget. In the 2014/15 year, the Crown converted all USD loans held with the Asian Development Bank (ADB) to NZD. The movement in the exchange rate for the USD is still monitored as all SDR loans held with the ADB are repaid in a USD

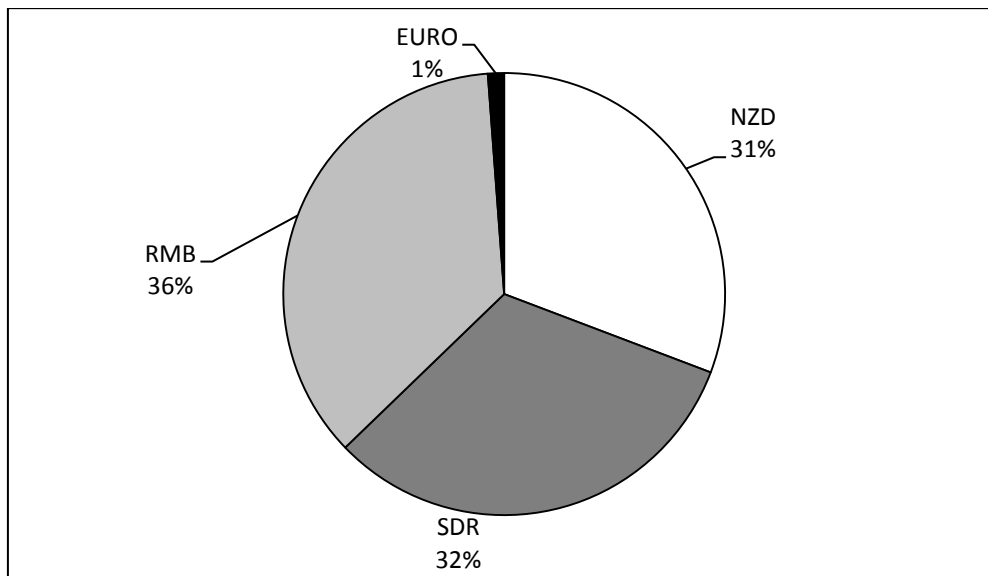
equivalent.

Table 10.2 Average Exchange Rates Used

| Foreign Exchange Currency | 10 day Dec 2014 Average | 2015/16 Assumptions | changes |
|---------------------------|-------------------------|---------------------|---------|
| RMB | 4.7780 | 4.5000 | -5.8% |
| USD | 0.7760 | 0.7000 | -9.8% |
| SDR | 0.5320 | 0.5050 | -5.1% |
| EUR | 0.6270 | 0.7000 | 11.6% |

The NZD depreciated against all major currencies in which Government debt is denominated, apart from the EUR. Total Crown debt is mainly denominated in foreign currencies, with only 31 per cent of debt in local currency. Of the remaining 69 percent denominated in foreign currencies, RMB is at 36 per cent, followed closely by SDR at 32 per cent, and EUR at one per cent.

Chart 10.2 Projected Composition of Crown Debt as at 30 June 2016 by Currency

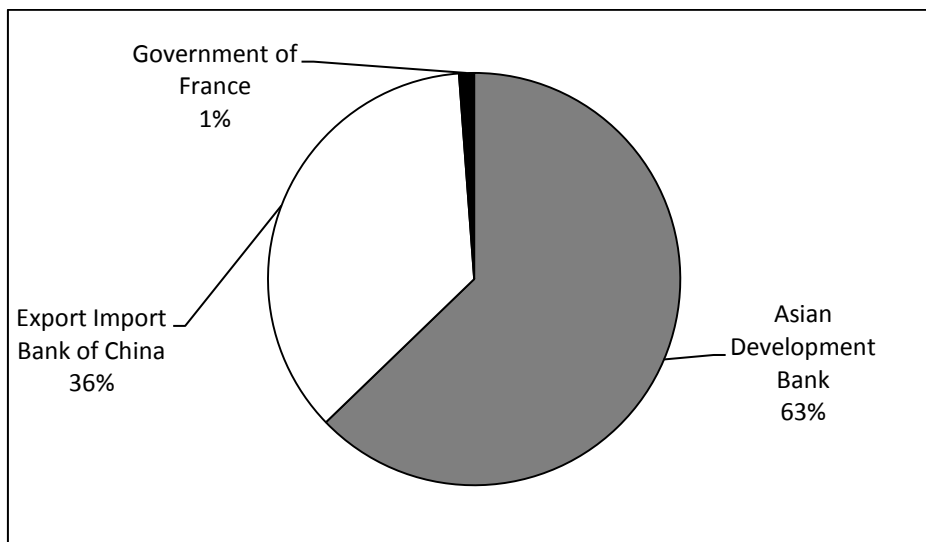


The share of the RMB has increased from 29 per cent during the time of the 2014/15 Budget to 36 per cent, reflecting both the drawdown of the loan related to the Rarotonga Water Ring Main Upgrade and the appreciation of the RMB against the NZD.

10.2 Gross Debt by Lenders

The gross debt by lender as estimated at 30 June 2016 is:

Chart 10.3 Gross Debt Estimates by Lender for 2015/16



As illustrated in Chart 10.3, the Crown has borrowings from three major lenders: the ADB (63 per cent), the Export Import bank of China (EXIM Bank) (36 per cent) and the Government of France (one per cent).

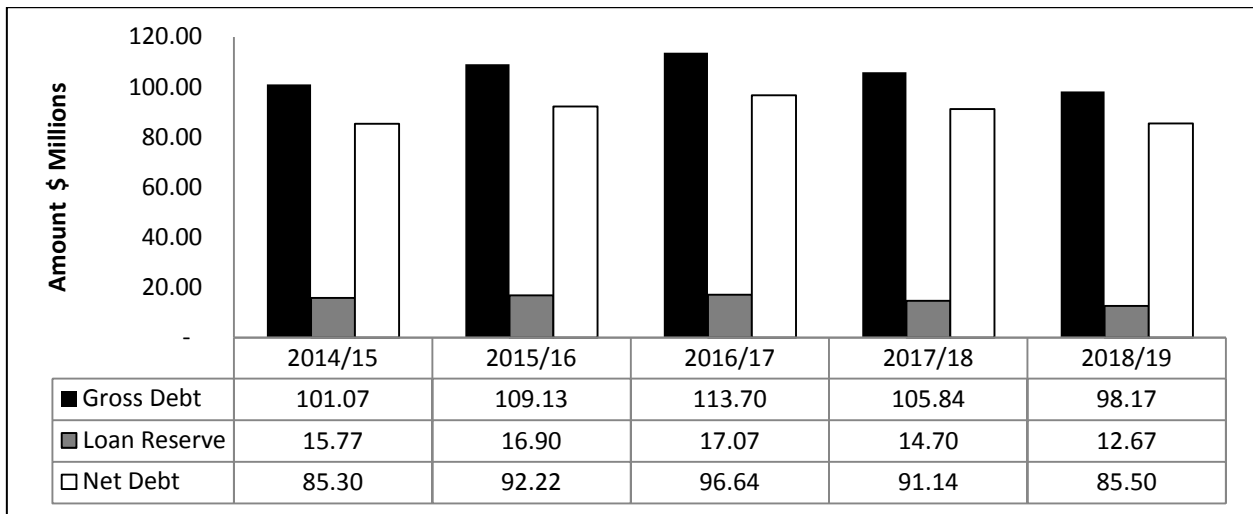
The EXIM Bank share of the overall borrowing portfolio is estimated to increase to 36 per cent in the 2015/16 fiscal year due to the planned loan drawdown of approximately RMB 11.9 million (approx. NZ\$9.3 million) to complete the Rarotonga Water Ring Main project.

The loan agreement with the ADB for a loan of NZ\$12.980 million for renewable energy development in the Southern Group has now been signed. Along with grants from the European Union, the Japanese PEC fund, and the GCF, the ADB loan will provide a total financing package of approximately \$29.7 million for the construction of up to six solar photovoltaic power plants in the Southern Group, provide institutional strengthening to the Office of the Energy Commissioner (OEC) and Renewable Energy Development Division (REDD) at OPM, and provide project management support to the power utilities, Te Aponga Uira (TAU) and Renewable Energy Development Division (REDD), to implement core and non-core subprojects. The loan is scheduled for draw down in either late 2015/16 or early 2016/17 fiscal year.

10.3 Crown Debt burden

Total gross Crown debt gradually reduces in the outer years as principal gets repaid, on the assumption that Government is not undertaking new loans. The Loan Reserve Fund (LRF) also continues to reduce as loans are repaid.

Chart 10.4 Cook Islands overall debt burden



10.4 Status of Government Loans

Table 10.3 shows that the total amount currently drawn down is \$105.9 million, which does not include the \$12.980 million loan from the ADB for Southern Group renewable energy project (the agreement for which has been signed, but not yet drawn down) is denominated in NZD.

The additional debt agreement will take the total gross debt portfolio for the Crown to \$113.7 million by the end of 2016/17, which is offset by the LRF of an estimated \$17.1 million.

Table 10.3 Status of Government loans estimated at 15 May 2015

| | Loans drawn down | Date loan taken | Original loan amount (000) | Current balance (NZD,000) | Expected date of repayment |
|--|---|-----------------|----------------------------|---------------------------|----------------------------|
| | ADB 461 (SF) Multi Project | November, 1980 | SDR 1,000 | 470 | August, 2020 |
| | ADB 567 (SF) CIDB Project | July, 1982 | SDR 1,500 | 460 | April, 2022 |
| | ADB 849 (SF) 2nd Multi-Project | December, 1987 | SDR 2,067 | 1,823 | August, 2027 |
| | ADB 1031 (SF) Outer Islands Telecom Project | October, 1990 | SDR 3,541 | 4,392 | August, 2030 |
| | ADB 1155 (SF) 2nd CIDB Project | March, 1992 | SDR 939 | 1,111 | December, 2031 |
| | ADB 1171 (SF) Emerg. Telecom Rehab Project | August, 1992 | SDR 291 | 383 | June, 2032 |
| | ADB 1309 (SF) Pearl Industry Dev. Project | December, 1994 | SDR 336 | 433 | August, 2034 |
| | ADB 1317 (SF) Educ'n Dev Project | February, 1995 | SDR 1,836 | 2,638 | August, 2034 |
| | ADB 1380 (SF) 3rd CIDB Project | January, 1996 | SDR 1,538 | 2,247 | September, 2035 |
| | ADB 1466 (SF) Economic Restructure Program | September, 1996 | SDR 3,430 | 5,031 | September, 2036 |
| | ADB 1588 (SF) Cyclone Emergency Rehab Project | January, 1997 | SDR 475 | 845 | January, 2038 |
| | Restructured French Loans | January, 1999 | Euro 5,413 | 1,289 | September, 2018 |
| | ADB 1832 (SF) Waste Mgt Project | December, 2001 | SDR 1,695 | 2,220 | June, 2033 |
| | ADB 2174 (SF) Cyclone Emergency Assist Project | June, 2005 | SDR 1,895 | 3,918 | June, 2045 |
| | China - Multi-Functional Indoor Sports Stadium | August, 2008 | RMB 74,100 | 13,173 | August, 2028 |
| | ADB 2472 (OCR) Avatiu Port Development Project* | September, 2009 | NZD 10,058 | 9,598 | November, 2033 |
| | ADB 2473 (SF) Avatiu Ports Development project | September, 2009 | SDR 8,346 | 8,958 | November, 2040 |
| | ADB 2565 OCR Economic Recovery Support Program 1* | January, 2010 | NZD 11,053 | 8,541 | October, 2024 |
| | ADB 2739 (OCR) Amendment Avatiu Port project* | December, 2011 | NZD 5,290 | 5,246 | November, 2035 |
| | China - Rarotonga Water Ring Main Upgrade | December, 2012 | RMB 118,000 | 26,157 | December, 2032 |
| | ADB 2565 OCR Economic Recovery Support Program 2 | December, 2012 | NZD 7,250 | 6,948 | December, 2028 |
| | Total loans drawn down | | | 105,882 | |
| | Debt Committed but not yet drawn | | | | |
| | ADB Renewable Energy Project | December, 2014 | NZD 12,980 | 12,980 | December, 2039 |
| | Total proposed new debt | | | 12,980 | |
| | Total loans commitment | | | 118,862 | |

Chart 10.5 Current Bilateral and Multilateral Estimate Loans Outstanding Next 10 Years

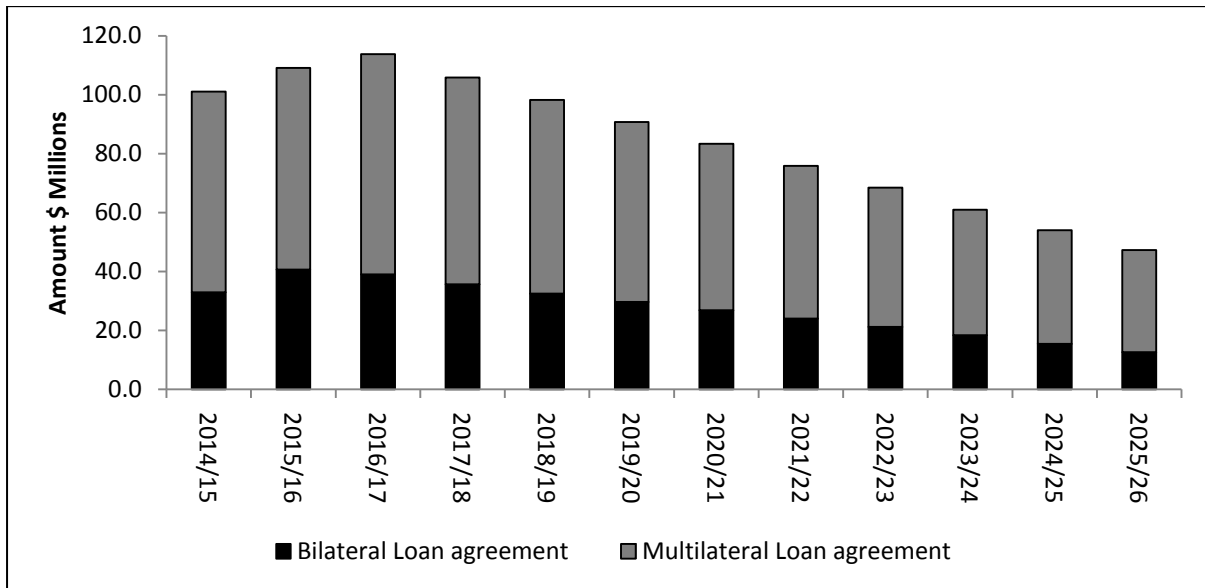
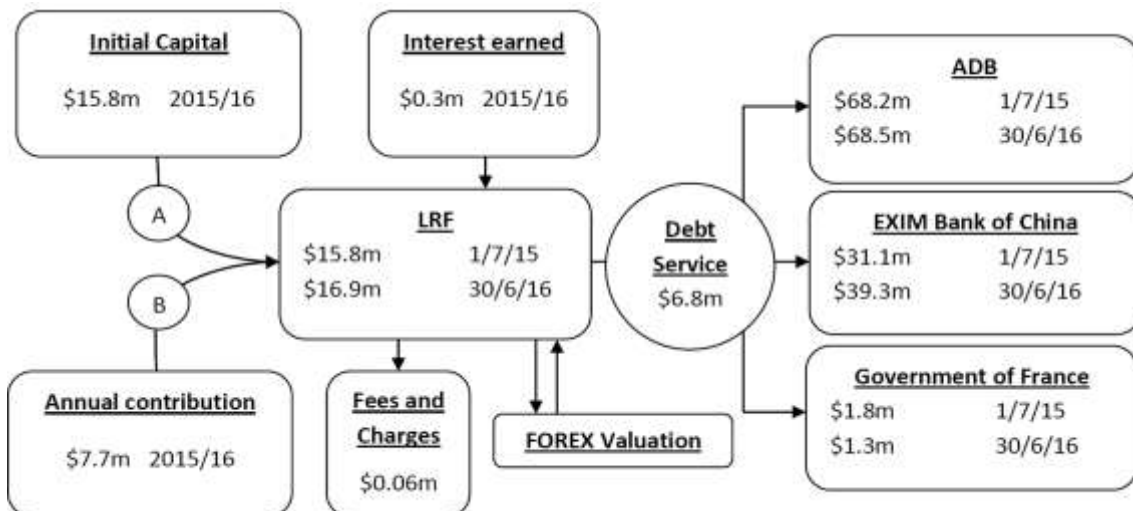


Chart 10.5 shows the bilateral and multilateral amount of Crown borrowings from 2014/15 to 2025/26.

10.5 Loan Reserve Fund (LRF)

In February 2014, the Parliament of the Cook Islands passed the Cook Islands Loan Repayment Fund Act 2014 formally creating an LRF. The aim of the LRF is to quarantine funds previously accumulated for loan repayments and to prevent them from being utilised for anything outside of debt servicing requirements. The LRF Act also ensures a framework for the prudential management of all sovereign public debt and ensures the timely allocation of money from the Budget for debt servicing.

Figure 10.1 Loan Reserve Fund movements 2015/16



The LRF currently has sufficient funds to fully cover all debts owed by on behalf of SOEs to lenders. These SOEs include the Bank of the Cook Islands, Te Aponga Uira, and Telecom Cook Islands Limited.

The tender for the analytical services of the LRF was awarded to the New Zealand Company Bancorp,

with transactional services and account management being awarded to ANZ in a competitive tender process. Bancorp's fees are outlined in the table below.

Table 10.4 Loan Reserve Fund Statement

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Opening LRF balance | 16,211 | 15,770 | 16,903 | 17,066 | 14,702 |
| Contribution to LRF principle | 4,743 | 5,424 | 5,424 | 5,424 | 5,424 |
| Contribution to LRF interest | 2,227 | 2,246 | 2,246 | 2,246 | 2,246 |
| Interest earned (avg 2 percen) | 324 | 315 | 338 | 341 | 294 |
| Total transfer into the LRF | 6,111 | 7,986 | 8,008 | 8,011 | 7,964 |
| Repayment of SOE loans | | | | | |
| Principal | 1,207 | 1,236 | 1,265 | 1,265 | 1,007 |
| Interest | 133 | 122 | 111 | 100 | 88 |
| Total repayment from LRF | 1,340 | 1,358 | 1,376 | 1,365 | 1,095 |
| Repayment of other debt | | | | | |
| Principal | 3,289 | 3,272 | 3,894 | 6,601 | 6,657 |
| Interest | 1,923 | 2,162 | 2,515 | 2,351 | 2,185 |
| Total repayment other debt | 5,212 | 5,435 | 6,409 | 8,952 | 8,842 |
| Other service fees | - | 60 | 60 | 60 | 60 |
| LRF stock balance | 15,770 | 16,903 | 17,066 | 14,702 | 12,669 |

Table 10.4 illustrates the movement in the LRF in the next five years. The transfers into the LRF have increased from \$6.23 million during the time of the 2014/15 Budget to \$7.670 million due to the new loan from the ADB for the Southern Group renewable energy project and to compensate for unfavourable movements in exchange rates. For accounting purposes, this transfer is divided into two components: a debt interest obligation (\$2.246 million) and a debt principle repayment (\$5.424 million); these are the estimated required payments into the LRF. The transfers out of the LRF for principle and interest are the estimated debt servicing requirements at the time of the Budget and are subject to exchange and drawdown variations.

10.6 Net Debt

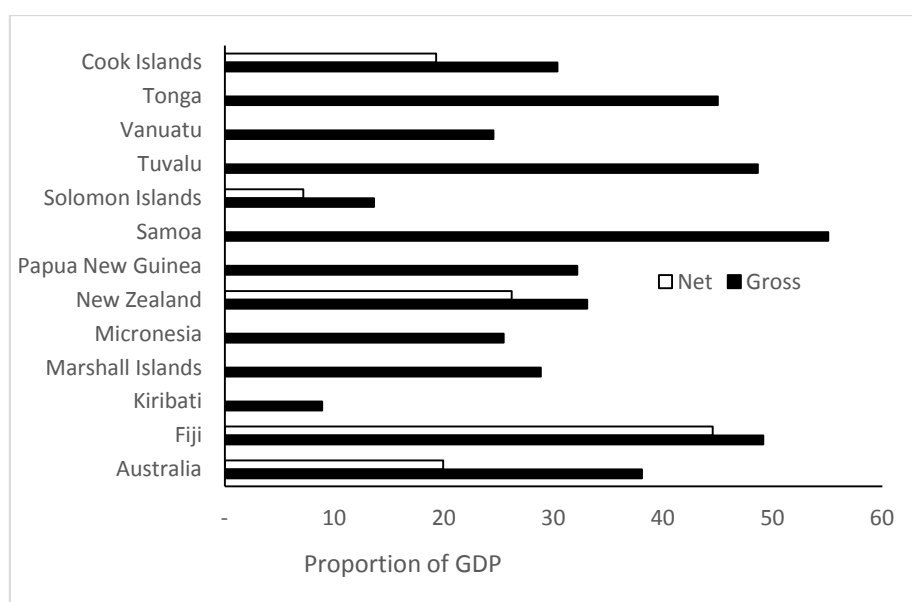
The Cook Islands has adopted a conservative approach towards the definition of net debt and is in a low debt position when compared internationally.

The internationally accepted definition of net debt is total gross debt (all public sector debt and currency on issue) less total financial assets corresponding to those debt instruments (this means like for like, for example cash). Under this definition the Cook Islands net debt position would be only \$71.9 million or 19.3 per cent of GDP in 2015/16.

| | | |
|--|---|-------------------|
| Gross Debt + Currency on Issue = (\$109.1m) + (\$4.1m) | = | (\$113.2 million) |
| Less | | |
| Financial Assets (Cash reserves and Loan Repayment Fund) | = | (\$41.3 million) |
| Net Debt | = | (\$71.9 million) |

International comparisons of net debt are made on the basis of the international definition of net debt, on this basis the Cook Islands has one of the lower debt profiles in the Pacific including Australia and New Zealand.

Chart 10.6 Regional Comparison of public debt profiles



However for the purpose of prudent fiscal management, the Cook Islands excludes cash reserves and currency issue from the net debt definition. For the purposes of this Chapter, 'Net Debt' in the Cook Islands is equivalent to total gross debt net of the LRF (the difference between the total gross debt and monies held in the LRF).

Net debt is estimated to be \$109.1 million (29.3 per cent of GDP) by the end of June 2016, an increase of \$7.2 million since the 2014/15 HYEPU. This movement reflects the signing of the ADB loan agreement for renewable energy, as well as unfavourable movements in the NZD.

Table 10.5 Current Borrowing Statement

| Current Statement | 2014/15 Proj | 2015/16 Proj | 2016/17 Proj | 2017/18 Proj | 2018/19 Proj |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Statement of Borrowings | \$m | \$m | \$m | \$m | \$m |
| Gross Crown Debt, End of FY | 101.1 | 109.1 | 113.7 | 105.8 | 98.2 |
| ... net of loan reserves, End of FY | 85.3 | 92.2 | 96.6 | 91.1 | 85.5 |
| as percentage of GDP | 23.5% | 24.7% | 25.8% | 24.1% | 22.3% |
| Loan Repayment Reserves Held | 15.8 | 16.9 | 17.1 | 14.7 | 12.7 |
| Gross Debt Servicing | 6.6 | 6.8 | 7.8 | 10.3 | 9.9 |
| Net Debt Servicing | 4.5 | 4.6 | 5.3 | 7.7 | 7.5 |
| ... as percentage of Total Revenue | 3.5% | 3.3% | 3.8% | 5.5% | 5.7% |

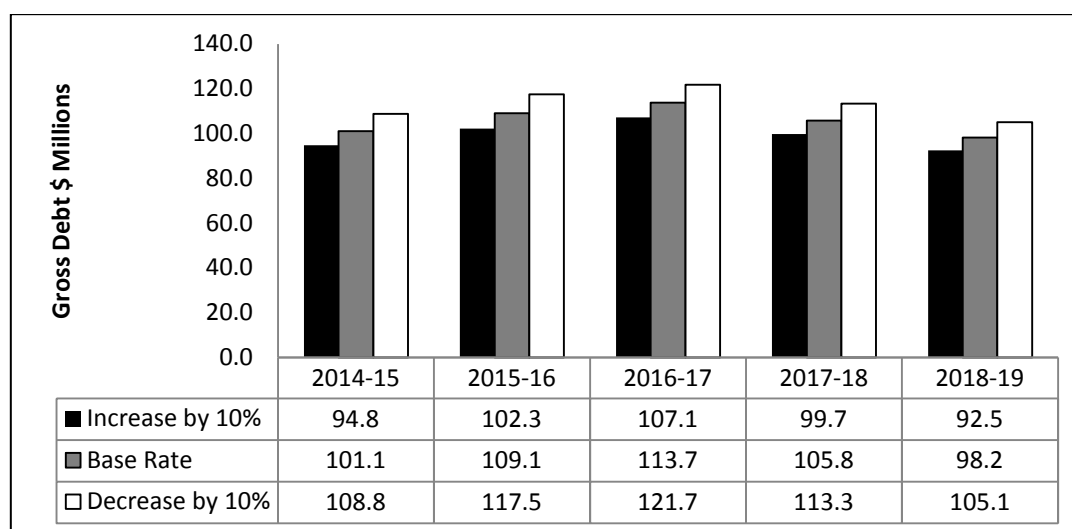
10.7 Crown Debt Sensitivity Analysis

Table 10.6 Base rate used for budget assumption with +/- 10 per cent

| Foreign Exchange Currency | -10% | Budget assumption rate | +10% |
|---------------------------|--------|------------------------|--------|
| RMB | 4.0500 | 4.5000 | 4.9500 |
| USD | 0.6300 | 0.7000 | 0.7700 |
| SDR | 0.4545 | 0.5050 | 0.5555 |
| EUR | 0.6300 | 0.7000 | 0.7700 |

The largest risk to the Crown's ultimate debt liability is the long term level of the NZD against the currencies in which the Crown's loans are denominated. The sensitivity analysis demonstrates the impact of a 10 per cent appreciation or depreciation in the NZD to determine the impact on the gross borrowings and the debt servicing cost.

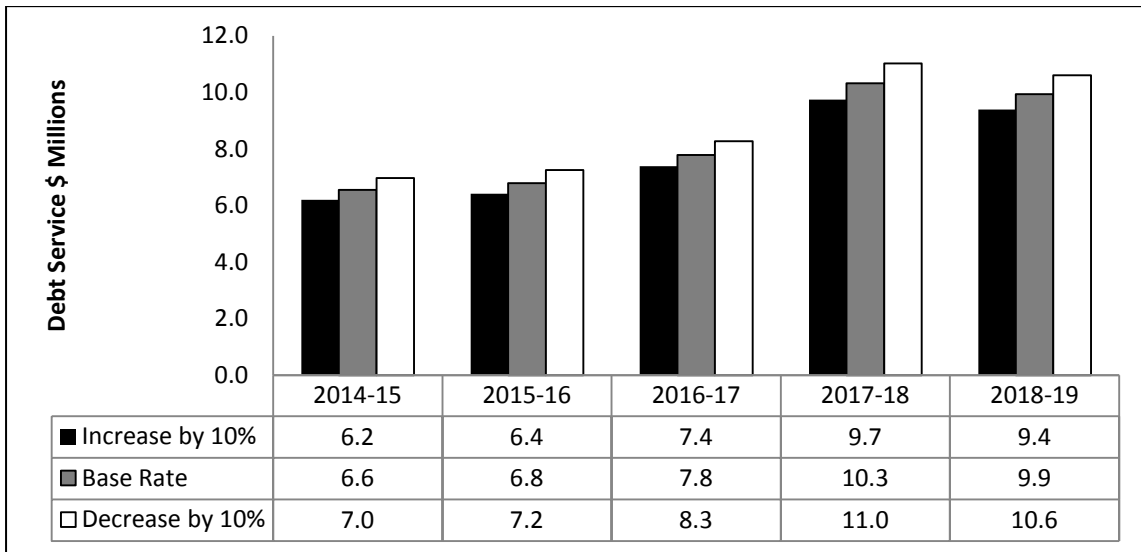
Chart 10.7 Sensitivity of Total Crown Gross Debt



If the NZD/USD exchange rate was to depreciate by 10 per cent, gross Crown debt as at the end of the June 2016 year would increase by an estimated \$8.4 million.

If the NZD depreciated by 10 per cent, this would reduce the opportunity for further borrowings and increase the Crown's debt servicing costs to unsustainable levels.

Chart 10.8 Sensitivity of Gross Debt Servicing Costs



The impact of the 10 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 NZD.

10.8 Fiscal Debt Responsibility Ratios

Proposals to take on new loans must be treated under transparent processes as required by the MFEM Act 1995/96 and the LRF Act 2014. The fiscal responsibility ratios will assist Government to prudently manage its future loan obligations and borrowing plan.

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

Chart 10.9 Net Debt as a proportion of GDP

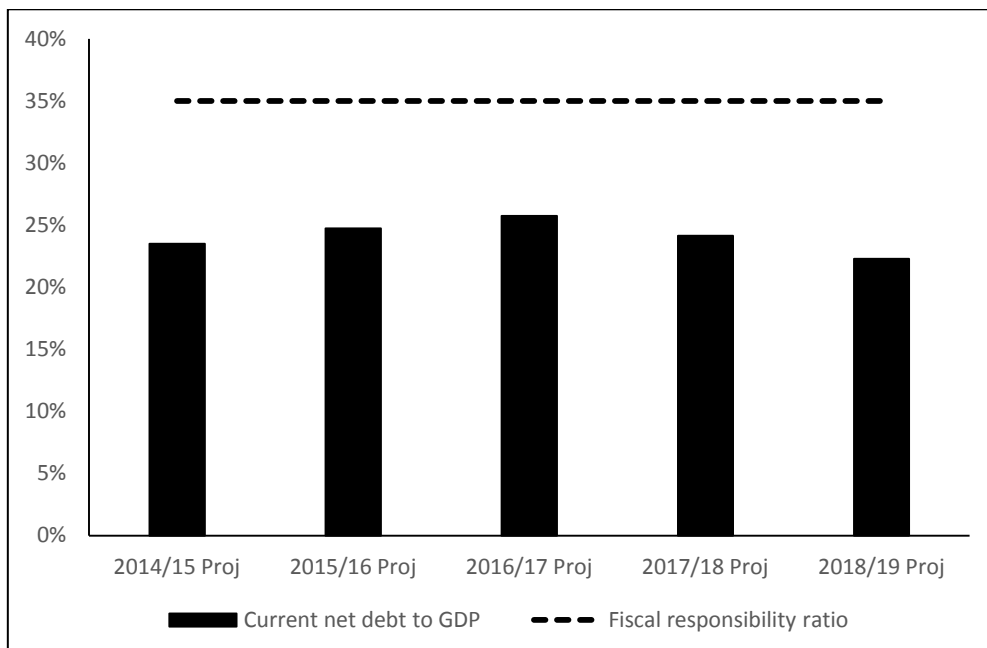
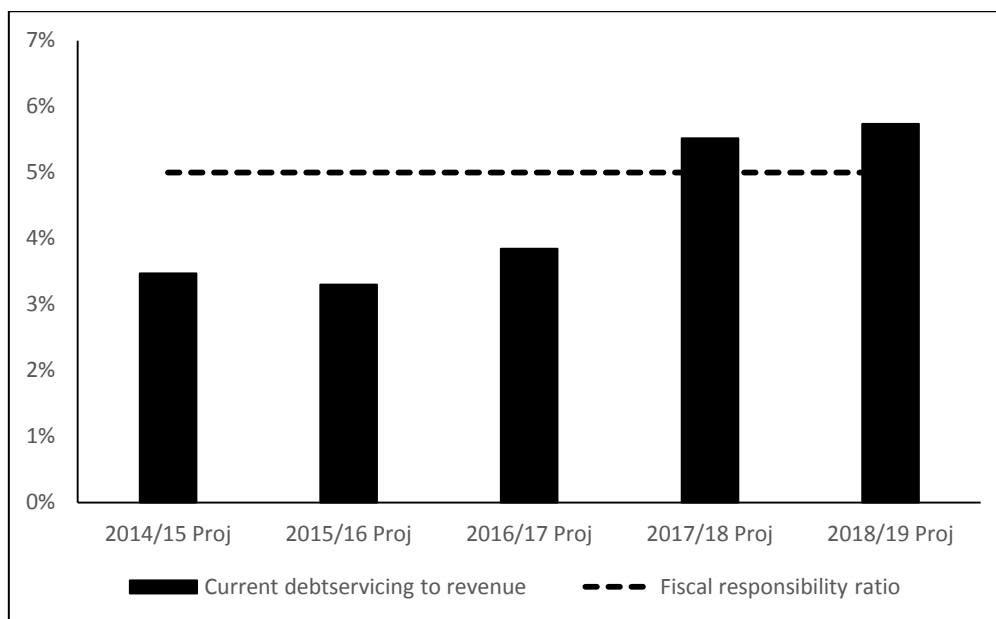


Chart 10.10 Net Debt Servicing as a proportion of Total Revenue



Government is well within its fiscal responsibility ratio threshold of 35 per cent net Crown debt to GDP. However, the commitment for debt servicing to remain under 5 per cent of total revenue will be breached in 2017/18.

These ratios should not be looked at in isolation. Any proposal to take on additional borrowing should be looked at in the context of the whole of the Government Budget, the Crown's ability to pay annual debt servicing and international best practice. The latter aspect includes prudential requirements set by the Crown's lenders.

There is a question of the appropriateness of the five per cent debt servicing to revenue level and whether it is in fact too low. The net debt servicing to total revenue ratio controls the servicing of debt, which includes interest and principal payments. It primarily ensures that there are sufficient means to service debt from the operating revenue. Taken together with the tax revenue envelope, this ratio measures how much debt servicing is crowding out other components of government spending.

An independent assessment undertaken by the ADB in 2013 concluded that the five per cent debt servicing to revenue ratio was likely too conservative and inconsistent with the debt to GDP ratio constraint. The review noted that a more reasonable and consistent ratio of debt servicing to revenue would be 10 per cent. There will be another independent assessment by the ADB and IMF PFTAC currently scheduled for August 2015 which will evaluate the appropriateness of these thresholds.

10.9 Long term debt projections

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

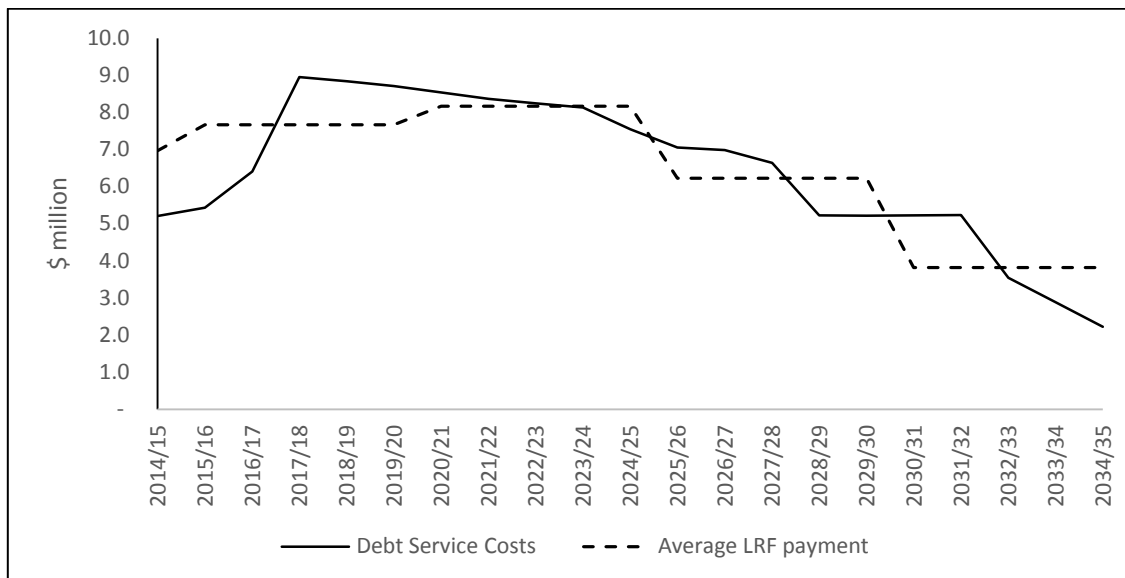
The LRF Act 2014 requires MFEM to analyse and report to the Parliament and the public on the impact of new borrowing in the context of Government lending policy, including the amortisation schedule, the impact on debt service burden of the government over the life of the loan, and an assessment of the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

of loan agreements being finalised.

While there are no new loan agreements planned over the forward estimates, it is important to take note of the obligations relating to the current debt stock.

10.9.1 Servicing the current debt stock

Chart 10.11 Net Debt Servicing as a proportion of Total Revenue



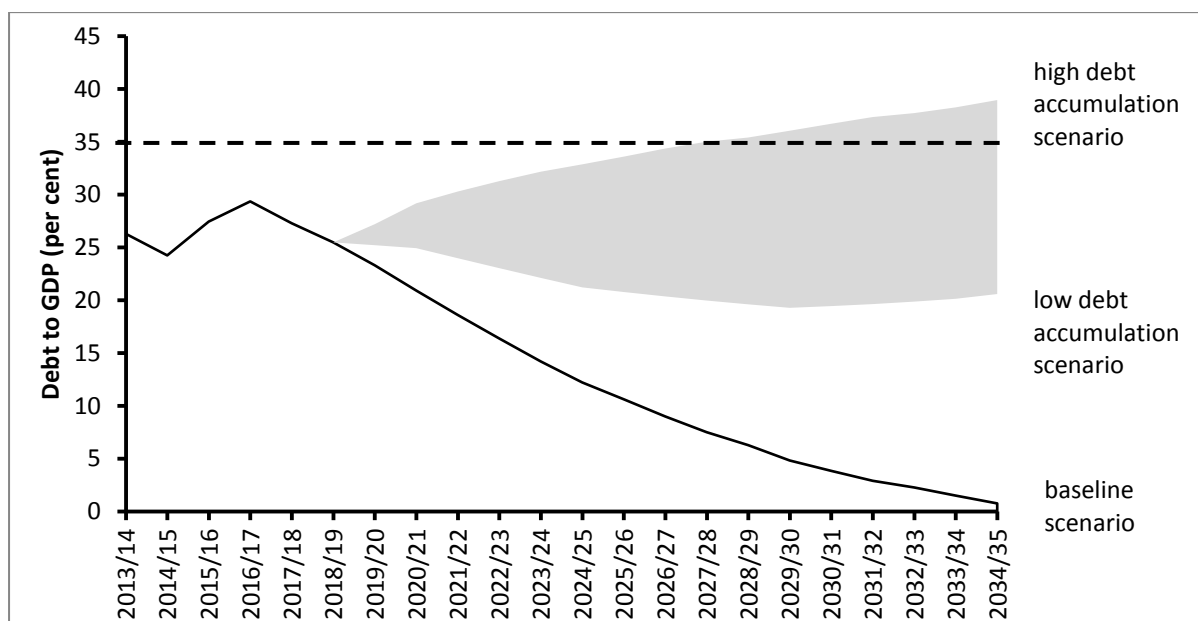
The LRF payments are smoothed over a five year period in order to reduce the volatility to Government cash reserves from new debt obligations and exchange rate shocks. Therefore, the payments made into the LRF will not always match the debt servicing profile. For example, despite the debt servicing profile peaking at \$9.0 million in 2017/18, the cost to the Government only peaks at \$8.2 million in 2020/21 due to this effect.

The payments into the LRF then fall in a stepped manner as the current loan stock is repaid.

10.9.2 Debt projections

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

Chart 10.12 Net debt projection – 20 years



The graph above outlines three debt accumulation scenarios.²

The baseline scenario is the evolution of the current debt stock over time. The estimates are those outlined in the current debt agreements, with the repayment schedules already mapped out over the next 20 to 30 years.

The high debt accumulation scenario assumes that operational spending continues to grow at recent trends and that economic growth follows its long-term average. Capital is not allowed to fall below the amount of depreciation (current capital is fully replaced). Under this set of assumptions, cash reserves are depleted by operational deficits, and capital needs become increasing financed by debt financing. The recent increase in fisheries revenue means that despite pressure building within both the operational and capital budget, the 35 per cent debt:GDP ratio is breached as late as 2026/27.

The low debt accumulation scenario assumes that net operating surpluses are achieved over the medium term, with these surpluses being diverted into financing the capital budget in preference to debt financing. This becomes increasingly difficult over the long term however, with growth in expenditures outpacing revenue and the need for capital replacement keeping the pressure on the cash reserve. Debt financing of the capital program again becomes a dominant feature of the Budget from around 2030 onwards.

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

Another important consideration is the health of the cash reserve. The recent capital spending has

² The two frameworks for fiscal forecasting were developed in conjunction with the Asian Development Bank (the ADB Fiscal Management Model) and the International Monetary Fund (Fiscal Analysis and Forecasting workshop, Fiji, March 2014). An evaluation of the economic and fiscal modeling frameworks is due to be undertaken in August 2015.

diminished the capital reserve by investing in major infrastructure. Cash reserves should recover over the medium term if now new major initiatives are planned that involve the use of the Government cash reserve.

Of particular risk are the renewable energy projects in the Pa Enua. Combined, the northern and southern projects have cost as much as Te Mato Vai, but attracted little attention due to the use of donor grant funding. However, while the initial investment from the Cook Islands Government has only been the \$12.98 million ADB loan, the replacement costs for the systems over future decades will be much higher. If not managed correctly, the Government will not have sufficient reserves to replace such a system in 10 to 15 years time, and may have to rely on larger loans to fund the replacement capital.

10.10 Other State Owned Enterprise Debt

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

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

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

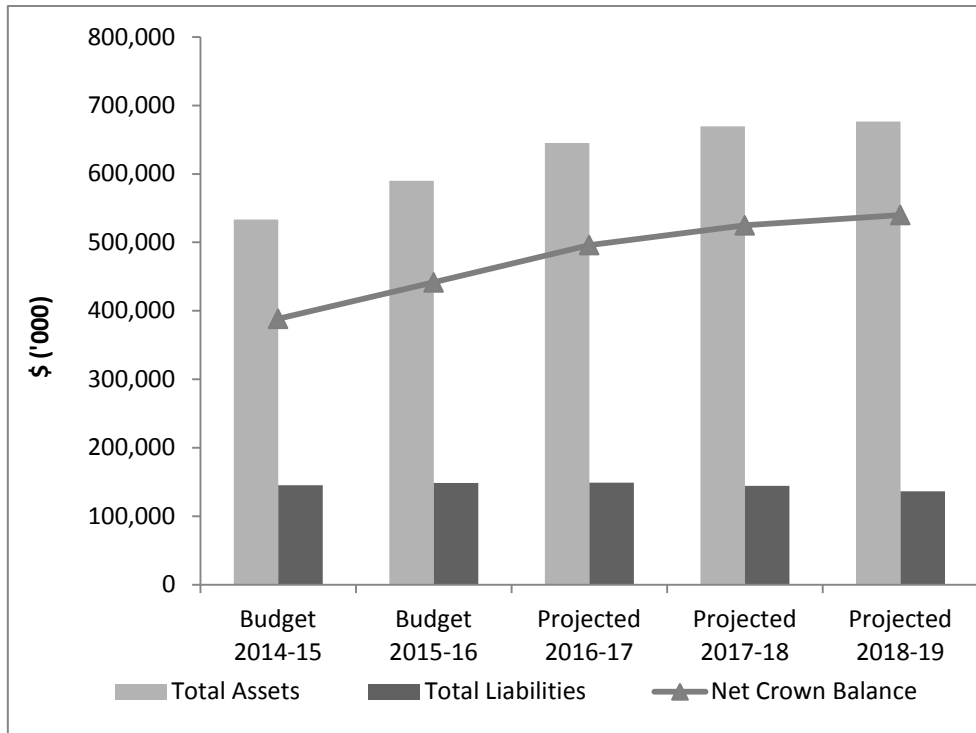
The loan is secured by registered mortgage debenture over the assets and undertakings of the Airport Authority. A financial covenant will apply where the amount of EBITDA generated less dividend paid will at all times be greater than twice the annual debt servicing commitments. The Covenant will be measured annually in arrears. The Airport Authority is considering additional borrowings for further airport upgrades of Rarotonga International Airport.

TAU has also indicated it is considering new borrowings to finance new investments in electricity generation and supply assets including infrastructure aimed at improving renewable energy distribution and supply.

10.11 Net Worth

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

Chart 10.13 Net Worth 2014/15 to 2018/19, (\$'000)



The estimated net worth of the Crown at June 2016 has increased from the 2014/15 Budget of \$388.4 million to \$441.5 million. This is a net movement of \$53.1 million. This was a result of increases in the forecasted borrowings offset against increases in the Crown's physical assets.

The Crown's net worth will increase in the outer years from 2015/16 as long as there is an estimated operating surplus. Also a major contributor to the forecast upward trend is a decrease in taxes receivables and an injection to the Crown's asset from aid donor funding. It is estimated that an annual average of 10 per cent of donor funding is capital asset.

11 CIIC and State Owned Enterprises

11.1 CIIC

The Cook Islands Investment Corporation is a statutory corporation wholly owned by the Government of the Cook Islands. Its functions are to:

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

The principal objectives of the Corporation are:

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

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

11.2 Developments and Investment

11.2.1 Asset Management

National Infrastructure Investment Plan

A draft ten year Cook Islands National Infrastructure Investment Plan (NIIP) covering economic infrastructure was completed in May 2014 under the overall guidance of the Infrastructure Committee with technical support provided by the ADB Pacific Regional Infrastructure Facility (PRIF).

In consultation with PRIF, the NIIP was extended to incorporate social infrastructure. The Cook Islands NIIP identifies and prioritises the package of infrastructure investments costing a minimum of \$500,000 which best meets the country's needs in the coming years, and includes plans for the funding and implementation of these investments. The projects are prioritised in accordance with expected financial resources. The Cook Islands NIIP also recommends actions for consideration by government regarding the long term sustainability of infrastructure assets and incorporates the implications of climate change and disaster risk for these types of infrastructure.

The draft NIIP was subjected to a wide public consultation process and is expected to be submitted for Cabinet approval before the end of 2014/15.

Asset Management Information System

A 'whole of government' asset management information system known as AssetFinda was installed in August 2014 on the government network which is already being directly accessed by several users through the intranet or internet.

AssetFinda staff from New Zealand have been providing training on the use of the software to the major infrastructure providers: CIIC, Airport Authority, Infrastructure Cook Islands, Ports Authority

and Te Aponga Uira as well as Te Pa Enea Division of the OPM. The application of the software is being extended to the Island Councils of Aitutaki, Atiu, Mangaia and Mauke. The rest of the Pa Enea will be progressively incorporated into the system through 2015 to 2016 principally by CIIC staff.

Construction of Apii Nikao

The construction of the new Apii Nikao school is expected to commence in 2015/16 with funding provided by the Peoples Republic of China under contract to a yet to be named Chinese company which will be project managed by CIIC

11.3 Airport Authority

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

Developments and investments

Developments for the 2015/16 financial year include the acquisition of a new Instrument Landing System and continued investments in renewable energy. The Authority will also be looking at taking over government's investment in the Cool Store building.

Further upgrades are planned for the Rarotonga passenger terminal over the next two years together with the expansion of the Rarotonga apron to accommodate two large bodied jets (B777).

Social contributions costs and Dividends

The Airport Authority provides \$0.116 million in community service obligations and social contributions costs:

- | | | |
|--|---|----------|
| • The Provision of Fire Service to the Rarotonga Community | - | \$67,323 |
| • The provision of a rent free VIP lounge to government | - | \$48,246 |

Dividend

The Airport Authority is considering capital expenditure program in excess of \$20 million over the next five years. Consequently, operating costs will escalate and so would its operating losses. The Authority will however be reviewing its charges this year but it does not expect to be able to pay dividends for at least the next three years. Current policy calculates dividend on 35% of NPAT.

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

- To establish the Bank of the Cook Islands Ltd in accordance with the Act and to exercise the Corporation's rights and powers and to perform its obligations and duties in relation thereto.
- To establish CIDB Former Loans Limited in accordance with the Act and exercise the Corporation's right and powers and to perform its obligations and duties thereto (*now dissolved*).

- To establish Development Finance Limited in accordance with the Act and to exercise the Corporation's rights and powers and to perform its obligations and duties in relation thereto.
- To manage any assets vested in the Corporation.
- To undertake any other matters prescribed in the Act.

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

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

Developments and investments

The resources required to achieve the performance targets of BCI are internally generated. Allowance has been included for receipt from Crown of social obligation costs in relation to BCIs delivery of banking services to communities outside Rarotonga. Also in accordance with shareholder expectations, and capital expenditure plans BCI has implemented a constant dividend pay out ratio based on a fixed per cent of net profit after tax achieved in each financial year.

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

Table 11.1 Social contributions costs and Dividends

| | Budget 2013/14 | Budget 2014/15 | Budget 2015/16 |
|---|----------------|----------------|----------------|
| Dividend | 536,000 | 557,053 | 481,000 |
| Social Obligation of providing banking services | 181,000 | 181,000 | 120,000 |
| Net contribution of government | 355,000 | 738,053 | 361,000 |

11.5 Ports Authority

Brief overview on SOE and its functions

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

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

Community Service Obligations

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

Table 11.2: Community Service Obligations

| | Amount |
|---|------------------|
| Rarotonga | |
| Reoccurring | \$79,928 |
| Approved Waived Port Charges | \$16,763 |
| Total | \$96,691 |
| Aitutaki | |
| Approved waived Charges | \$13,408 |
| Total | \$13,408 |
| Overall Total Community Service Obligation | \$110,099 |
| Cost at year end 30 June 2014 | |

Dividends

The CIPA notes the shareholder's desire to receive dividends and will use its best endeavours to accommodate that desire within the constraints imposed by the significant scale of loans that have had to be taken out to provide facilities to enable modern international ships to call at Rarotonga, and 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 and principal repayments having commenced. Dividend payments to shareholders would seriously compromise the company's ability to meet its loan commitments as these already demand a significant improvements over time in financial trading to be sustained. However, Ports Authority must take its cash flow commitments into consideration, specifically its obligations to pay interest and loan capital repayments, prior to being able to pay dividends.

Table 11.3 Foreign Exchange

| | F'cast 2014/15 | Budget 2015/16 | Budget 2016/17 |
|--|-----------------------|-----------------------|-----------------------|
| Revenue | 3,345,619 | 3,415,011 | 3,494,516 |
| Expenses | 3,512,436 | 3,578,782 | 3,500,780 |
| Operating loss before foreign exchange | (166,817) | (163,771) | (6,264) |

No dividend is envisaged over the medium term.

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

Developments and investments

There will be investment in both conventional and renewable generation systems including augmentation of the entire power network over the years. The projected investment over the next 10 years is significant with an estimated \$14 million in 2015/16. Plans for subsequent years will be refined annually.

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

Table 11.4: Social contributions costs and Dividends

| | Budget 2014/15 | Budget 2015/16 | Budget 2016/17 |
|---|-----------------------|-----------------------|-----------------------|
| Dividends (35 percent NPAT) | \$337,800 | \$337,800 | \$319,19 |
| Uneconomic Power Lines | 0 | 0 | 0 |
| Other Social responsibility costs (streetlights,) | \$362,200 | \$380,000 | \$380,000 |

A national asset management policy and related regulations which will give government the mandate for requiring its agencies to practise prudent asset management is planned to be put in place by the end of 2014/15.

12 Public Sector Staffing

12.1 Public Sector Profile at 31 March 2015

The Cook Islands is a constitutional monarchy within the Realm of New Zealand, with Her Majesty Queen Elizabeth II as Head of State. The Cook Islands Constitution Act 1964 established the Westminster system of government in the Cook Islands, and provides for various constitutional posts which include: the Queens Representative; Speaker of Parliament, Cabinet (six Ministers of the Crown), Chief Justice, Members of Parliament, House of Ariki, Ombudsman, Public Expenditure Review Committee and the Public Service Commissioner. The Public Service Act 2009 identifies 13 Public Service Departments under the authority of the Public Service Commissioner, and recognises all other agencies as State Services.

Chart 12.1 Cook Islands Public Sector Structure

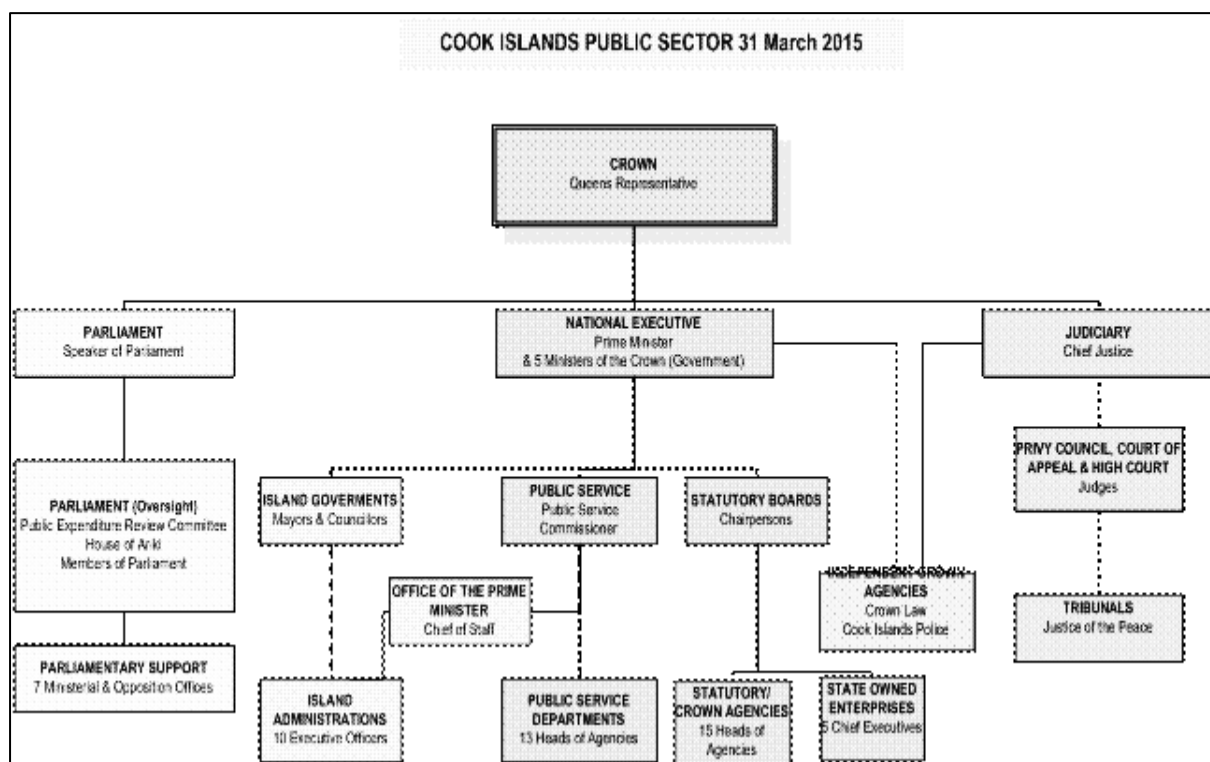


Table 12.1 Public Sector Agencies

| Public Service | Island Governments | Statutory/Crown Agencies |
|--|--------------------------------|--|
| Ministry of Agriculture | Aitutaki | Business Trade and Investment |
| Ministry of Cultural Development | Atiu | Cook Islands Investment Corporation |
| Ministry of Education | Mangaia | Cook Islands Pearl Authority |
| Ministry of Foreign Affairs and Immigration | Manihiki | Cook Islands Seabed Minerals Authority |
| Ministry of Finance and Economic Management | Mauke | Cook Islands Tourism Corporation |
| Ministry of Health | Mitiaro | Financial Services Development Authority |
| Ministry of Justice | Palmerston | Financial Supervisory Commission |
| Ministry of Internal Affairs | Penrhyn | Head of State |
| Infrastructure Cook Islands | Pukapuka/Nassau | National Environment Service |
| Ministry of Marine Resources | Rakahanga | Office of the Ombudsman |
| Ministry of Transport | State Owned Enterprises | Cook Islands Audit Office |
| Office of the Prime Minister | Aitutaki Power Supply | Parliamentary Services |
| Office of the Public Service Commissioner | Bank of the Cook Islands | Others |
| | Cook Islands Airport Authority | Natural Heritage |
| | Cook Islands Ports Authority | Punanga Nui |
| | Te Aponga Uira | Cook Islands National Superannuation Office |
| | | Independent Crown Agencies |
| | | Cook Islands Police |
| | | Crown Law |

12.2 Public Sector Employee Numbers

Table 12.2 Employee Summary by Groupings

| By Agency and Gender | Female | Male | Total |
|--|---------------|-------------|--------------|
| Public Service | 673 | 435 | 1108 |
| Crown/Statutory Agencies | 118 | 143 | 261 |
| Island Administrations | 82 | 313 | 395 |
| Island Councils | 11 | 37 | 48 |
| Parliament | 14 | 32 | 46 |
| Ministerial & Opposition Support Offices | 16 | 17 | 33 |
| Others | 8 | 5 | 13 |
| State Owned Enterprises | 72 | 197 | 269 |
| Total | 994 | 1179 | 2173 |

Source: HRMIS (except CIIC, FSC, Aitutaki Power Supply and SOEs – employee numbers are provided by these agencies)

Table 12.3 Employees by Agency and Gender

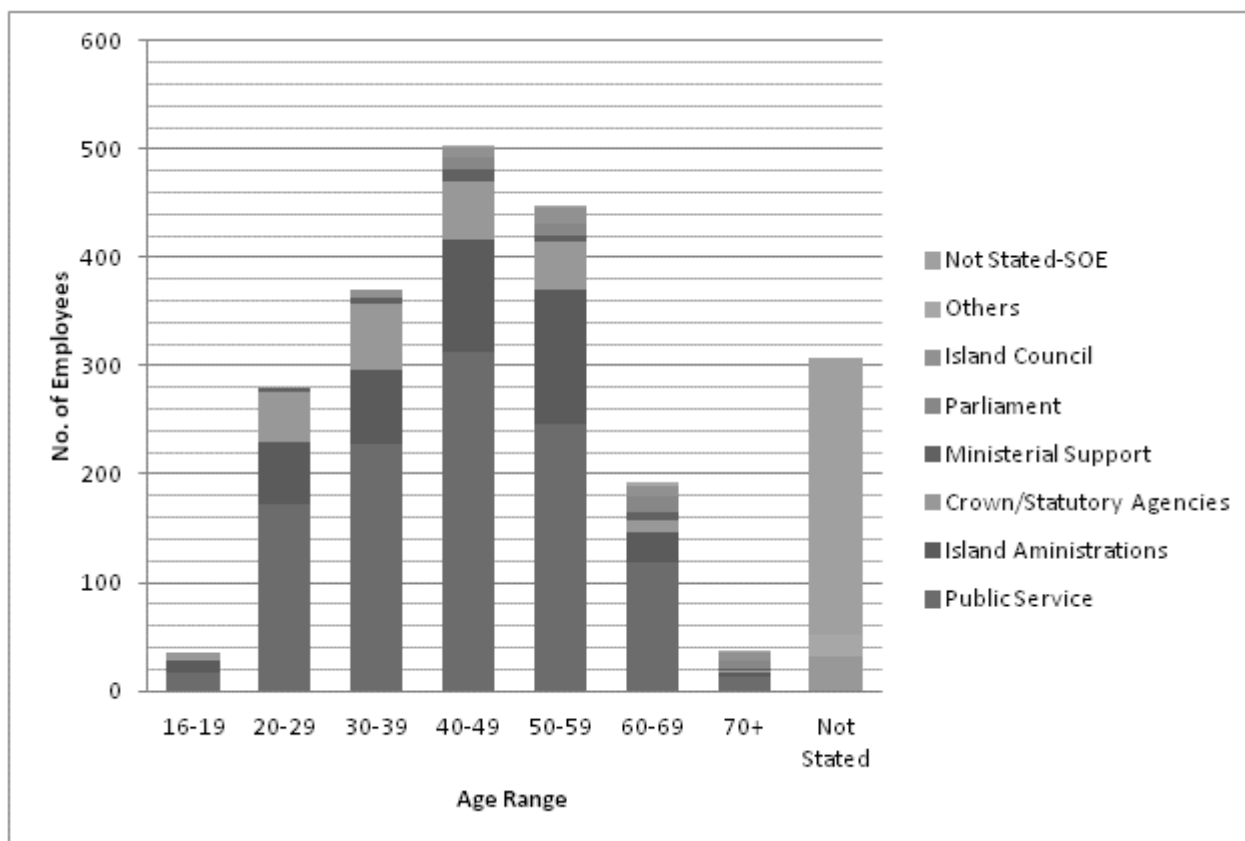
| Agency names | Female | Male | Total |
|---|---------------|-------------|--------------|
| Public Service | 673 | 435 | 1108 |
| Infrastructure Cook Islands | 7 | 50 | 57 |
| Ministry of Agriculture | 4 | 26 | 30 |
| Ministry of Cultural Development | 12 | 7 | 19 |
| Ministry of Education | 282 | 95 | 377 |
| Ministry of Finance and Economic Management | 52 | 37 | 89 |
| Ministry of Foreign Affairs and Immigration | 13 | 7 | 20 |
| Ministry of Health | 197 | 100 | 297 |
| Ministry of Internal Affairs | 26 | 15 | 41 |
| Ministry of Justice | 34 | 36 | 70 |
| Ministry of Marine Resources | 17 | 28 | 45 |
| Ministry of Transport | 5 | 11 | 16 |
| Office of the Prime Minister | 17 | 22 | 39 |
| Office of the Public Service Commissioner | 7 | 1 | 8 |

| Agency names | Female | Male | Total |
|---|---------------|-------------|--------------|
| Island Administrations | 82 | 313 | 395 |
| Aitutaki Island Administration | 6 | 44 | 50 |
| Atiu Island Administration | 8 | 38 | 46 |
| Mangaia Island Administration | 4 | 40 | 44 |
| Manihiki Island Administration | 8 | 30 | 38 |
| Mauke Island Administration | 5 | 29 | 34 |
| Mitiaro Island Administration | 13 | 36 | 49 |
| Nassau Island Administration | 4 | 10 | 14 |
| Palmerston Island Administration | 5 | 5 | 10 |
| Penrhyn Island Administration | 2 | 25 | 27 |
| Pukapuka Island Administration | 18 | 33 | 51 |
| Rakahanga Island Administration | 9 | 23 | 32 |
| Crown/Statutory Agencies | 118 | 143 | 261 |
| Business Trade Investment | 7 | 4 | 11 |
| Cook Islands Audit Office | 12 | 6 | 18 |
| Cook Islands Investment Corporation | 8 | 11 | 19 |
| Cook Islands Parliamentary Services | 7 | 6 | 13 |
| Cook Islands Pearl Authority | 3 | 1 | 4 |
| Cook Islands Police Department | 29 | 82 | 111 |
| Cook Islands Seabed Mineral Authority | 2 | 1 | 3 |
| Cook Islands Tourism Corporation | 15 | 6 | 21 |
| Crown Law Office | 9 | | 9 |
| Financial Service Development Authority | 2 | | 2 |
| Financial Supervisory Commission | 8 | 5 | 13 |
| Head of State | 2 | 4 | 6 |
| National Environment Services | 10 | 16 | 26 |
| Office of the Ombudsman | 4 | 1 | 5 |
| Parliament | 14 | 32 | 46 |
| Queens Representative | | 1 | 1 |
| Speaker of Parliament | 1 | | 1 |
| Members of Parliament | 4 | 19 | 23 |
| House of Ariki - Members and Clerk | 6 | 11 | 17 |
| Public Expenditure Review Committee | 1 | 1 | 2 |
| Support | 2 | | 2 |
| Island Councils | 11 | 37 | 48 |
| Aitutaki Island Government | 1 | 4 | 5 |
| Atiu Island Government | | 4 | 4 |
| Mangaia Island Government | 1 | 6 | 7 |
| Manihiki Island Government | 3 | 3 | 6 |
| Mauke Island Government | 2 | 4 | 6 |
| Mitiaro Island government | 2 | 2 | 4 |
| Nassau Island Government | | 2 | 2 |
| Palmerston Island Government | 2 | 3 | 5 |
| Penrhyn Island Government | | 3 | 3 |
| Pukapuka Island Government | | 4 | 4 |
| Rakahanga Island Government | | 2 | 2 |
| Others | 8 | 5 | 13 |
| Natural Heritage | | 1 | 1 |
| Punanga Nui Market | 2 | 3 | 5 |

| Agency names | Female | Male | Total |
|---|------------|-------------|-------------|
| Cook Islands National Superannuation Fund | 6 | 1 | 7 |
| State Owned Enterprises | 72 | 197 | 269 |
| Aitutaki Power Supply | 2 | 10 | 12 |
| Bank of the Cook Islands | 22 | 45 | 67 |
| Te Aponga Uira | 12 | 36 | 48 |
| Cook Islands Airport Authority | 32 | 88 | 120 |
| Cook Islands Ports Authority | 4 | 18 | 22 |
| Ministerial & Opposition Support Offices | 16 | 17 | 33 |
| Min Brown Support Office | 3 | 2 | 5 |
| Min Glassie Support Office | 2 | 1 | 3 |
| Min Heather Support Office | 2 | 2 | 4 |
| Min Nicholas/loane Support Office | 4 | 3 | 7 |
| Min Turepu Support Office | 1 | 3 | 4 |
| Prime Minister Support Office | 2 | 4 | 6 |
| Leader of the Opposition Office | 2 | 2 | 4 |
| Grand Total | 994 | 1179 | 2173 |

12.3 Public Sector Age Profile

Chart 12.2 Public Sector Age Profile



Not stated includes: SOEs, CIIC, FSC, Aitutaki Power Supply, and Cook Islands Superannuation

12.4 Public Sector Remuneration Profile

Table 12.4 Salary Ranges

| Row Labels | Public Service | Crown Agencies | Island Govt. | Island Council | Ministerial Support Offices | Others | Parl | SOE | Total |
|--------------------|----------------|----------------|--------------|----------------|-----------------------------|-----------|-----------|------------|-------------|
| <=9,999 | 5 | | | | | | 16 | | 21 |
| 10,000 - 15,999 | 217 | 40 | 280 | 3 | 8 | 6 | 2 | | 556 |
| 16,000 - 19,999 | 144 | 26 | 31 | 1 | 2 | | | | 204 |
| 20,000 - 29,999 | 353 | 74 | 25 | | 6 | 1 | | | 459 |
| 30,000 - 39,999 | 226 | 44 | 5 | | 2 | 1 | | | 278 |
| 40,000 - 49,999 | 71 | 18 | 5 | | 6 | | 1 | | 101 |
| 50,000 - 59,999 | 26 | 5 | 2 | | 5 | 1 | 16 | | 55 |
| 60,000 - 69,999 | 11 | 4 | | | 2 | | | | 17 |
| 70,000 - 79,999 | 8 | 8 | | | 1 | | | | 17 |
| 80,000 - 89,999 | 6 | 1 | | | | | 6 | | 13 |
| 90,000 - 99,999 | 4 | 1 | | | | | 2 | | 7 |
| 100,000+ | 3 | 4 | | | | | 1 | | 8 |
| Not Stated | 34 | 36 | 47 | 44 | 1 | 4 | 2 | 269 | 437 |
| Grand Total | 1108 | 261 | 395 | 48 | 33 | 13 | 46 | 269 | 2173 |

Source: HRMIS

12.5 Public Service Strategy – The Journey to Excellence

The Cook Islands public service aims to be a public service of excellence which is well led, responsive and relevant for the 21st century and trusted by its people.

The Cook Islands Public Service Strengthening Strategy 2015-2025 will reflect the aspirations of Cook Islanders, and incorporate government's priorities in a framework from which the public service will operate. The strategy is drawn from the National Sustainable Development Plan (Te Kaveinga Nui 2020) - taking stock of the views of our people and partners, our resources and challenges for the future.

The strategy is driven by the need for Public Service transformation. It will require political leadership and a whole of society approach to be successful. Its key objectives are to strengthen institutions involved in the business of government ensuring they are responsive and relevant for the 21st century, and to strengthen people capability. The strategy embraces inclusiveness and community-led development, which requires collaborative partnerships between government, community representatives, non-government organisations, the private sector, and development partners.

The institutional strengthening stream will focus on ensuring; public policies are community-centred, better integration of national planning with the budget, and organisational excellence through structural reforms, e-governance and a performance improvement framework. The people strengthening stream will focus on; developing leadership and talent, embedding a performance management culture and sustaining enabling policies to attract, train and retain a high skilled, engaged and empowered Public Service.

12.6 Cook Islands Technical Assistance Fund (CITAF)

The Cook Islands Technical Assistance Fund (CITAF) has continued to address capacity and capability development needs across the public sector through the provision of technical assistance and

training. CITAF is funded through the New Zealand Aid programme with \$2.97million approved for the period December 2011 to 30 June 2015.

As at 31 March 2015, a total of 36 projects were approved with \$2.96 million committed. These included 25 completed projects at \$1.88 million and 11 active projects totalling \$1.08 million. Savings from completed projects were returned to CITAF and reallocated to new proposals. All active projects must be completed by 30 June 2015.

Table 12.5 CITAF Projects and funding approved by Agency

| Agency Name | Total Projects | Total approved funding |
|---|-----------------------|-------------------------------|
| Ministry of Finance and Economic Management | 7 | 784,445 |
| Ministry of Health | 4 | 298,097 |
| Office of the Public Service Commissioner | 3 | 272,312 |
| Ministry of Education | 3 | 241,315 |
| Seabed Mining Authority | 1 | 227,391 |
| Cook Islands Audit Office | 2 | 194,615 |
| Ministry of Marine Resources | 1 | 175,604 |
| Crown Law | 1 | 134,960 |
| Office of the Prime Minister | 2 | 115,056 |
| Ministry of Internal Affairs | 5 | 98,684 |
| Financial Services Development Agency | 1 | 89,470 |
| Cook Islands Investment Corporation | 1 | 56,500 |
| Infrastructure Cook Islands | 2 | 43,200 |
| Ministry of Transport | 1 | 38,967 |
| Office of the Ombudsman | 1 | 20,000 |
| Ministry of Agriculture | 1 | 7,365 |
| CITAF Management costs | | 167,768 |
| Totals | 36 | 2,965,749 |

13 NSDP

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 2015-16 fiscal year marks both the end of the current NSDP period (2011-15) as well as the beginning of the next NSDP period (2016 and beyond). Last year the Office of the Prime Minister produced the first NSDP Indicator report (2013), which shed light on the extent to which the country has progressed towards its own development goals. There are eighty indicators that underpin the eight development goals in the 2011-2015 NSDP. They are:

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

Below is an summary of the on the general findings for 2014 under each of the eight goals:

Table 13.1 NSDP Indicator Report outcomes (2014)

| | |
|---|----------------------|
| <p>Goal 1: ‘A vibrant Cook Islands Economy’</p> <p>Tourist arrival numbers are still on track and there have been marginal gains in Marine and Agricultural production. However the last year has seen significant decline in offshore banking industry and economic activity as a whole, leading to a decline in ‘real GDP’. Thus this goal has been downgraded from last year from being “On-track” to now having “Mixed Results”.</p> | MIXED RESULTS |
| <p>Goal 2: ‘Infrastructure for Economic Growth, Sustainable Livelihoods and Resilience’</p> <p>Development of infrastructure continues at pace particularly in the water, ports, and sanitation areas. However (as last year), this is not reflected any identifiable evidence due to data being fragmented and incomplete, therefore there is no change in the rating from last year of ‘mixed results’.</p> | MIXED RESULTS |
| <p>Goal 3: ‘Energy Security’</p> <p>Over the last years significant progress has have been made with solar systems installed on Pukapuka and Rakahunga with completion of the other Northern islands expected by June 2015. With the increased pace of implementation we have upgraded this goal from “Mixed Results’ to “On Track”.</p> | ON TRACK |
| <p>Goal 4: ‘Opportunity for all who reside in the Cook Islands’</p> <p>As with last year, we see trends continuing in education with indicators trending positively whilst most health indicators are trending negatively largely due to NCDs and STIs. Progress on other social statistics is still slow though work in gender and other</p> | MIXED RESULTS |

areas might provide information which may facilitate better policy decision making to improve outcomes this in this sector in the future. As with last year, results in this sector overall are “Mixed”

Goal 5: ‘Resilient and sustainable communities’

progress in this area has improved over the last 12 months with the SRIC program beginning to gain traction with project development and implementation. For this reason we can upgrade this area from having “missed results” last year to being “on track”.

**ON
TRACK**

Goal 6: ‘Environment for Living’

As with last year’s report, information in this area is still highly fragmented and incomplete for all islands. Efforts such as the National State of the Environment Assessment, National Strategy for the Development of Statistics (NSDS) and the new NSDP will hopefully fill some of these data gaps and create a greater emphasis on indicators to attract appropriate resourcing to support ‘evidence based’ policy and decision making in this sector.

**OFF
TRACK**

Goal 7: ‘Good Governance’

There have been some strong improvements in the financial governance frameworks and OPSC have developed the first Public service reports in more than a decade. However, improvements in the overall performance of government and parliament have been slow or not monitored adequately, thus results in this area remain “Mixed”.

**MIXED
RESULTS**

Goal 8: ‘Safe, Secure, Just and Stable Society’

The development of the NSDS has helped to spur efforts in data collection in this sector. However much data in either highly fragmented or missing. Thus we regard results in this sector to still be off track.

**OFF
TRACK**

The NSDP indicator reports have been illuminating in firstly, revealing the level of progress in different aspects of our development, and secondly, shedding light on how we have struggled or neglected to monitor progress, highlighting significant gaps in data collection, management and analysis. We assert that “What can be measured can be changed”. In the absence of objective measurements and metrics, it is impossible to objectively state or ascertain whether we are progressing as a country and moreover, what parts of society deserve particular attention and should be prioritised.

In recognising the value and importance of being able to measure and establish the “state of national development”, the new NSDP (2016 +) has been formatted to focus on indicators and goals that will represent a holistic picture of National Development. Rather than ‘reinventing the wheel’ the proposed change in the format for the NSDP is considered to be an evolution of the NSDP, consistent with the growth and maturity of the national policy and planning framework over the last few years under the outgoing manifestation of the NSDP.

Table 13.2 The evolution of the NSDP 2011-2015 to 2016+

| What does this mean? (The National Goals) | National Development Goals |
|--|---|
| A vibrant Cook Islands economy | Reduce inequity and eliminate forms of economic hardship. |
| | Expand economic opportunities for all, improve economic resilience and productive employment to ensure decent work for all. |
| Infrastructure for economic growth, sustainable livelihoods & resilience | Sustainable management of water and sanitation. |
| | Ensure access to affordable, reliable, sustainable, and modern energy and transport for all. |
| | Build resilient infrastructure and ICT to improve the standard of living for all. |
| Security | Build resilient infrastructure and ICT to improve the standard of living for all. |

| What does this mean? (The National Goals) | National Development Goals |
|---|--|
| Opportunity for all people who reside in the Cook Islands | Ensure healthy lives and lifestyles for all. |
| | Achieve gender equality and empower all women and girls, and protect the rights of the vulnerable. |
| | Ensure the preservation and development of Cook Islands Maori culture heritage, traditional & local knowledge, and history and language. |
| Resilient & Sustainable Communities | Ensure a sustainable population engaged development by Cook Islanders for Cook Islanders. |
| | Achieve food security and improved nutrition and promote sustainable agriculture. |
| | Strengthen resilience to combat the impacts climate change and natural disasters. |
| Environment for living | Promote sustainable practices and minimise and manage waste sustainability. |
| | Conserve and sustainably use the oceans, lagoons and marine resources. |
| | Protect, restore and promote sustainable land use of management of terrestrial ecosystems and halt biodiversity loss. |
| Good Governance | Promote peaceful and just society for all and ensure good governance. |
| Safe, secure just & stable society | |

The new NSDP proposes sixteen “National Development Goals” that, as a whole, combine to create a holistic “scorecard” of national development. The proposed National Development goals are:

1. Improve the welfare of all, reducing **inequity** and **economic hardship**.
2. Expand **economic opportunities** for all, improve **economic resilience**, and productive **employment** to ensure decent work for all
3. Sustainable management of **water and sanitation**
4. Build resilient **infrastructure and ICT** to improve the standard of living for all
5. Ensure access to affordable, reliable, sustainable, renewable, modern **energy and transport** for all
6. Improve **health** and promote healthy lifestyles.
7. Ensure inclusive and equitable **quality education** and promote life-long learning opportunities
8. Accelerate **gender equality**, empower all women and girls, and advance the **rights of the vulnerable**
9. Ensure the preservation of Cook Islands traditions, history & language and develop **Cook Islands Maori culture**, local knowledge and cultural industries
10. Ensure a **sustainable population** engaged development by Cook Islanders for Cook Islanders
11. Achieve **food security** and improved nutrition, and increase **sustainable agriculture**
12. Strengthen resilience to combat the impacts of **climate change and natural disasters**
13. Promote **Sustainable Practices** in business & development and manage **solid and hazardous waste**
14. Conserve and sustainably use **the ocean, lagoon and marine resources**
15. Protect, promote, **sustainable land use**, management of terrestrial ecosystems, and halt **biodiversity loss**
16. Promote a peaceful and **just society** for all and ensure **good governance**

These goals will be underpinned by between two to five indicators per goal. These indicators will focus on the policy priorities underneath each National goal.

The process of determining the policy priorities and appropriate indicators for each goal will be done through a process of public consultations with all relevant stakeholders involved spanning from May (2015) through to the final publication of the new NSDP in December of 2015.

14 Pa Enea

This chapter outlines central Government spending in the Pa Enea. This chapter aims to provide clarity on financing appropriated to the Pa Enea Island Governments, including the funding which is directed through the budgets of other agencies and development partners.

Overall, the estimated \$57.8 million investment made by the Government and development partners in 2015/16 in the Pa Enea is significant by any measure, and represents the importance of the Pa Enea to the Cook Islands Government and Cook Islands people.

The two big economic developments in the Pa Enea over 2014/15 were the completion of the renewable energy projects in the Northern Group, and the importing of \$6.4 million dollars of Chinese heavy machinery (at substantial shipping cost to the central government). The renewable energy project will remain a significant investment from the central government in 2015/16, with the project's focus shifting to the Southern Group.

14.1 The Pa Enea Funding Model

The Pa Enea Funding Model aims to determine the appropriate level of funding to each of the Outer Islands Governments.³ The system was first introduced in the 2012/13 Budget to ensure, firstly, a fairer and more transparent allocation of financial resources across the Pa Enea, and secondly, a provision of basic levels of service delivery at a broadly comparable level. The remoteness and small populations in the Pa Enea challenges the capacity of Government to deliver public services, and it is important that each island is adequately funded to overcome their unique challenges.

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

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

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

³ '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.

Table 14.1 Cost factors of the 2015 Pa Enea Funding Model

| Factor/Output | What determines the amount of funding for the relevant factor |
|---|---|
| <u>Administration</u> | Population as per the Census |
| <u>Councils</u> | The number and wages of councillors, Ui Ariki and Aronga Mana as per the <i>Outer Islands Local Government Act 2012/13</i> |
| <u>Infrastructure</u> | |
| Water | Fixed amount per person / household |
| Road maintenance | |
| <i>Sealed</i> | Per km of road |
| <i>Unsealed</i> | Per km of road |
| Maintenance (of machinery and vehicles) | Maintenance estimates of items on the Schedule of Regular Capital Needs |
| Airstrip | Per km or runway |
| Waste Management | Fixed amount per person |
| Literage (unloading of boats) | Island Administrations to cost recover |
| Beautification | Per km of road |
| Building maintenance | Funding and services provided through the Cook Islands Investment Corporation |
| <u>Energy (electricity generation)</u> | Estimation of generation cost across the Northern Group (including Palmerston) or the Southern Group, multiplied by population (varies between Northern and Southern Group) Estimated trading revenue from appropriate usage charges (assumed at 60 cents per kWh) |
| <u>Other costs¹</u> | varies by island |

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

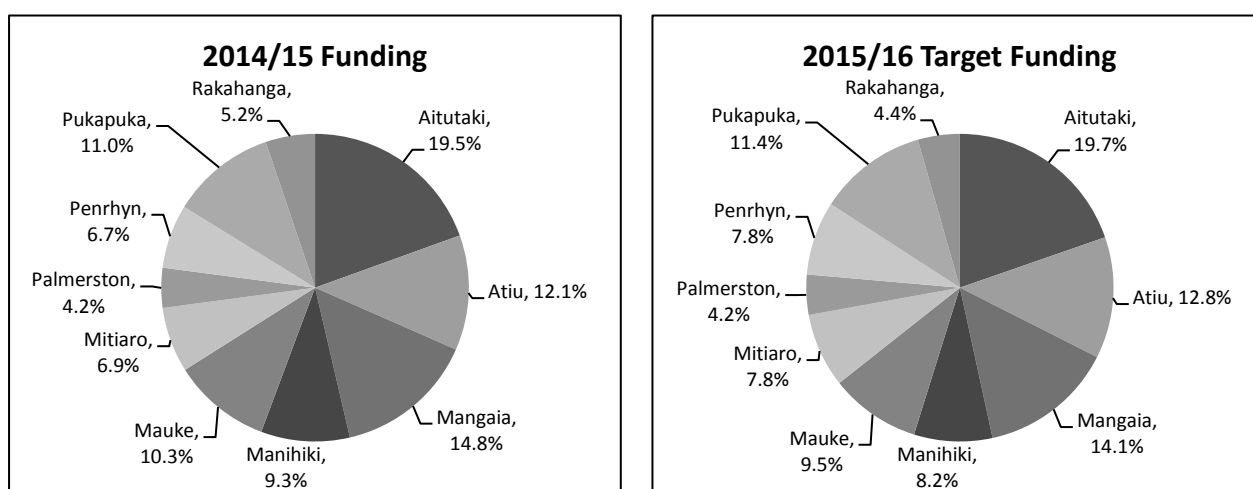
In the 2015/16 formulation, \$5.4 million is estimated as basic service needs for the whole Pa Enea, with an additional \$1.5 million in local development funding to be utilised by Island Governments. These figures include an additional \$34,000 in personnel expenses due to the minimum wage and GSF increases for 2015, as well as an offsetting \$34,000 reduction due to payroll and IT efficiencies (with these two services now delivered from Rarotonga-based agencies).

These figures exclude the trading revenue generated by the Island Governments, particularly in the area of energy, where it is assumed that Island Governments will charge and collect a tariff of 60 cents per kilowatt hour.⁴

⁴ It is notable that the costs of electricity generation are higher than 60c per kWh on every island except Aitutaki. All Island Governments (except Aitutaki) receive an energy subsidy to make energy affordable at this level for the Island Government, with the more remote islands receiving higher subsidies than those closer to Rarotonga. If Island Governments charge less than 60c per kWh, this subsidization comes from their own appropriations, often at the expense of other outputs. Depreciation costs and the replacement of capital items are borne by the central government for all capital items including those for energy.

A major change to the Funding Model in 2015 was the inclusion of a 'Schedule of Regular Capital Needs'. This schedule is a series of rules that outline what the regular ongoing needs were for all islands in relation to major capital items (items valued more than \$3,000). It takes a small but significant step towards formalising the relationship between the central and island governments in the provision of services. In particular, it outlines what Island Governments are expected to keep in working order, and what the central Government will prioritise to replace/provide. For operational budgets, the schedule also provides the basis for determining maintenance needs so they can be adequately covered by the Funding Model.

Chart 14.1 Allocation of total funding across Island Governments



A summary of the Funding Model results are provided in the Table 14.2

Table 14.2 Pa Enea Funding Model Results for 2015-16 (\$'000)

| | 2014-15 Budget Cash Funding | Current percentage of total Cash Funding | Formula Results | | | 2015-16 Cash Funding |
|--------------|--------------------------------|---|-------------------------|--|---------------------------------|-------------------------|
| | | | Minimum Cash Funding | Target percentage of total Cash Funding | Adjustment towards target | |
| Aitutaki | 1,363,144 | 19.5% | 1,066,195 | 19.7% | 58,952 | 1,422,096 |
| Atiu | 846,422 | 12.1% | 691,771 | 12.8% | 5,558 | 851,980 |
| Mangaia | 1,033,113 | 14.8% | 765,407 | 14.1% | -10,331 | 1,022,782 |
| Manihiki | 652,431 | 9.3% | 446,038 | 8.2% | -6,524 | 645,907 |
| Mauke | 723,373 | 10.3% | 516,159 | 9.5% | -7,234 | 716,139 |
| Mitiaro | 479,700 | 6.9% | 422,383 | 7.8% | 3,150 | 482,850 |
| Palmerston | 293,219 | 4.2% | 228,678 | 4.2% | 1,926 | 295,145 |
| Penrhyn | 469,751 | 6.7% | 420,961 | 7.8% | 3,085 | 472,836 |
| Pukapuka | 769,693 | 11.0% | 619,592 | 11.4% | 5,054 | 774,747 |
| Rakahanga | 363,544 | 5.2% | 239,001 | 4.4% | -3,635 | 359,909 |
| Total | 6,994,390 | | 5,416,184 | | 50,000 | 7,044,390 |

For the complete appropriation of each Island Government, refer to Schedule 1 of the Appropriation Bill or the relevant section of Budget Book 2. Aitutaki received a supplementary payment of \$50,000 in 2015/16, which will become part of the ongoing pool of funding for the Pa Enea over coming years.

14.2 Other agency support targeting the Pa Enea

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

Assistance to the Pa Enea is not a mandated requirement for financial reporting, so survey methods are necessary to determine estimated levels of support. The table below summarises the estimated assistance given by each agency to the Pa Enea. As this is the third occasion that agencies have been asked for the information, some agencies were not able to respond in time to be included. It is likely the figures presented are underestimates, as only those resources wholly dedicated to the Pa Enea or delivered on-island were included. This year, significant efforts were made to include ODA spending by individual agencies.

Table 14.3 Estimated Agency Expenditure in the Pa Enea (\$000)

| | Agency Appropriations: 2015-16 Budget Estimate | | | |
|--|--|--------------|-----------------|---------------|
| | Operational | Personnel | Trading Revenue | Capital |
| Cook Island Investment Corporation | - | - | - | 5,562 |
| Cook Island Police Service | 37 | 349 | - | - |
| Internal Affairs | 2 | 170 | - | - |
| Island Administration | - | - | - | 1,135 |
| Ministry of Agriculture | - | - | - | 1,081 |
| Ministry of Education | 281 | 3,552 | - | 26 |
| Ministry of Finance | 390 | - | - | 201 |
| Ministry of Health | 236 | 1,714 | 10 | 353 |
| Ministry of Infrastructure and Planning | - | - | - | 3,153 |
| National Environment Service | 9 | 17 | - | - |
| NZ Aid Budget Support (Education) | 86 | - | - | - |
| Office of the Prime Minister ¹ | 1 | 120 | - | 22,702 |
| Official Development Assistance ² | - | - | - | 257 |
| SRIC | - | - | - | 2,233 |
| Total | 1,041 | 5,922 | 10 | 36,702 |

| | Other Agency Funding: 2015-16 Budget Estimate | | | |
|-------------------------------------|---|------------|-----------------|----------|
| | Operational | Personnel | Trading Revenue | Capital |
| Social Welfare | 5,260 | - | - | - |
| Scholarships / Other Education | 211 | - | - | - |
| Island Government Capacity Building | 68 | - | - | - |
| Tekaaroa school - Aitutaki | 23 | 213 | - | - |
| Total | 5,561 | 213 | - | - |

¹ Office of the Prime Minister support includes Government expenditure on the Southern Renewable Energy Project, and includes a large ODA component.

² Official Development Assistance (ODA) is delivered through numerous agencies, both local and foreign. Some ODA may be captured in agency efforts and visa-versa, this line indicates the ODA that was unaccounted for in agency spending.

Note: This table is not an exhaustive list of agency support, and should be taken as estimates only.

Ministry of Education

The Ministry of Education is the single largest contributor to operational funding in the Pa Enea. For 2015/16, the Ministry anticipates personnel costs of \$3.552 million with an additional \$0.281 million for ongoing operational expenditure. These costs include text books, stationery, property, teacher salaries, corporate services and other expenses. The Ministry is also responsible for scholarship and support payments for students from the Pa Enea studying in Rarotonga, and funding Tekaaroa school in Aitutaki (in addition to all schools except that on Palmerston). There is also \$0.086 million in New Zealand aid money anticipated to be delivered through the Ministry of Education in 2015/16.

The Ministry also anticipates spending approximately \$0.026 million on small capital items, in addition to its regular capital purchases.

Ministry of Health

The Ministry of Health estimates expenditure of \$0.236 million in operational costs, \$1.714 million for personnel and \$0.353 million for capital expenditure in 2015/16. This funding goes towards funding the hospitals and clinics on each island in the Pa Enea.

Infrastructure Cook Islands (ICI)

ICI projects expenditure levels of around \$3.153 million in capital during 2015/16. This investment will be mainly dedicated towards infrastructure such as runway stabilisation in Atiu, harbor construction, sanitation projects, road construction, and shelters for heavy machinery.

Cook Islands Investment Corporation (CIIC)

CIIC anticipates capital spending of around \$5.562 million in capital during 2015/16. This investment will comprise of land acquisitions for the Southern Renewable Energy Project, rent reviews and some construction on Aitutaki, and runway upgrades in Atiu.

Official Development Assistance (ODA)

ODA is an important element of Government spending. For 2015/16, efforts have been made to estimate the ODA component of agency spending under the banner of the executing agency. Total ODA is estimated at \$49.1 million for 2015/16, with a large portion of this spending directed through Government agencies in the Pa Enea. Chapter 16 has more detail on specific ODA projects, with Budget Book 3 outlining all capital spending

Cook Islands Police Service

Police estimates expenditure levels of \$0.386 million in the Pa Enea during 2015/2016, with \$0.349 million allocated to personnel. The main expense is the salaries for each of the officers stationed on each island in the Pa Enea.

Ministry of Internal Affairs

The Ministry of Internal Affairs has welfare officers located in the Pa Enea at an estimated cost of \$0.170 million during 2015/16, and an operational budget of just \$2,000 (Welfare Officers are often housed in the Island Administration offices).

Total welfare payments to the Pa Enea in 2015/16 are estimated to be \$5.146 million. Full details of the breakdown between the various islands and categories can be found below. The amounts presented do not include the welfare benefits received by beneficiaries on Palmerston, as their welfare benefits are paid into accounts held in the Rarotonga branch of the Bank of the Cook Islands.

Table 14.4 Estimated Social Welfare Payments in the Pa Enua for 2015/16 (\$000)

| | Aitutaki | Atiu | Mangaia | Manihiki | Mauke | Mitiaro | Penrhyn | Pukapuka | Rakahanga | Total |
|---------------------|--------------|------------|------------|------------|------------|---------|------------|------------|------------|--------------|
| Old Age Pension 60+ | 585 | 210 | 275 | 65 | 125 | 95 | 30 | 95 | 40 | 1,520 |
| Old Age Pension 70+ | 747 | 307 | 409 | 47 | 244 | 118 | 102 | 181 | 55 | 2,209 |
| Newborn Allowance | 25 | 10 | 5 | 1 | 3 | 5 | 1 | 1 | 1 | 52 |
| Child Benefit | 350 | 78 | 84 | 44 | 32 | 32 | 56 | 123 | 17 | 815 |
| Infirm Benefit | 69 | 22 | 34 | 2 | 6 | 8 | 4 | 4 | 4 | 152 |
| Destitute Benefit | 6 | 8 | - | 6 | 12 | - | - | 26 | - | 57 |
| Caregiver | 32 | 4 | 26 | 2 | 22 | 20 | 2 | 12 | 4 | 123 |
| Maternity Leave | 22 | 1 | - | - | - | - | - | - | 1 | 25 |
| Christmas Bonus | 38 | 10 | 12 | 4 | 6 | 5 | 5 | 11 | 2 | 93 |
| Funeral Allowance | 10 | 8 | 8 | 2 | 8 | 2 | 2 | 2 | 2 | 44 |
| Power Subsidy | 15 | 9 | 16 | 1 | 8 | 2 | 1 | 3 | 1 | 56 |
| | 1,898 | 666 | 868 | 174 | 465 | | 203 | 457 | 127 | 5,146 |

National Environment Service (NES)

NES estimates expenditure of \$0.17 million on environment officers in the Pa Enua during 2015/16 and operational expenditures of \$9,000. The significant reduction in estimated spending was likely due to the lower reporting by NES, than a reduction in actual activity.

The Ministry of Finance and Economic Management (MFEM)

MFEM manages the small capital fund \$0.110 million for the Island Governments to apply to for funding requests. MFEM also the executing agency for \$0.390 million in pearl farming equipment and \$0.091 million in pearl revitalisation funding to Manihiki.

Office of the Prime Minister (OPM)

OPM has a number of resources dedicated solely to the Pa Enua for governance and capacity building, but is also responsible for the renewable energy projects in the Pa Enua. Reflecting this, OPM estimates it will spend \$0.120 million on personnel relating to the Pa Enua (delivered as general support to all islands), as well as \$22.7 million in capital relating mainly to energy projects in the Southern Group.

Also delivered through OPM is the Strengthening Resilience in Island Communities (SRIC) program, which estimates an annual expenditure of \$2.233 million for 2015/16. Most of this funding has been directed towards community water tanks, a small grants program, and action to support coastal protection.

Table 14.5 Estimated agency spending in the Pa Enua by island for 2015/16

| Island | 2015-16 Budget Estimate | | | | | | Agency total ('000) |
|----------------------|-------------------------|---------------------|------------------------------|-------------------|---------------|-----------------------------|------------------------|
| | Operational ('000) | Personnel ('000) | Trading Revenue ('000) | Capital ('000) | ODA ('000) | Social Welfare ('000) | |
| Aitutaki | 220 | 2,082 | 10 | 7,819 | - | 1,927 | 12,039 |
| Atiu | 60 | 679 | - | 9,677 | - | 671 | 11,087 |
| Mangaia | 74 | 917 | - | 4,607 | - | 884 | 6,482 |
| Manihiki | 443 | 332 | - | 447 | - | 185 | 1,497 |
| Mauke | 47 | 408 | - | 4,201 | 23 | 478 | 5,157 |
| Mitiaro | 34 | 268 | - | 3,573 | - | 298 | 4,173 |
| Palmerston | 13 | 51 | - | 1 | - | - | 65 |
| Penrhyn | 54 | 361 | - | 319 | - | 215 | 949 |
| Pukapuka/Nassau | 88 | 783 | - | 597 | 300 | 473 | 2,240 |
| Rakahanga | 29 | 134 | - | 285 | - | 128 | 577 |
| General support | 279 | | - | 1,572 | 3,078 | - | 5,163 |
| Total Pa Enua | 1,340 | 6,014 | 10 | 33,097 | 3,401 | 5,260 | 49,428 |

As shown in Table 14.5, a total of \$49.4 million is estimated to be spent in the Pa Enua during 2015/16 by central government agencies and development partners. Excluding social welfare payments, agencies have estimated that they will spend \$44.2 million.

The combination of the resources budgeted for Island Governments and other Government agencies is presented in Table 14.6 below.

Table 14.6 Total Central Government Spending in the Pa Enua

| Island | Fiscal transfer from Central Government | Government Agency expenditure | Welfare transfers | Total current public spending |
|----------------------|---|-------------------------------------|----------------------|--|
| Aitutaki | 1,867 | 10,112 | 1,927 | 13,907 |
| Atiu | 985 | 10,416 | 671 | 12,072 |
| Mangaia | 1,238 | 5,598 | 884 | 7,720 |
| Manihiki | 745 | 1,312 | 185 | 2,241 |
| Mauke | 804 | 4,679 | 478 | 5,961 |
| Mitiaro | 535 | 3,874 | 298 | 4,708 |
| Palmerston | 338 | 65 | n/a | 403 |
| Penrhyn | 522 | 734 | 215 | 1,471 |
| Pukapuka/Nassau | 910 | 1,767 | 473 | 3,151 |
| Rakahanga | 401 | 449 | 128 | 978 |
| General support | - | 5,163 | - | 5,163 |
| Total Pa Enua | 8,346 | 44,168 | 5,260 | 57,773 |

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

Overall, Table 14.6 shows that direct funding to Island Governments makes up a relatively small proportion of the total \$57.8 million budget allocated to the Pa Enea, and that Government Agencies are actually the main vehicle for supporting Pa Enea communities (through a combination of operational, personnel, ODA, and capital spending).

Notably, the ODA figure presented above includes around \$22.7 million for renewable energy in the Southern Group. Once the renewable energy projects are completed in the Pa Enea, the depreciation costs and debt servicing costs, as well as those associated with capital replacement, will be borne by the central government. This represents a significant ongoing financial cost which will have to be at least partially borne by user charges for energy; that is, consumers will have to pay for the replacement and maintenance of the capital – something they have not had to do before because the capital costs of the diesel systems were a small fraction of the renewable systems. This change is necessary to ensure that these systems can be replaced when the time comes to do so.

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

14.3 The Economics of the Pa Enea

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

This does not mean that economic development is impossible – it simply means that development in the Pa Enea faces challenges that need to be acknowledged, and are separate from those faced in Rarotonga. Indeed, there are examples of successful businesses and initiatives in the Pa Enea that have significantly benefitted their local communities, as well as activities that have capitalised on the booming tourist growth in Rarotonga (such as parrotfish from Palmerston or on-travel to Aitutaki).

The general challenges of transport, poor local infrastructure and poor access to labour, are almost universal, but this section attempts to summarise any recent economic developments unique to each particular island. Perhaps universal to all islands is the recent push for renewable energy coverage and water storage. These two areas of major investment by the central government and development partners will substantially add to the resilience of the local communities in providing 24 hour access to power and more consistent access to water. The importing of a large volume of heavy machinery should also help to ease infrastructure bottlenecks. However, as with all major assets, these new investments need to be cared for and maintained so that they provide ongoing benefits to their local communities.

Reliable data makes full analysis difficult, but highlights the need for economic reporting in the Pa Enea as a general issue.

14.3.1 Aitutaki

Aitutaki is probably the only Outer Island with a sizeable tourism sector outside of Rarotonga. Total arrivals (which includes both tourists and locals) were 27,750 in 2013, an 846 (3.1 per cent) increase compared to 2012. This increase was in contrast to the 1.0 per cent fall in national tourist arrivals over the same period, suggesting that Aitutaki was able to capture more of the tourist market coming out of Rarotonga. Tourists travelling to Aitutaki tend to stay longer in the Cook Islands: estimates by MFEM predict that the average Aitutaki tourist spends 5.5 days on Aitutaki and an additional 5 days in Rarotonga (although the Rarotongian number is likely an overestimate due to

late-night flight connections).

Unlike Rarotongan tourism, Aitutaki has a slightly more balanced source market: The largest single market is New Zealanders, at around 28.9 per cent of the total, but this is followed very closely by Australians at 26.4 per cent. The remainder of the tourist market for Aitutaki (44.7 per cent) is a combination of the long haul markets (the US, Canada, Europe and Asia).

Occupancy data from local accommodators would provide further information in this regard, particularly in relation to estimates for local expenditure.

In 2014/15 Aitutaki benefitted from a large amount of capital spending, mainly in the form of water infrastructure. This program of capital expenditure is set to increase dramatically in 2015/16, with road sealing, sanitation and port upgrades – most of this work being carried out by local labour. Additional to this is an estimated \$5.1 million investment in renewable energy and a \$50,000 supplementary payment to the Island Government.

Aitutaki received \$1.044 million in heavy machinery as part of the Chinese grant in 2014/15, which will greatly assist in the re-sealing of Aitutaki's extensive road networks.

14.3.2 Atiu

Tourism is a small but potentially transformative industry for Atiu, but Atiu is a distant second to Aitutaki in terms of total arrivals. In 2013, total arrivals were 2,554 roughly the same number that arrived in 2012. Difficulties in maintaining the local airstrip may have disrupted arrivals in 2013/14, but emergency repairs avoided shutting down the runway completely (as happened in Pukapuka). Challenges over 2014/15 were mainly in the area of flight scheduling, with issues of access raised by local providers. Atiu is scheduled to receive major runway upgrades in 2015/16 to help ensure consistent flights.

The dominant industry remains local agriculture, comprising mainly of taro, and to a lesser extent, coffee. The two major investments of 2015/16 will come in the form of a new airport, renewable energy installation and power distribution upgrade; a combined \$9.8 million for these projects alone. Upgrades to energy and water reticulation will also add extra resilience to the local community.

Atiu received \$0.889 million in heavy machinery from the Chinese grant in 2014/15.

14.3.3 Mangaia

In April 2014, the Mangaia Island Government successfully launched its 5 year Island and Puna Plan (2014 – 2018) with the vision of strengthening self-reliance and sustainable development.

The successful completion of the Mangaia harbor project (2nd stage) saw an additional of \$800,000 of improvements to the harbor which has significantly improved the operations during boat days, safety during unloading of cargo, and the ease of local fishing trips. Other areas of improvement in transport services were in the provision of 20 energy-saving street lights and a new 27 seat school bus.

The on-going preparation work for, and the eventual commencement of, the Mangaia renewable energy system will create short term jobs on the island, as well providing long term stability in energy production once the project is complete. The arrival of the heavy duty machinery from the Government of China in April 2015, worth an estimated \$0.588 million, will greatly assist in earthworks around the island.

The drought in 2013 continues to leave its mark, although development partner installation of 15 polythene 1,600 litre water tanks (and an approval for a further 30) will greatly increase the resilience of the local community in relation to water shortages. Donor assistance has also been secure for several agriculture and home-garden projects, which should help the recovery of

agricultural output.

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

14.3.4 Manihiki

Manihiki was a hive of construction activity in 2014/15, with two harbour upgrades and the completion of the two renewable energy stations (at Tauhunu and Tukao). These investments will assist the local community in providing adequate storage for fish catch, as well as ensure safer offload for landed goods. The renewable energy system also allows for greater financial stability within the Island Administration, although this has been less of an issue for Manihiki than it has with other islands.

Pearl development continued to be the leading local economic development activity for the island, although fishing for local consumption is also a major pastime. Both 2014/15 and 2015/16 have been significant for investments in lagoon management and pearl cultivation, with a focus on sustainability.

A summary of the pearl industry can be found in the economic chapter of the Budget.

Water security remains a challenge for Manihiki and water conservation is required to ensure supply, particularly given the El Nino predictions for less rainfall for the North in coming years. Contractors working on the local harbours provided assistance through using a well for concrete mixing and use by local households for washing and sanitation purposes. These wells remain active for the local community. It is anticipated that \$300,000 will be expended on improving water storage on Manihiki in 2015/16.

Manihiki received \$0.743 in heavy machinery from the Chinese grant in 2014/15.

14.3.5 Mauke

The operational and fiscal position of the Mauke Island Government has improved since 2013/14 due to the adjustment of energy tariffs and the implementation of (long overdue) overhauls to two of the four power generation sets. At present, the power supply is operating without back-up capability while the island awaits the arrival parts, although the commencement of the renewable energy project may make such back-up generators redundant in the long term.

The normalisation of rainfall on the island has enabled local agricultural output to recover from drought conditions, but producers have temporarily stalled plans to commence vegetable export to Rarotonga due to the shortage in local vegetables. The cold chiller is now approaching the tendering stage, so when producers are ready to engage in export, facilities should be available to help smooth variations in production.

The Island Government is planning on acquiring a small coconut cold press to process excess coconuts into virgin coconut oil, along with producing the islands' own "Mauke Miracle Oil" (or Akari Pi). The Island Government is aware of the issues associated with this activity in terms of available raw material needs and will engage in replanting activities to ensure long term supply.

The island is also expected to receive 2 new Fish Aggregating Devices (FAD) this year. This should contribute to food security and improve economic opportunity for residential fishermen

Mauke received \$0.889 million in heavy machinery from the Chinese grant in 2014/15.

14.3.6 Mitiaro

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

Two new Fishing Aggregating Devices (FADs) have recently been deployed on the north eastern side of the island, and Mitiaro received \$0.469 million in heavy machinery from the Chinese grant in 2014/15.

In terms of future infrastructure, the renewable energy system being planned for the island over 2015/16 and 2016/17 will add reliable 24 hour electricity to the island; a significant improvement, as Mitiaro was the only island in the Southern Group (outside of Palmerston) that did not have reliable supply.

Improvement to water access is anticipated for 2015/16 with \$300,000 earmarked for increased storage.

14.3.7 Palmerston

Reliable energy is critical for Palmerston's parrot fish export program, and the recently completed solar energy system will provide 24 hour power for the effective storage of catch. There have been concerns around the sustainability of the parrotfish and robust management is required to ensure its viability into the future. Access to reliable freezing will enable fishermen to spread their catch over much longer time horizons, rather than a 'rush to fish' when there is news of upcoming transport.

Replacing the old, inefficient, freezers with updated models will help residents and the Island Government make the most of their new infrastructure at the lowest unit cost.

Yacht arrivals declined to 37 in 2014/15, with 127 people coming ashore, compared to around 40 vessels in 2013/14. Formalising Palmerston as a port of entry may help boost arrival numbers, but issues around safe moorings, local capacity to host large numbers of people, and historical loss of local arts and crafts, present barriers for further income generation from this activity. Despite these challenges, Palmerston still had an additional 397 passengers from 4 separate cruise vessels come ashore in 2014. Palmerston charges for coming ashore at a rate of \$5 per person.

Palmerston received \$0.259 million in heavy machinery from the Chinese grant in 2014/15.

14.3.8 Penrhyn

Handicraft production is an important contributor to sustainability and growth on the island. Diving and harvesting natural pearls (pipi) is becoming an important source of local income. There are currently, two overseas buyers involved in the industry and working directly with the community. All forms of production today, whether fishing, diving for pearls or processing and producing the raw materials for handicraft production involves the extended family unit. There is concern over current harvesting practices and the future sustainability of the pipi may be under threat.

Limited storage capacity constrains fishing activities to the subsistence and community level, although the new renewable energy system will provide for 24 hour freezing capability (as well as providing other benefits to the local community). Generally, excess fish is stored for family, island, and church obligations. While shellfish like paua present opportunities for the islanders, the island leaders maintain a cautious balance in its harvesting quotas.

The island hosts a quayside harbor, generous airstrip, and a significant marine laboratory and station. These assets are underutilized due to lack of repair and maintenance, but continue to provide a opportunity for national and regional maritime surveillance and climate change research.

Penrhyn received \$0.727 million in heavy machinery from the Chinese grant in 2014/15.

14.3.9 Pukapuka and Nassau

The stabilisation of the runway in Pukapuka in 2014/15 saw the recommencement of flights to the island, although further work is needed to ensure that the runway remains operational. A shelter for the runway maintenance equipment is planned to commence in 2015/16 to ensure that the equipment needed is kept out of the elements.

For the first time, Pukapuka and Nassau both have fully reticulated renewable energy to all homes. This will open significant economic opportunities to both islands. However, households will need to expect to pay regular energy bills and monitor their usage, something they have never had to do before. There are significant risks around the financial management of the new systems. Pukapuka received donor funded solar systems in 1992, but user charges were not a feature, and as such, the necessary replacement costs were not met and the system fell into decay.

The Pukapuka Island Government received \$0.469 million of heavy machinery for Pukapuka, as well as \$0.155 million of machinery for Nassau in 2014/15.

14.3.10 Rakahanga

For the second year, Rakahanga faced significant issues around its energy management and general administration of financial accounts, requiring a second tranche of funding from the central Government to ensure fuel supply. Rakahanga's financial situation remains fragile, as the Island Government has used its new economic freedom to increase its reliance on volatile trading revenue and direct this funding toward personnel – Rakahanga is the only island that spends more funds on personnel that it receives from the fiscal transfer from central government (meaning that Rakahanga has to transfer money to MFEM so that the central payroll system can ensure staff are paid on time).

The energy tariff on Rakahanga has been well below the standard subsidised level for many years, with other areas of the Island Government's budget diverted into supplying cheaper energy. The completion of the renewable energy project will provide some relief, but the replacement and management of such a system may further strain the Island Government's financial capacity if users are not charged tariffs at appropriate levels. The perception that energy is now free, or very cheap, may lead to resentment when the reality of replacement costs are factored into user fees.

The Island Government continues to heavily subsidise fishing activities. After some pilot activities, the island is continuing dried fish production to generate extra revenue for the island's residents. The Island has also recently benefited from a development partner funded program designed to repair boats on Rakahanga and Manihiki, as well as the donation of new outboard motors.

Rakahanga received \$0.259 million in heavy machinery in 2014/15, although their roller was delayed. Fortunately, they were able to hire out the roller for roadworks in Rarotonga, earning the Island Government some much needed trading revenue.

15 Official Development Assistance (ODA) Budget 2014/15 – 2018/19

15.1 Introduction

The Cook Islands Official Development Assistance (ODA) Policy 2011 adopts an approach where the national Budget includes all known sources of development finance planned for use in the Cook Islands. This is intended to improve the ability of all stakeholders to comprehend and coordinate forward plans, and expected outcomes and contributes to the greater accountability of organizations utilizing ODA.

While certain documents are referenced in the details of each section, there are many reports available to the public on activities. This is either posted on the MFEM web site, implementing agency web sites or can be requested by contacting MFEM. Accountability for the use of ODA is most effective when the intended beneficiaries are aware of the details and agencies involved. Information available often includes design documents, progress reports, completion reports and evaluations.

The ODA Policy will undergo a revision at the end of the 2014/15 financial year to incorporate a new global model for total official support for development (TOSD) against the backdrop of the Post-2015 development agenda. The TOSD model is meant to be inclusive of all financial flows that contribute to development including: non-state actors (CSOs, NGOs, faith-based organisations), South-South cooperation, climate finance, domestic revenue as well as traditional ODA.

The new ODA policy will also include relevant recommendations from the Peer Review of our financial systems and other key aspects of the Cairns Compact by regional counterparts and development partners.⁵ Recommendations for improving development effectiveness include the following:

Government to create space for meaningful policy dialogue on a three to five year strategy to move away from project based aid to long term development financing through a singular higher modality budget support mechanism.

Government to consider a full review of its ODA programmes to determine the bottlenecks in deliver to the outer islands.

Development partners including regional organizations to provide necessary timely and complete information to government on level of funding and technical support and account for results.

Development partners to set targets with government on greater use of joint missions, analysis, and moving towards budget support as the main form of support.

Development partners where requested by government should devote more attention to supporting government to address structural opportunities.

The estimates of ODA incorporate the information available to MFEM as of May 2015. The New Zealand/Australia forward aid programme represents about 50 per cent of ODA and 2014/15 was the last year of the three-year New Zealand budget appropriation cycle.

⁵ See MFEM website for full report and list of recommendations: <http://www.mfem.gov.ck/peer-review>

The Cook Islands is discussing with New Zealand the position of a higher modality interaction in the next three year cycle, 2015-2018 with approximately \$27 million to be delivered as a higher modality based on performance “associated with maintaining a robust economic and fiscal policy, as well as performance targets in Education, Health, Tourism, Social welfare and Public sector strengthening. These budget support funds will be transferred directly to MFEM and treated as part of the normal budget allocation.

Balance of Funds on Hand 28/04/15

This represents the total value of bank trust account balances that are held by MFEM on behalf of various partners.

| | |
|---|-------------|
| NZ dollar accounts | \$3,302,664 |
| US dollar accounts USD \$60,470 @0.7482 | \$ 80,820 |

Table 15.1 Cook Islands ODA allocation by National Sustainable Development Goal 2015-16 (\$)

| NSDP Goal | Sector | Budget 2015/16 |
|--|---------------------------|-----------------------|
| Goal 1: A vibrant Cook Islands economy | Economic Development | 13,681,100 |
| Goal 2: Infrastructure for economic growth, sustainable livelihoods and resilience | Infrastructure | 16,457,200 |
| Goal 3: Energy security | Energy | 9,915,000 |
| Goal 4: Opportunity for all people who reside in the Cook Islands | Social Development | 1,145,200 |
| Goal 5: Resilient and sustainable communities | Resilience | 3,172,000 |
| Goal 6: Environment for living | Ecological Sustainability | 3,386,700 |
| Goal 7: Good governance | Governance | 1,009,400 |
| Goal 8: A safe, just, secure and stable society | Law and Order | 348,600 |
| Total | | 49,115,200 |

Table 15.2 Cook Islands ODA Budget by Development Partner 2015-18 (\$)

| Development Partner | ODA Budget | | | | Total 4 Years |
|--------------------------------------|-------------------|-------------------|-------------------|------------------|----------------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | |
| Asian Development Bank | 500,000 | 300,000 | 0 | 0 | 800,000 |
| Australia | 747,000 | 405,000 | 295,000 | 405,000 | 1,852,000 |
| China | 6,481,200 | 8,800,000 | 3,900,000 | 0 | 19,181,200 |
| Commonwealth Secretariat | 73,000 | 0 | 0 | 0 | 73,000 |
| European Union | 9,155,300 | 4,085,300 | 2,995,000 | 0 | 16,235,600 |
| UN Food and Agriculture Organisation | 539,800 | 299,300 | 161,000 | 0 | 1,000,100 |
| Forum Fisheries Agency | 445,000 | 445,000 | 400,000 | 0 | 1,290,000 |
| Green Climate Fund | 150,000 | 0 | 0 | 0 | 150,000 |
| Global Environment Facility | 3,631,500 | 8,141,100 | 1,722,000 | 1,042,000 | 14,536,600 |
| India | 260,000 | 260,000 | 260,000 | 260,000 | 1,040,000 |
| Japan | 6,232,000 | 0 | 0 | 0 | 6,232,000 |
| South Korea | 268,000 | 0 | 0 | 0 | 268,000 |
| Multilateral Fund | 80,200 | 80,200 | 80,200 | 80,200 | 320,800 |
| New Zealand | 18,404,500 | 20,719,000 | 13,867,000 | 1,475,000 | 54,465,500 |
| Secretariat of the Pacific Community | 64,500 | 40,000 | 0 | 0 | 104,500 |
| Turkey | 60,000 | 0 | 0 | 0 | 60,000 |
| UN Adaptation Fund | 1,370,000 | 2,475,000 | 2,200,000 | 2,200,000 | 8,245,000 |
| UN Development Programme | 128,500 | 143,600 | 143,600 | 0 | 415,700 |
| UNESCO | 71,000 | 85,000 | 85,000 | 85,000 | 326,000 |
| UNFPA | 112,000 | 0 | 0 | 0 | 112,000 |
| WHO | 311,700 | 176,700 | 0 | 0 | 488,400 |
| Western Pacific Council (US) | 30,000 | 30,000 | 30,000 | 0 | 90,000 |
| Total | 49,115,200 | 46,485,200 | 26,138,800 | 5,547,200 | 127,286,400 |

Chart 15.1 Cook Islands ODA Budget by Development Partner 2015-18 (%)

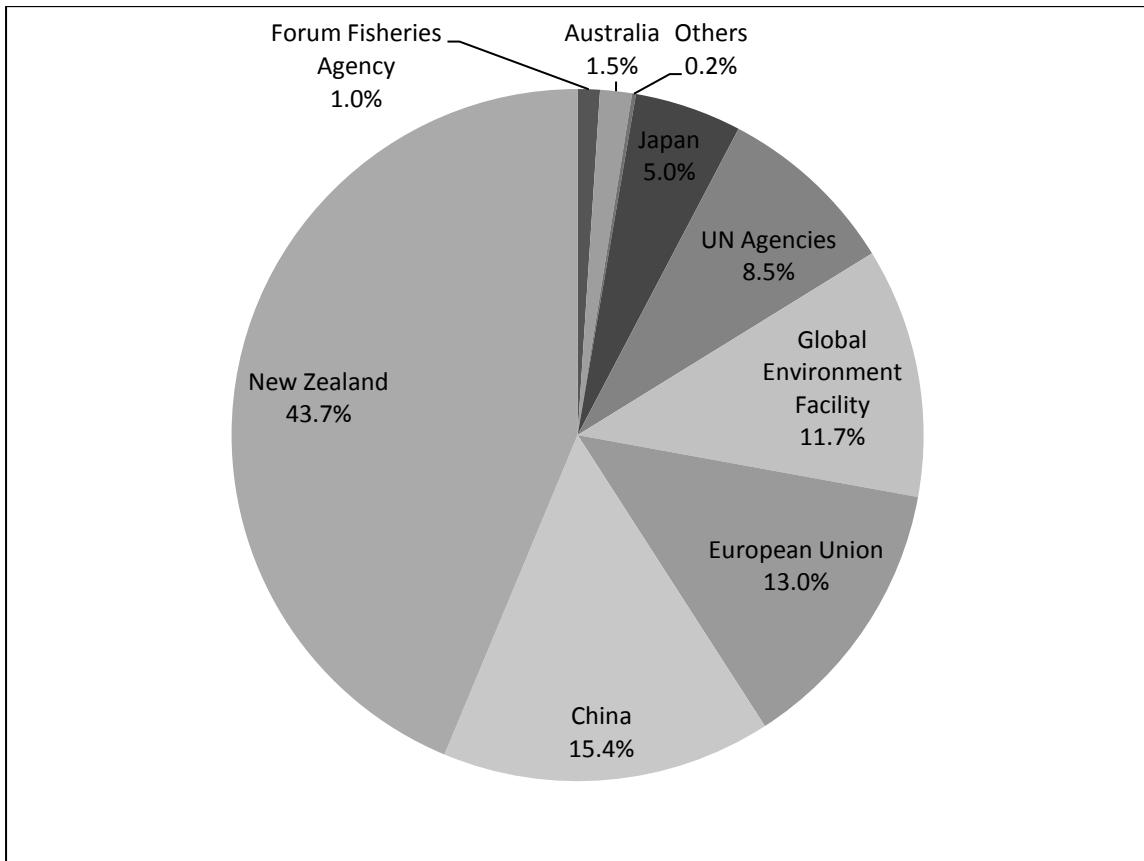


Chart 15.2 Cook Islands ODA Budget by Agency 2015-16

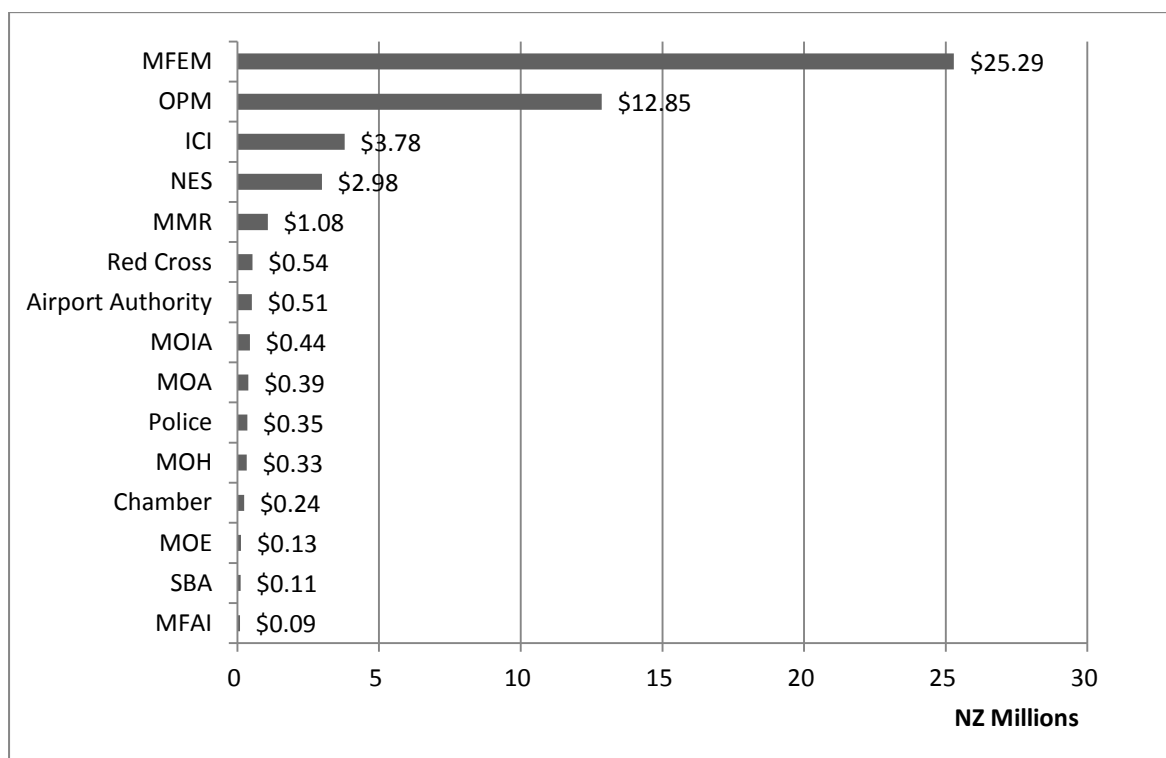


Table 15.3 Cook Islands ODA by Sector 2015-16 (\$)

| Sector | Budget 2015-16 |
|-----------------------|-------------------|
| Agriculture | 628,300 |
| Climate Change | 2,877,000 |
| Community Services | 206,000 |
| Economic Development | 8,992,300 |
| Education | 71,000 |
| Energy | 9,915,000 |
| Environment | 3,386,700 |
| Gender | 363,500 |
| Health | 444,700 |
| Infrastructure | 11,492,200 |
| Law and Order | 658,000 |
| Marine Resources | 1,668,500 |
| Multisector | 295,000 |
| Public Administration | 2,228,000 |
| Water and Sanitation | 5,889,000 |
| TOTAL | 49,115,200 |

Chart 15.3 Cook Islands ODA by Sector 2015-18 (%)

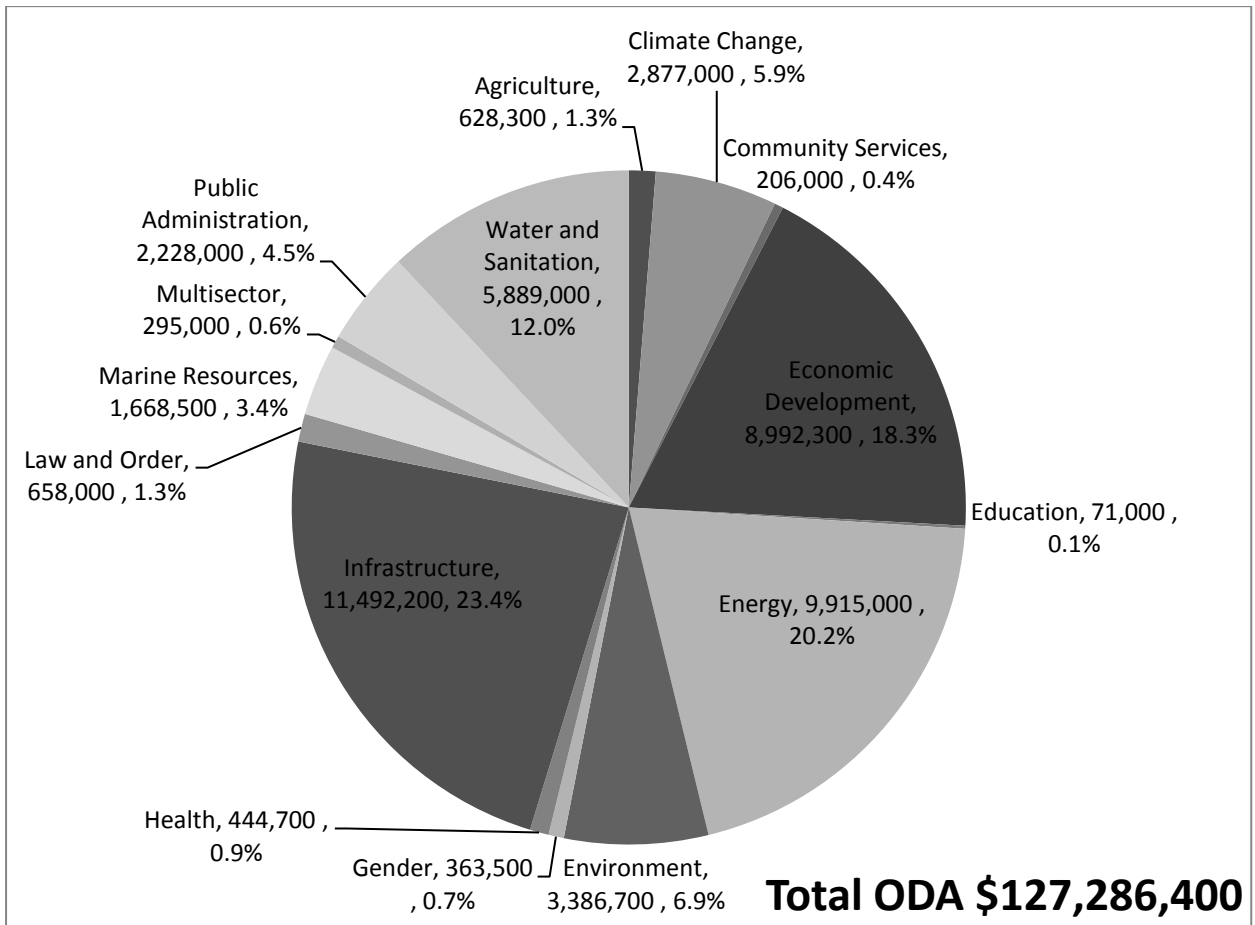


Table 15.4 Cook Islands ODA by Agency

| Programs/Projects by Agency | Development Partner | Budget 2014/15 | Spend YTD 2014/15 | Budget 2015/16 | Budget 2016/17 | Budget 2017/18 | Budget 2018/19 | Total (4yr Forecast) |
|--|----------------------------|---------------------------|------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------------|
| Airport Authority | | 600,000 | 222,570 | 513,000 | 0 | 0 | 0 | 513,000 |
| Improving Pacific Air Safety TA | European Investment Bank | 600,000 | 222,570 | 513,000 | 0 | 0 | 0 | 513,000 |
| Cook Islands Investment Corporation | | 233,500 | 370,693 | 0 | 0 | 0 | 0 | 0 |
| ADB Asset Management Technical Assistance | Asian Development Bank | 150,000 | 222,611 | 0 | 0 | 0 | 0 | 0 |
| Improve infrastructure service delivery technical assistance (CI-NIIP) | Asian Development Bank | 83,500 | 148,082 | 0 | 0 | 0 | 0 | 0 |
| Cook Islands Tourism Corporation | | 2,150,000 | 1,500,000 | 0 | 0 | 0 | 0 | 0 |
| Tourism Sector Support | New Zealand | 2,150,000 | 1,500,000 | 0 | 0 | 0 | 0 | 0 |
| Chamber of Commerce | | 0 | 0 | 240,500 | 0 | 0 | 0 | 240,500 |
| Agribusiness and agricultural value chain investment support | FAO | 0 | 0 | 240,500 | 0 | 0 | 0 | 240,500 |
| Infrastructure Cook Islands | | 2,409,000 | 500,000 | 3,784,000 | 2,450,000 | 1,875,000 | 1,325,000 | 9,434,000 |
| Mauke and Mitiaro Harbours | New Zealand | 234,000 | 0 | 234,000 | 0 | 0 | 0 | 234,000 |
| Sanitation Upgrade Programme | New Zealand | 2,175,000 | 500,000 | 3,550,000 | 2,450,000 | 1,875,000 | 1,325,000 | 9,200,000 |
| Ministry of Internal Affairs | | 1,397,950 | 752,587 | 441,000 | 0 | 0 | 0 | 441,000 |
| Social welfare review, protection of the vulnerable | Asian Development Bank | 100,000 | 153,869 | 0 | 0 | 0 | 0 | 0 |
| Disability Inclusive Development | Australia | 137,950 | 90,218 | 206,000 | 0 | 0 | 0 | 206,000 |
| SIF Gender Component | Australia | 0 | 0 | 235,000 | 0 | 0 | 0 | 235,000 |
| Social Impact Fund (NGO and community initiatives scheme) | New Zealand | 1,160,000 | 508,500 | 0 | 0 | 0 | 0 | 0 |
| Ministry of Foreign Affairs and Immigration | | 0 | 88,261 | 88,300 | 88,300 | 0 | 0 | 176,600 |
| Pacific Integration Technical Assistance Programme (PITAP) | European Union | 0 | 88,261 | 88,300 | 88,300 | 0 | 0 | 176,600 |
| Ministry of Finance and Economic Management | | 24,729,000 | 10,832,058 | 25,288,600 | 29,922,600 | 20,545,600 | 2,560,000 | 78,316,800 |
| Public Sector Reform TA Support | Asian Development Bank | 600,000 | 0 | 500,000 | 300,000 | 0 | 0 | 800,000 |
| PRC Grants | China | 17,952,000 | 9,123,000 | 6,481,200 | 8,800,000 | 3,900,000 | 0 | 19,181,200 |
| General Budget Support | European Union | 0 | 0 | 2,207,000 | 0 | 2,100,000 | 0 | 4,307,000 |
| NIE Accreditation Process | European Union | 49,000 | 46,268 | 100,000 | 0 | 0 | 0 | 100,000 |
| Pacific Regional Tourism Capability Building Programme | European Union | 0 | 38,698 | 0 | 0 | 0 | 0 | 0 |
| Trade Facilitation in Customs Cooperation | European Union | 0 | 17,873 | 44,000 | 0 | 0 | 0 | 44,000 |
| Pacific Financial Technical Assistance Facility (PFTAC) | European Union | 0 | 163,814 | 0 | 0 | 0 | 0 | 0 |

| Programs/Projects by Agency | Development Partner | Budget 2014/15 | Spend YTD 2014/15 | Budget 2015/16 | Budget 2016/17 | Budget 2017/18 | Budget 2018/19 | Total (4yr Forecast) |
|---|------------------------------|-------------------|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------------|
| India Grant Fund | India | 150,000 | 110,414 | 260,000 | 260,000 | 260,000 | 260,000 | 1,040,000 |
| Non-Project Grant Aid | Japan | 0 | 0 | 1,000,000 | 0 | 0 | 0 | 1,000,000 |
| Korean Grant for Service Vehicles | Korea | 0 | 0 | 268,000 | 0 | 0 | 0 | 268,000 |
| Korean Grant for AV Equipment | Korea | 236,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Aid Effectiveness | New Zealand | 150,000 | 201,407 | 100,000 | 100,000 | 100,000 | 100,000 | 400,000 |
| Automated Border Management System | New Zealand | 135,000 | 135,000 | 84,400 | 0 | 0 | 0 | 84,400 |
| Pacific Maritime Safety project | New Zealand | 0 | 0 | 225,000 | 0 | 0 | 0 | 225,000 |
| Pearl Industry Revitalisation | New Zealand | 870,000 | 250,000 | 90,500 | 0 | 0 | 0 | 90,500 |
| Performance Based Budget Support | New Zealand | 0 | 0 | 8,600,000 | 8,600,000 | 8,600,000 | 0 | 25,800,000 |
| Public Service Strengthening | New Zealand | 0 | 0 | 1,260,000 | 1,350,000 | 1,395,000 | 0 | 4,005,000 |
| Sanitation Upgrade Program-Manihiki Lagoon | New Zealand | 0 | 0 | 390,000 | 0 | 0 | 0 | 390,000 |
| Te Mato Vai | New Zealand | 4,118,000 | 693,000 | 3,438,000 | 8,169,000 | 1,847,000 | 0 | 13,454,000 |
| Climate Change Finance | UN Adaptation Fund | 0 | 0 | 0 | 2,200,000 | 2,200,000 | 2,200,000 | 6,600,000 |
| TRAC Funds | UNDP | 242,000 | 0 | 69,500 | 93,600 | 93,600 | 0 | 256,700 |
| Pacific Parliamentary Development Project | UNDP | 0 | 0 | 59,000 | 50,000 | 50,000 | 0 | 159,000 |
| NIE Accreditation Process (AMC, Anti-Corruption Committee) | UNEP | 33,000 | 25,340 | 0 | 0 | 0 | 0 | 0 |
| Strengthening Reproductive Health | UNFPA | 194,000 | 27,244 | 112,000 | 0 | 0 | 0 | 112,000 |
| Ministry of Marine Resources | | 985,000 | 123,113 | 1,075,000 | 1,075,000 | 1,030,000 | 0 | 3,180,000 |
| Fisheries Policy Support | European Union | 640,000 | 0 | 600,000 | 600,000 | 600,000 | 0 | 1,800,000 |
| Supporting the Scientific Management of Coastal and Oceanic Fisheries in the Pacific Islands Region (SciCOFish) | European Union | 0 | 83,113 | 0 | 0 | 0 | 0 | 0 |
| US Fisheries Treaty | Forum Fisheries Agency | 0 | 0 | 200,000 | 200,000 | 200,000 | 0 | 600,000 |
| Pago Pago CIFFO Operations | Forum Fisheries Agency | 50,000 | 40,000 | 45,000 | 45,000 | 0 | 0 | 90,000 |
| Fisheries Project Development Fund | Forum Fisheries Agency | 180,000 | 0 | 200,000 | 200,000 | 200,000 | 0 | 600,000 |
| Japan Trust Fund IT Upgrade | Japan | 45,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pago Pago CIFFO Operations | Western Pacific Council (US) | 70,000 | 0 | 30,000 | 30,000 | 30,000 | 0 | 90,000 |
| Ministry of Agriculture | | 202,300 | 168,394 | 387,800 | 349,300 | 211,000 | 50,000 | 998,100 |
| Increasing agricultural commodity trade (IACT) | European Union | 0 | 23,536 | 24,000 | 0 | 0 | 0 | 24,000 |
| Crop Enhancement Technical Cooperation | FAO | 115,000 | 0 | 138,300 | 138,300 | 0 | 0 | 276,600 |
| Improved production, processing and marketing of agricultural produce | FAO | 0 | 0 | 161,000 | 161,000 | 161,000 | 0 | 483,000 |

| Programs/Projects by Agency | Development Partner | Budget 2014/15 | Spend YTD 2014/15 | Budget 2015/16 | Budget 2016/17 | Budget 2017/18 | Budget 2018/19 | Total (4yr Forecast) |
|--|-----------------------------|-------------------|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------------|
| Biocontrol of Invasive Weeds | New Zealand | 25,000 | 144,858 | 50,000 | 50,000 | 50,000 | 50,000 | 200,000 |
| Water-logging Project | SPC | 38,500 | 0 | 0 | 0 | 0 | 0 | 0 |
| Taro Revitalisation program | SPC | 9,300 | 0 | 0 | 0 | 0 | 0 | 0 |
| Plant Genetic Resources Benefit Sharing | SPC/FAO | 14,500 | 0 | 14,500 | 0 | 0 | 0 | 14,500 |
| Ministry of Education | | 3,532,500 | 3,467,930 | 131,000 | 85,000 | 85,000 | 85,000 | 386,000 |
| Education Budget Support | New Zealand | 3,375,000 | 3,374,930 | 0 | 0 | 0 | 0 | 0 |
| Education Sector Partnership | New Zealand | 12,500 | 0 | 0 | 0 | 0 | 0 | 0 |
| Computers for Health/Education | Turkey | 60,000 | 0 | 60,000 | 0 | 0 | 0 | 60,000 |
| Participation Program | UNESCO | 85,000 | 93,000 | 71,000 | 85,000 | 85,000 | 85,000 | 326,000 |
| Ministry of Health | | 1,027,200 | 532,000 | 332,700 | 176,700 | 0 | 0 | 509,400 |
| Trauma Training | Australia | 11,200 | 0 | 11,000 | 0 | 0 | 0 | 11,000 |
| Strengthening the management, prevention of TB in CK | Global Fund | 32,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| HIV-New Funding Model | Global Fund | 61,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Nursing School Training and Development | Marama Global | 30,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Health Specialist Visits Programme | New Zealand | 562,000 | 532,000 | 0 | 0 | 0 | 0 | 0 |
| SPC Small Grants | SPC | 20,000 | 0 | 10,000 | 0 | 0 | 0 | 10,000 |
| Human Resources Development (Fellowships) | WHO | 148,000 | 0 | 176,700 | 176,700 | 0 | 0 | 353,400 |
| Technical Cooperation Programme | WHO | 163,000 | 0 | 135,000 | 0 | 0 | 0 | 135,000 |
| National Environment Services | | 539,700 | 223,486 | 2,983,700 | 2,591,300 | 1,596,200 | 1,071,200 | 8,242,400 |
| Pacific Hazardous Waste Management | European Union | 0 | 0 | 132,000 | 132,000 | 0 | 0 | 264,000 |
| Prevention, control and management of invasive alien species | Global Environment Facility | 151,800 | 54,876 | 57,200 | 0 | 0 | 0 | 57,200 |
| Conservation Management of Island Biodiversity | Global Environment Facility | 142,300 | 62,136 | 136,200 | 0 | 0 | 0 | 136,200 |
| UNCCD Data Reporting Project | Global Environment Facility | 60,000 | 22,618 | 20,100 | 0 | 0 | 0 | 20,100 |
| Ridge to Reef | Global Environment Facility | 100,000 | 0 | 1,535,000 | 2,012,000 | 1,343,000 | 816,000 | 5,706,000 |
| Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands | Global Environment Facility | 0 | 0 | 850,900 | 291,500 | 173,000 | 175,000 | 1,490,400 |
| National Biodiversity Planning to Support the Implementation of the CBD 2011-2020 Strategic Plan (NBSAP) | Global Environment Facility | 0 | 5,000 | 172,100 | 75,600 | 0 | 0 | 247,700 |

| Programs/Projects by Agency | Development Partner | Budget 2014/15 | Spend YTD 2014/15 | Budget 2015/16 | Budget 2016/17 | Budget 2017/18 | Budget 2018/19 | Total (4yr Forecast) |
|---|--------------------------------------|-------------------|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------------|
| Monitoring of Ozone Depletion Substance | Multilateral Fund | 85,600 | 78,856 | 80,200 | 80,200 | 80,200 | 80,200 | 320,800 |
| Office of the Prime Minister | | 17,369,000 | 5,578,682 | 12,853,000 | 9,302,000 | 501,000 | 51,000 | 22,707,000 |
| Promoting Energy Efficiency in the Pacific | Asian Development Bank | 511,000 | 162,511 | 0 | 0 | 0 | 0 | 0 |
| Northern Water Project Phase 2 | EU-German Development Cooperation | 210,000 | 0 | 420,000 | 210,000 | 0 | 0 | 630,000 |
| SPC EU GCCA PSIS Projects | European Union | 356,000 | 310,969 | 232,000 | 0 | 0 | 0 | 232,000 |
| Renewable Energy Grant (Southern Group) | European Union | 0 | 0 | 4,500,000 | 2,760,000 | 0 | 0 | 7,260,000 |
| ACP-EU Building Resilience and Safety in the Pacific | European Union | 0 | 0 | 295,000 | 295,000 | 295,000 | 0 | 885,000 |
| Renewable Energy Project Support (Southern Group) | Global Environment Facility | 0 | 0 | 183,000 | 5,517,000 | 0 | 0 | 5,700,000 |
| National Adaptation to CC (3rd Nat Com & 3-4 Nat Rept) | Global Environment Facility | 200,000 | 23,419 | 142,000 | 245,000 | 206,000 | 51,000 | 644,000 |
| Green Climate Fund Readiness | Green Climate Fund | 0 | 0 | 150,000 | 0 | 0 | 0 | 150,000 |
| PV Mini Grids | Japan | 1,000,000 | 0 | 5,232,000 | 0 | 0 | 0 | 5,232,000 |
| Cook Islands Water Shortage Response | New Zealand | 115,000 | 110,000 | 0 | 0 | 0 | 0 | 0 |
| National Disaster Trust Fund | New Zealand | 329,000 | 0 | 329,000 | 0 | 0 | 0 | 329,000 |
| Renewable Energy Program Support | New Zealand | 10,800,000 | 3,874,783 | 0 | 0 | 0 | 0 | 0 |
| Energy Transformation (Palmerston) | SIDS-DOCK | 708,000 | 708,000 | 0 | 0 | 0 | 0 | 0 |
| Power sector study, EIA, verifications (PIGGAREP) | SPREP | 127,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Strengthening Resilience of Island Communities | UN Adaptation Fund | 3,013,000 | 389,000 | 1,370,000 | 275,000 | 0 | 0 | 1,645,000 |
| Office of the Public Service Commissioner | | 1,261,000 | 757,076 | 0 | 0 | 0 | 0 | 0 |
| CI Technical Assistance Facility | New Zealand | 1,261,000 | 757,076 | 0 | 0 | 0 | 0 | 0 |
| Cook Islands Police | | 6,826,000 | 6,760,000 | 348,600 | 405,000 | 295,000 | 405,000 | 1,453,600 |
| Te Kukupa TA, operations | Australia Defence Force | 6,760,000 | 6,760,000 | 295,000 | 405,000 | 295,000 | 405,000 | 1,400,000 |
| Partnership for Pacific Policing | New Zealand | 66,000 | 0 | 53,600 | 0 | 0 | 0 | 53,600 |
| Red Cross Society | | 300,000 | 467,789 | 535,000 | 0 | 0 | 0 | 535,000 |
| GEF Small Grants Programme | Global Environment Facility | 300,000 | 467,789 | 535,000 | 0 | 0 | 0 | 535,000 |
| Seabed Minerals Authority | | 131,000 | 83,000 | 113,000 | 40,000 | 0 | 0 | 153,000 |
| Minerals and Natural Resources TA | Commonwealth Secretariat | 83,000 | 83,000 | 73,000 | 0 | 0 | 0 | 73,000 |
| Deep Sea Minerals Project | SPC | 48,000 | 0 | 40,000 | 40,000 | 0 | 0 | 80,000 |
| Total | | 63,693,150 | 32,427,640 | 49,115,200 | 46,485,200 | 26,138,800 | 5,547,200 | 127,286,400 |

15.2 ODA Activity Detail

This should be read in conjunction with the capital plan (budget book three) as detail of ODA funded infrastructure projects are not repeated in this chapter. Recurrent amounts refer to funds used for ongoing operations (e.g. salaries, office costs and maintenance). Grants refer to amounts paid to third party organisations or individuals through contestable processes. Where a previously appropriated activity has been delayed, forward budgets are revised to reflect the latest expenditure plans.

The aid effectiveness implementation plan 2013⁶ acknowledges the need for improved cooperation across government agencies and between government and national partners to reduce delays in employing available ODA resources. Plans are anticipated to help the government identify system changes to reduce unnecessary administrative effort, foster cooperative action and incentivise activities that further agreed priority public goals. This work revolves around closer partner cooperation and improved planning and tools.

Closer partner cooperation:

- Renewable Energy cooperation for 2015 and 2020 Roadmap goals of 50 per cent and 100 per cent Renewable between Cook Island Government, New Zealand, Asian Development Bank, European Union, Japan and the United Nations.
- The Te Mato Vai partnership for the Rarotonga water upgrade between the Cook Islands, People's Republic of China and New Zealand.
- Deepening cooperative approaches between New Zealand/Australia and the European Union in the energy, water and sanitation sectors; and shift to budget support modality with the EU and New Zealand.
- Review of arrangements and development of a strategy to improve the effectiveness of grants pledged by the People's Republic of China. Establishing relations between MFEM and the China Development Bank.
- Cook Islands working with the European Union Global Climate Change Alliance, Asian Development Bank (ADB), Pacific Finance Ministers and Frankfurt Business School of Management to improve direct access to Climate Change financing.

Improved planning and tools:

- New activity management system Te Tarai Vaka⁷ is now being rolled out, which will meet standards necessary to be accredited for direct access to global funds. This is being piloted by the Development Coordination Division (MFEM) before being made available to the wider government in 2015.
- The ten year capital plan which highlights national programs for climate adaptation and renewable energy plans. Working with ADB to build capacity of the Cook Island Investment Corporation and wider government to improve asset management systems and implement National Infrastructure Investment Plan.

⁶ <http://www.mfem.gov.ck/development>

⁷ Translated as 'crafting the canoe'. This metaphor attempts to capture the stages of developing an activity in an inclusive manner, valuing local knowledge and learning, advancing with the care and persistence needed to address complex problems underlying development issues.

- Reshaping the annual Development Partners Meeting around building stronger and new relationships that orient partner funding towards Cook Islands programs rather than project level interventions that duplicate national systems; with an intended focus on Pa Enuu access to development funding.
- Application to achieve National Implementing Entity status with the United Nations Adaptation/Green Funds which will channel climate change funding to the national budget process.
- Continuing Public Financial Management improvements to build capacity of the Parliamentary oversight committee, anti-corruption committee, government procurement and financial accountability systems. A second Public Expenditure and Financial Accountability assessment was completed by the Pacific Financial Technical Assistance Centre in November 2014 showing improved scores in 17 of 31 areas and reduction of D grades from 9 to 8.
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Further details on key activities follow below, and in the capital initiatives budget.

15.3 Airport Authority

Table 15.5 Improving Pacific Air Safety TA (European Investment Bank)

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------------|----------------|----------|----------|---------|
| Recurrent expenses | 735,570 | 222,570 | 513,000 | 0 | 0 | |
| Total | 735,570 | 222,570 | 513,000 | 0 | 0 | |

The objective is to provide the Cook Islands Airport Authority (CIAA) with feasible strategies and recommendations to enable informed decisions for upgrading the airports. The operation is structured into several components which are being closely coordination with other development partners.

The components are: (i) Rarotonga Airport Runway and Nav aids Study; (ii) Rarotonga Airport Terminal Upgrade Stage 2 Study; (iii) Feasibility Study into the use of renewable energy for the electricity requirements of the Cook Islands Airport Authority; (iv) Cook Islands Airport Authority Strategic Plan and Rarotonga Airport Business Plan.

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15.4 Chamber of Commerce

Table 15.6 Agribusiness and agricultural value chain investment support-FAO

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------|----------------|----------|----------|----------|
| Recurrent expenses | 240,000 | 0 | 240,500 | 0 | 0 | 0 |
| Total | 240,000 | 0 | 240,500 | 0 | 0 | 0 |

This project is being implemented by the Chamber of Commerce, with an oversight committee including the Chamber of Commerce, Bank of the Cook Islands, Ministry of Agriculture and MFEM (DCD). The project aims to strengthen the capacities of agribusinesses and farmer organizations, improve youth and women's groups participation in agribusiness through the Youth Enterprise Scheme and establish an Agribusiness Small Grants Facility for enhancing agribusiness opportunities for existing businesses.

15.5 Cook Islands Investment Corporation

Table 15.7 ADB Asset Management Technical Assistance

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------------|----------|----------|----------|----------|
| Recurrent expenses | 222,365 | 150,000 | 0 | 0 | 0 | 0 |
| Total | 222,365 | 150,000 | 0 | 0 | 0 | 0 |

This Asian Development Bank technical assistance has been utilised by Cook Islands Investment Corporation to improve financial and operational management of assets nationally across government and state owned enterprises.

Implementation under this TA is now complete which has provided in the first instance a sturdy asset knowledge base (includes asset location, condition and value) which forms the foundation of an asset management plan. Secondly information and training was provided to SOE personnel to provide the skills and knowledge needed to use the system and plans. While implementation of the project has provided considerable progress across the majority of the Southern Group in the Cook Islands there is still need for implementation /embedding of the asset management information system in the islands of Mitiaro, Manihiki, Rakahanga, Nassau, Pukapuka and Penrhyn to achieve the full potential of the process and ensure maximum efforts can be sustained in the long term.

To complete the asset management work of asset registers and valuations for the remaining islands, CIIC initially advised that additional funding would be required to enable completion of the process but have moved towards an alternative approach enabling continuation of AM in the remaining islands. This includes collection and consolidation of data currently available in the various agencies and filling the gaps using island government staff. A local consultant has been contracted to provide these services and to commence mapping assets in the outer islands. The alternative arrangement and use of local consultants is affordable and funded by CIG through CIIC. Cook Islands Investment Corporation in consultation with infrastructure agencies will develop a capacity development plan to ensure sustainability of AM in the Cook Islands. This will help ensure full utilisation of one asset management system across the Cook Islands and will feed into completion of the CIG Infrastructure asset management plan (AMP) to uniformly structure asset information and management with the aim of simplifying asset management decision making across the respective agencies.

Table 15.8 Cook Islands National Infrastructure Investment Plan

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|---------------|----------|----------|----------|----------|
| Recurrent expenses | 245,530 | 83,500 | 0 | 0 | 0 | 0 |
| Total | 245,530 | 83,500 | 0 | 0 | 0 | 0 |

The Cook Islands National Infrastructure Investment Plan has been widely consulted and will be utilised to inform the budget process for Infrastructure investment planning including climate change factors. It is endorsed by Cabinet and provides a summary of Infrastructure Investments over the next five to ten year period to be reviewed annually for the budget process.

15.6 Cook Islands Tourism Corporation

Table 15.9 Tourism Sector Support

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------|------------------|------------------|----------|----------|----------|----------|
| Recurrent | 5,153,000 | 1,650,000 | | | | |
| Capital | 1,287,000 | 500,000 | 0 | 0 | 0 | 0 |
| Total | 6,440,000 | 2,150,000 | 0 | 0 | 0 | 0 |

The Tourism sector is widely recognised as the key driver of the Cook Islands' economy. The New Zealand and Australia harmonised program sector support was 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. A review of this programme was completed in January 2014.

The grant funding arrangement for this program concludes at the end of June 2015 and the activities associated with this programme will be delivered through the government system.

15.7 Ministry of Agriculture

Table 15.10 Assistance to Enhance Crop Production and Improve Soil Resources Management for Sustainable Livelihoods

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------------|----------------|----------------|----------|----------|
| Recurrent expenses | 345,000 | 115,000 | 138,300 | 138,300 | 0 | 0 |
| Total | 345,000 | 115,000 | 138,300 | 138,300 | 0 | 0 |

This Food and Agriculture Organisation 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 factors including; increasing the availability of high quality propagated planting materials through the public nurseries; making available planting materials of under-utilised species; introducing, propagating, and distributing new species and varieties; evaluating varieties under our climatic and soil conditions; and manipulation planting schedule and/or inflorescence and fruit development phases. The project duration is three years.

Table 15.11 Bio-control of Invasive Weeds

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|---------------|---------------|---------------|---------------|---------------|
| Recurrent expenses | 225,000 | 25,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Total | 225,000 | 25,000 | 50,000 | 50,000 | 50,000 | 50,000 |

Funded under the "Landcare Research" allocation from MFAT, this project aims to release bio-control agents to control a range of economically and environmentally important weeds in the Cook Islands. In addition, the project will assist Landcare Research with monitoring the impact and environmental safety of the introduced bio-control agents.

Table 15.12 Improved Production, Processing, and Marketing of Agricultural Produce

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------------|----------------|----------------|----------------|----------|
| Recurrent expenses | 483,000 | 161,000 | 161,000 | 161,000 | 161,000 | 0 |
| Total | 483,000 | 161,000 | 161,000 | 161,000 | 161,000 | 0 |

Under the FAO Pacific Multi-Country Programming Framework (CPF) 2013-2017 support is being provided aimed at improving production, processing and marketing of agricultural produce. This project aims to improve the supply chain of agricultural produce, increase the number of households engaged in agriculture and increase the income derived from agriculture.

Table 15.13 Water-logging Project

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|---------------|---------------|----------|----------|----------|----------|
| Recurrent expenses | 68,500 | 38,500 | 0 | 0 | 0 | 0 |
| Total | 68,500 | 38,500 | 0 | 0 | 0 | 0 |

Funding for this project is administered through the Secretariat of the Pacific Community and will explore different methods of planting with both cassava and sweet potato to assess the impact these methods might have on reducing the effect of water-logging. The project is planned over two years and objectives are to:

- establish a protocol for screening crops for tolerance to water-logging in the field and in the screen-house;
- determine the optimum indicators for determining water-logging symptoms and therefore tolerance to water-logging;
- identify any traditional crops/varieties with tolerance to water-logging, make these available for their climate-ready collection;
- screen selected climate-ready accessions for tolerance to water-logging and make the information available for inclusion database;
- provide sufficient information so that a publication on screening for water-logging can be prepared; and
- Record any observed tolerance to high temperature shown by the crops/varieties during the course of these trials.
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15.8 Ministry of Education

Table 15.14 Education Budget Support

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|------------------|------------------|----------|----------|----------|----------|
| Recurrent expenses | 9,810,000 | 3,270,000 | 0 | 0 | 0 | 0 |
| Total | 9,810,000 | 3,270,000 | 0 | 0 | 0 | 0 |

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 grant funding arrangement for this program concludes at the end of June 2015 and the activities associated with this programme will be delivered through the government system.

Table 15.15 Education Sector Partnership Arrangement

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|-------------------|----------------|----------------|----------------|----------------|----------------|
| Recurrent expenses | 14,803,666 | 12,500 | 0 | 0 | 0 | 0 |
| Total | 14,803,666 | 12,500 | 0 | 0 | 0 | 0 |

The Education Sector Partnership Arrangement initially signed in 2008 is coming to an end in 2014/15. This program was funded through the New Zealand and Australia harmonised programme that originally included primary, secondary and tertiary activities, short term training awards and school refurbishments. This was superseded by a new Grant Funding Arrangement signed In July 2012 – Education Budget Support. This arrangement funded scholarships and training awards until March 2015.

Table 15.16 Information Technology – Computers for Health and Education from Turkey (Via CIIC)

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|------------------|-------------------|----------------|----------------|----------------|----------------|----------------|
| Capital expenses | 60,000 | 0 | 60,000 | 0 | 0 | 0 |
| Total | 60,000 | 0 | 60,000 | 0 | 0 | 0 |

As this is the first time the Cook Islands has received support from Turkey, this first grant is proposed to procure computers already identified by the Health and Education Ministries operations and maintenance plans managed by CIIC. The Turkish embassy in Wellington will procure these assets and ongoing discussions will define the shape of the program going forward.

Table 15.17 United Nations Educational Scientific Cultural Organisation (UNESCO) - Participation Programme

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|-------------------|----------------|----------------|----------------|----------------|----------------|
| Recurrent expenses | 164,250 | 82,125 | 82,125 | 85,000 | 85,000 | 85,000 |
| Total | 164,250 | 82,125 | 82,125 | 85,000 | 85,000 | 85,000 |

As the focal point for UNESCO, the Ministry of Education, appointed as the National Commission, undertakes facilitation and submission and monitoring of projects under the Participation Programme. The fund covers all islands throughout the Cook Islands and the scope covers culture, environment, science and education. Most years the Cook Islands gets approved two to three projects which relate to these categories, however last year saw a higher than usual acceptance rate of proposals.

The proposals funded for 2014/15 and 2015/16 include:

- Maroro-Flying Fish Spawning in Mitiaro;
 - Learning by Doing - To encourage school-age youth to engage in extra-curricular environmental activities that will stimulate positive initiatives and attitudes to protect the marine environment;
- and

- Networks – Leadership and Development for girls, women and youth through sport.

15.9 Ministry of Finance and Economic Management

Table 15.18 Performance Based Budget Support- New Zealand

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|-------------------|----------|------------------|-----------|------------------|----------|
| Recurrent expenses | 25,800,000 | 0 | 8,600,000 | 8,600,000 | 8,600,000 | 0 |
| Total | 25,000,000 | 0 | 2,207,000 | 0 | 2,100,000 | 0 |

The Cook Islands government and New Zealand have negotiated a new higher support modality for the next forward aid programme. Rather than project-level oversight with multiple contracts for each project, the new agreement will shift program oversight to the policy level through an annual high-level dialogue. Budget support payments are to be made to Treasury based on six-monthly progress reports from Health, Education, Tourism, Internal Affairs and the Office of the Public Service Commissioner.

Table 15.19 Public Sector Strengthening- New Zealand

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|------------------|----------|------------------|------------------|------------------|----------|
| Recurrent expenses | 4,005,000 | 0 | 1,260,000 | 1,350,000 | 1,395,000 | 0 |
| Total | 4,005,000 | 0 | 1,260,000 | 1,350,000 | 1,395,000 | 0 |

The new forward aid programme with New Zealand includes a performance payment of \$1 million annually, based on achievement of public service improvement targets. Additional funding of approximately \$1 million over three years will be administered by New Zealand to commission technical assistance for CIG public service improvement.

Table 15.20 Climate Change Finance – UN Adaptation Fund

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|------------------|----------|----------|------------------|------------------|------------------|
| Recurrent expenses | 6,600,000 | 0 | 0 | 2,200,000 | 2,200,000 | 2,200,000 |
| Total | 6,600,000 | 0 | 0 | 2,200,000 | 2,200,000 | 2,200,000 |

In December 2014, the Cook Islands submitted its application for accreditation to the UN Adaptation Fund to receive direct climate financing as a National Implementing Entity. The application process was rigorous and required extensive collaboration across key agencies. MFEM is engaged in an ongoing dialogue with the fund to provide evidence of improved processes to meet the accreditation criteria. It is anticipated that readiness work will continue through 2015/16, and the Cook Islands will begin to receive funding of USD 5 million in the 2016/17 financial year to be disbursed over three years.

Table 15.21 China Grant Fund

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|-------------------|------------------|------------------|------------------|------------------|----------|
| Capital | 23,562,480 | 9,122,497 | 6,481,162 | 8,800,000 | 3,900,000 | 0 |
| Recurrent expenses | 2,360,000 | 0 | 0 | 0 | 0 | 0 |
| Total | 25,922,480 | 9,122,497 | 6,481,162 | 8,800,000 | 3,900,000 | 0 |

To date more than RMB 111 million (NZD 23 million) has been spent on or committed to projects funded by the People's Republic of China. The current balance of remaining China grants is estimated to be NZD 20 million as at April 2015. This amount remains to be verified and the Ministry is working with the China Development Bank to reconcile expenses paid and agree the final balance remaining.

The remaining grant funds have been aligned to the Cook Islands Government's National Infrastructure Investment Plan.

In 2015 the Cook Islands Government will review and revise the three year China grant strategy for the use of remaining and future grant funding.

Table 15.22 Breakdown of China Grant funding

| PRF Grand Fund | Executing Agency | FY expected | Estimated Cost (NZD) |
|--|------------------|-------------------|----------------------|
| Confirmed projects by the Cook Islands Government | | | |
| Agriculture equipment for Pa Enea | MOA | 2015/16 | 1,081,100 |
| Apii Nikao rebuild | CIIC | 2015/16 – 2016/17 | 10,000,000 |
| Chinese public building upgrades | CIIC | 2015/16 – 2016/17 | 800,000 |
| Outer Island heavy machinery stage 2 | ICI | 2016/17 | 3,400,000 |
| Atiu Airport Upgrade | ICI | 2017/18 | 3,900,000 |
| Total proposed projects | | | 19,181,100 |

In 2014/15 a concept note for the provision of agricultural equipment for the Pa Enea was submitted and approved by PRC. Letters of Exchange were signed in November 2014 and delivery of the equipment is currently estimated for September 2015. The procurement of the agriculture equipment has been organised by the Chinese Ministry of Commerce and the supply contract has been awarded to Hebei Machinery Import and Export Company, Ltd.

Concept Notes for Apii Nikao rebuild and Chinese public building upgrades were submitted in late 2014 and are awaiting a final decision by PRC.

In 2014/15 the balance of funds has been allocated using the new process which includes recommendations for capital projects approved by the Cook Islands Infrastructure Committee.

Table 15.23 General Budget Support- European Development Fund

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|------------------|----------|------------------|----------|------------------|----------|
| Recurrent expenses | 4,307,000 | 0 | 2,207,000 | 0 | 2,100,000 | 0 |
| Total | 4,307,000 | 0 | 2,207,000 | 0 | 2,100,000 | 0 |

The European Union provides its bilateral assistance via the European Development Fund (EDF) currently at the end of its tenth cycle (EDF 10). Cycle 11 (EDF 11) continues with an incentivised budget support approach where the Cook Islands will allocate funds using national systems over years 2014 to 2020. Tranche one of the EDF 10 budget was received in 2013/14, however, due to a delay in implementation of sanitation upgrades by one year, no funds were received in 2014/15. The final EDF 10 tranche will be allocated in 2015/16, and tranche one of EDF 11 in 2017/18. Performance is measured using indicators such as macroeconomic benchmarks, public financial management, transparency and democratic values. Variable payments are tagged to improved results such as lagoon water quality.

Table 15.24 Public Sector Strengthening

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|------------------|----------------|----------------|----------------|----------|----------|
| Recurrent expenses | 1,400,000 | 600,000 | 500,000 | 300,000 | 0 | 0 |
| Total | 1,400,000 | 600,000 | 500,000 | 300,000 | 0 | 0 |

The Asian Development Bank (ADB) Country Operations Business Plan provides close to USD 1 million per three year cycle for technical assistance. The operational priorities of ADB's Pacific Approach 2010-2014 include improving the supply and delivery of urban services and strengthening the government's core functions to improve public sector effectiveness. This is also a priority of Te Kaveinga Nui, the Cook Islands current National Sustainable Development Plan.

Following on from the functional review of the Cook Islands public sector in 2011, technical assistance has been provided in 2014/15 to:

- complete the National Infrastructure Investment Plan (NIIP) to guide ten year Infrastructure budgeting;
- developing capacity for welfare cost modeling to enable comparison of different welfare policy options (MFEM/INTAFF); and
- State owned enterprises improvement recommendations drafted;

The USD1 million will be allocated across the technical assistance (TA) requirements agreed as part of ADB Country Operations Business plan 2015-2017 including:

- enabling the government to continue implementing its reform program for the public sector, including strengthening public financial management and improving public service delivery;
- supporting the government's commitment to renewable energy; and
- escalating the efficiency of the ICT sector.

Table 15.25 India Grant Fund

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|------------------|----------------|----------------|----------------|----------------|----------------|
| Recurrent expenses | 1,190,000 | 150,000 | 260,000 | 260,000 | 260,000 | 260,000 |
| Total | 1,190,000 | 150,000 | 260,000 | 260,000 | 260,000 | 260,000 |

Since 2006, the Indian Government has granted the Cook Islands USD100, 000 annually for sustainable socio-economic community development. In 2009 this was increased to USD125, 000 annually. A further fifteen (\$460,000) projects were approved for funding in the 2012/2013 Financial Year. Thirteen of these projects are completed. For the 2013/2014 funding about ten projects were approved, with funding from India arriving February 2015.

In November 2014, at the first Forum for India-Pacific Islands Cooperation, in Suva, Fiji, India announced that they would increase grant aid to Pacific countries to USD 200,000 annually. Reports and updates on activities are available online on the MFEM website: http://www.mfem.gov.ck/index.php?option=com_contentandview=articleandid=180andItemid=89

Table 15.26 Korea Grant for AV Equipment

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|------------------|------------|----------------|----------|----------|----------|----------|
| Capital expenses | | 236,000 | 0 | 0 | 0 | 0 |
| Total | | 236,000 | 0 | 0 | 0 | 0 |

In 2014/15 the Republic of Korea approved a grant application for USD 200,000 for new audio-visual equipment to support cultural projects for the Cook Islands 50th Anniversary of Self-Government Celebrations in 2015/16. The Cook Islands Government has requested the funds be provided as a cash grant and national systems be used to procure the equipment.

Table 15.27 Korea Grant for Service Vehicles

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|------------------|------------|----------|----------------|----------|----------|----------|
| Capital expenses | | 0 | 268,000 | 0 | 0 | 0 |
| Total | | 0 | 268,000 | 0 | 0 | 0 |

In March 2015, the Republic of Korea announced that it would be accepting proposals for the 2016 round of grant applications. The Cook Islands Government has submitted a request to Korea to use the USD 200,000 grant to provide 15 utility vehicles for the Pa Enua as well as two vans for use by

the Ministry of Education and Cook Islands Tourism Corporation for ministry duties.

Table 15.28 Aid Effectiveness

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Recurrent | 550,000 | 150,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Total | 550,000 | 150,000 | 100,000 | 100,000 | 100,000 | 100,000 |

The Aid Effectiveness budget is drawn from interest earned on development partner trust accounts and is used to support the implementation of the official development assistance policy by tMFEM. The programme currently contributes to an annual meeting of development partners, development of Te Tarai Vaka, provides surge capacity to catch up and standardise Crown financial statements, provides training and set-up of project financial management software and also aims to foster South-South cooperation such as peer learning activities between small island developing states.

Table 15.29 Pearl Revitalisation Program – New Zealand/Australia

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------|----------------|----------------|---------------|----------|----------|----------|
| Recurrent | 779,500 | 779,500 | 0 | 0 | 0 | 0 |
| Capital | 90,500 | 90,500 | 90,500 | | | |
| Total | 870,000 | 870,000 | 0 | 0 | 0 | 0 |

Under the Grant Funding Agreement signed with New Zealand in July 2013, the Pearl Revitalisation Programme focused on the following four outputs:

- procurement and shipment of pearl farming materials and equipment;
- write-off of 80 per cent of existing loans under former NZ-funded loan scheme;
- write-off of 80 per cent of existing loans under CIPA ‘emergency float loan’ scheme; and
- approved activities associated with Manihiki lagoon clean-up and achievement of Activity outcomes

In May 2015, a letter of variation was signed that agreed to close off output 1-3 as completed and transfer output 4 - Manihiki Lagoon Cleanup with a remaining budget of \$390,000 to the sanitation upgrade programme.

Table 15.30 National Implementing Entity Accreditation process – UNEP

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|---------------|---------------|----------|----------|----------|----------|
| Recurrent expenses | 33,000 | 33,000 | 0 | 0 | 0 | 0 |
| Total | 33,000 | 33,000 | 0 | 0 | 0 | 0 |

Funding from the United Nations Environment Program (UNEP) was allocated to capacity building within the National Implementing Entity (NIE) program of work. In 2014/15, \$25,000 of this funding was used to support the Cook Islands accreditation application to the United Nations Adaptation Fund, and this funding stream is now closed.

<http://www.mfem.gov.ck/our-national-systems/72-development/384-national-implementing-entity>

Table 15.31 National Implementing Entity Accreditation Process – EU

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|---------------|----------------|----------|----------|----------|
| Recurrent expenses | 149,000 | 49,000 | 100,000 | 0 | 0 | 0 |
| Total | 149,000 | 49,000 | 100,000 | 0 | 0 | 0 |

Similar to the UNEP program listed above, this funding was allocated to capacity building within the National Implementing Entity (NIE) program of work. The 2015/16 funding will support

implementation of Te Tarai Vaka and the Anti-Corruption Committee components of the accreditation application to the UN Adaptation Fund.

Table 15.32 United Nations Development Programme TRAC Funding

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------------|---------------|---------------|---------------|----------|
| Recurrent expenses | 242,000 | 242,000 | 69,500 | 93,600 | 93,600 | 0 |
| Total | 242,000 | 242,000 | 69,500 | 93,600 | 93,600 | 0 |

The United Nations Development Programme has offered the Cook Islands assistance from a fund called Targeted Resource Allocation from the Core (TRAC). This can be allocated to support outcomes identified by the Cook Islands and formalised in the United National Development Assistance Framework, including establishing a Delivering as One position within MFEM.

Table 15.33 Pacific Parliamentary Development Project - UNDP

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|---------------|----------|---------------|---------------|---------------|----------|
| Recurrent expenses | 59,000 | 0 | 59,000 | 50,000 | 50,000 | 0 |
| Total | 59,000 | 0 | 59,000 | 50,000 | 50,000 | 0 |

The Pacific Parliamentary Development Project (PPDP) aims to increase women's political participation, increase Parliaments capacity to engage and respond to key development issues and mainstream gender across the project. This initiative is being funded by UNDP, who have indicated that the funding for 2015/2016 financial year would be USD50,000 and further support over the duration of three to four years. This project would be a partnership between Cook Islands Parliamentary Services, Ministry of Internal Affairs and UNDP, Pacific Centre.

Table 15.34 United Nations Population Fund (UNFPA) Strengthening Reproductive Health

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------------|----------------|----------|----------|----------|
| Recurrent expenses | 367,925 | 194,000 | 112,000 | 0 | 0 | 0 |
| Total | 367,925 | 194,000 | 112,000 | 0 | 0 | 0 |

This initiative aims to strengthen national capacity in delivering sexual and reproductive health services and improve the data available to inform decision-making and policy formation through provision of technical assistance. This is a new grant agreement aligned with the 2013-2017 United Nations Development Assistance Framework for the Cook Islands, with MFEM administering the program as the Implementing Partner with UNFPA. A total of USD 309,000 is being provided between January 2014 and December 2015 involving the following partners: Ministry of Health, Ministry of Internal Affairs, National Statistics Office, Office of the Prime Minister, the Ministry of Education and the Cook Islands Family Welfare Association. Assistance focuses on four outcome areas:

- Strengthened national capacity to deliver high-quality family planning and sexual and reproductive health services, information, commodities and community-based intervention for family resource management.
- Strengthened national capacity of health-care providers to address gender-based violence through the provision of high-quality health services, including in humanitarian settings.
- Strengthened national capacity to deliver high-quality sexual and reproductive health services, information, including family planning and services to prevent HIV and STIs, for young people.
- Strengthened national capacity for increased availability, analysis and utilization of data for informed decision-making and policy formulation on population dynamics, youth, gender equality, and sexual and reproductive health, including family planning.

The partnership emphasizes an innovative work plan to finalise the report of the family health and safety study and disseminate the findings to targeted groups, in addition to providing technical assistance for statistical analysis on population dynamics.

Table 15.35 Pacific Maritime Safety Programme

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------------|----------------|----------|----------|----------|
| Recurrent expenses | 450,000 | 225,000 | 225,000 | 0 | 0 | 0 |
| Total | 450,000 | 225,000 | 225,000 | 0 | 0 | 0 |

The goal of the activity is to improve the safety of lives at sea through improved maritime safety and increased capability within the maritime sector. The intended outcomes to be achieved by the activity are:

- Improved capability and capacity within Ministry of Transport to maintain maritime safety standards including regulatory compliance requirements and information for safe operations of all domestic and international shipping services.
- Increased access to safety equipment, safety information, safety advice and navigational aids and distress alerting equipment.

15.10 Ministry of Health

Table 15.36 Health Specialists Visits

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|------------------|----------------|----------|----------|----------|----------|
| Recurrent expenses | 2,041,000 | 562,000 | 0 | 0 | 0 | 0 |
| Total | 2,041,000 | 562,000 | 0 | 0 | 0 | 0 |

Funded by 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 are 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.

An indicator of this programme's success is a reduction of patient referrals to New Zealand by 0.5 per cent per year until 2013/14. The number of patients referred to New Zealand per year is outlined in Table 16.3

Table 15.37 Number of medical referrals

| Year | Number |
|-------------------|--------|
| 2008/09 | 31 |
| 2009/10 | 69 |
| 2010/11 | 40 |
| 2011/12 | 36 |
| 2012/13 | 42 |
| 2013/14 | 51 |
| YTD April 2014/15 | 35 |

Numbers have fluctuated, but the program has been deemed successful based on evaluations carried out in June 2014. For more program details see <http://www.mfem.gov.ck/programmes>

The grant funding arrangement for this program concludes at the end of June 2015 and the activities associated with this programme will be delivered through the government system.

Table 15.38 Small Grants Prevention and Control of Non Communicable Diseases-SPC

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|---------------|---------------|---------------|----------|----------|----------|
| Recurrent expenses | 60,000 | 20,000 | 10,000 | 0 | 0 | 0 |
| Total | 60,000 | 20,000 | 10,000 | 0 | 0 | 0 |

The small grants scheme is a contestable fund managed by the Secretariat of the Pacific Community (SPC) to combat Non-Communicable Diseases (NCDs) which include Hypertension and Diabetes and associated risk factors in the Pacific region.

The purpose is to improve the health of their populations by a focus on NCD prevention and control at the community level. Funding has been confirmed to June 2016. The small grants funded with support from the Australian and the New Zealand government.

Table 15.39 World Health Organisation Technical Cooperation

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------------|----------------|----------|----------|----------|
| Recurrent expenses | 503,970 | 163,000 | 135,000 | 0 | 0 | 0 |
| Total | 503,970 | 163,000 | 135,000 | 0 | 0 | 0 |

The World Health Organisation technical cooperation operates from the country office in Apia, Samoa and focuses on human resources development (fellowships), non communicable diseases, health promotion, and nutrition and tobacco control. This project is supported through the implementation of the strategic objectives of the National Cook Islands Health Strategy (2012 – 2016) and the organisation.

15.11 Ministry of Internal Affairs

Table 15.40 Social welfare review, protection of the vulnerable

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------------|----------|----------|----------|----------|
| Recurrent expenses | 712,630 | 154,000 | 0 | 0 | 0 | 0 |
| Total | 712,630 | 154,000 | 0 | 0 | 0 | 0 |

This grant of USD 0.9 million was financed by the Japan Fund for Poverty Reduction (JFPR) for the Government of Cook Islands and has been administered by the Asian Development Bank.

The Ministry of Internal Affairs signed contracts with five non government organizations which included delivery of pilot home care and nursing services for the elderly and people with disabilities. The recipients were Mangaia Disabilities, Atiu Disabilities, Te Vaerua (Rarotonga) and Te Atu O Te Ra (Mauke) Disabilities and Aitutaki Disability Centre.

Additionally, support has been given to provide expertise on legislative drafting, quantitative analysis and monitoring and evaluation. Contracts have closed and the project is in completion phase in 2014/15. For more information refer to: www.adb.org.

Table 15.41 Disability Inclusive Development

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------------|----------------|----------|----------|----------|
| Recurrent expenses | 250,000 | 137,950 | 205,063 | 0 | 0 | 0 |
| Total | 250,000 | 137,950 | 205,063 | 0 | 0 | 0 |

The Government of Australia funded Disability Inclusive Development project supports the Cook Islands to implement responsibilities under the Convention on the Rights of Persons with Disabilities (CRPD) and to monitor and report on progress to the Committee on the Rights of Persons with Disabilities.

The Disability Inclusive Development project commenced in May 2014 and funding ends June 2016.

This supports the following activities:

- consultations for the new National Disability Action Plan and development of key policies, programs and legislative review;
- additional human resource (a Program, Research and Communications Officer) to work on the implementation of the Convention on the Rights of Persons with Disabilities;
- reconfigure the web-enabled disability database to facilitate access to stakeholders and to assist policy makers to develop policies and plans at the national level; and
- fund consultations and technical assistance toward establishment of an Early Identification and Intervention Model.

Table 15.42 Social Impact Fund

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|------------------|------------------|----------------|----------|----------|----------|
| Recurrent expenses | 2,160,000 | 925,000 | 0 | 0 | 0 | 0 |
| Gender component | 925,000 | 235,000 | 235,000 | 0 | 0 | 0 |
| Total | 3,085,000 | 1,160,000 | 235,000 | 0 | 0 | 0 |

Funded by the Cook Islands, New Zealand and Australia, the fund provides grants for community projects for income generating initiatives that focus on organisational strengthening, community development and awareness. The Ministry of Internal Affairs manages the fund using an approach that aims to foster coordination with wider government and other development partner resources and to facilitate alignment of funding for non government organisations and community services with national policy inclusive of gender issues.

- The agreement was varied in August 2013 to include an additional \$0.925 million from Australia's Pacific Women Shaping Pacific Development Initiative. The funding is to focus on two key components of the Cook Islands National Policy on Gender Equality and Women's Empowerment 2011-2016. These are to strengthen the capacity of government agencies, island councils and non government agencies to help women access and benefit from new economic opportunities, and protect victims of domestic violence by developing legal frameworks, law enforcement responses and services for victims, and by mobilising communities to intervene to protect victims.

The grant funding agreement for SIF concludes in June 2015, and the gender component will finish in June 2016. From July 2015, support for SIF will be delivered by direct budget support from New Zealand.

15.12 Infrastructure Cook Islands

The majority of assistance to ICI is provided through capital spending. Please refer to the Capital Initiatives Plan in Budget Book 3.

15.13 Ministry of Marine Resources

Table 15.43 Cook Islands Fisheries Field Office Operations-Forum Fisheries Agency

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|---------------|---------------|---------------|----------|----------|
| Recurrent expenses | 130,000 | 40,000 | 45,000 | 45,000 | 0 | 0 |
| Total | 130,000 | 40,000 | 45,000 | 45,000 | 0 | 0 |

Table 15.44 Cook Islands Fisheries Field Office Operations – SPC

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|---------------|---------------|---------------|---------------|----------|
| Recurrent expenses | 160,000 | 70,000 | 30,000 | 30,000 | 30,000 | 0 |
| Total | 160,000 | 70,000 | 30,000 | 30,000 | 30,000 | 0 |

Establishment of the Cook Islands fisheries field office in Pago Pago, American Samoa is supported by the Forum Fisheries Agency and SPC. The purpose of the field office is to enhance current monitoring, control and surveillance capabilities to ensure compliance with license and access agreement conditions. Activities to be carried out by the office include observer placements, observer debriefings, port side inspections in Cook Islands licensed vessels, port sampling, unloading verification of Cook Islands vessels, and vessel log sheet data verification.

Table 15.45 SPC-EU GCCA PSIS Projects – European Union

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------------|----------------|----------|----------|----------|
| Recurrent expenses | 640,630 | 416,000 | 232,000 | 0 | 0 | 0 |
| Total | 712,630 | 416,000 | 232,000 | 0 | 0 | 0 |

The goals of this activity funded through the Global Climate Change Alliance program, are: 1) Improve the quality and diversity of cultured black pearls and pearl products by better farm husbandry, improve access to financial support, mitigating environmental impacts, promoting research and development and wherever possible, strengthening local capacity and; 2) Develop capacity in cross-cutting areas within the marine sector concerning environmental management, public health safety and food safety programs. This project is scheduled to close in December 2015.

15.14 National Environment Service

Table 15.46 Prevention, control and management of invasive alien species

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------------|---------------|----------|----------|----------|
| Recurrent expenses | 151,800 | 151,800 | 57,200 | 0 | 0 | 0 |
| Total | 151,800 | 151,800 | 84,200 | 0 | 0 | 0 |

A regional funding initiative funded by the Global Environment Facility provided to assist the National Environment Service and partner government agencies to improve the management and control of pests, weeds and other invasive species. This project was initiated in 2012 and is funded by the Global Environment Facility and managed by South Pacific Regional Environment Program through the United Nations Environmental Programme. It is expected to finish at the end of 2015.

Activities are located in Rarotonga, Mangaia, Mitiaro and Mauke. The long-term goal of the project is to conserve ecosystems, species and genetic diversity in the Cook Islands.

Table 15.47 Island biodiversity programme

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|----------------|----------------|----------|----------|----------|
| Recurrent expenses | 142,300 | 142,300 | 136,200 | 0 | 0 | 0 |
| Total | 142,300 | 142,300 | 136,200 | 0 | 0 | 0 |

This project is a Global Environment Facility funded regional multi-country project for the protection and conservation of biodiversity. Current activities in Rarotonga, Mangaia, Mitiaro and Mauke contribute to the conservation of ecosystems, species and genetic diversity in the Cook Islands. This Initiative is funded by the Global Environment Fund through the implementing agency South Pacific Regional Environmental Programme.

The application of the Ecosystem Approach in the Pacific is very limited and is assumed to be a

critical gap. This regional project aims to assist Pacific Island countries to develop and disseminate case studies on the successful applications of the Ecosystem Approach. The work is framed by the United National Convention for Biological Diversity and targets local governments as a key partner. It is expected to finish at the end of 2015. The project has four outcomes, including:

- conservation and restoration of priority species and ecosystems at risk in the Cook Islands, as identified in the Island Biodiversity Programme of Work;
- sustainable use of island biodiversity through improved systems and processes including resource assessment and monitoring, legislation, capacity and awareness;
- monitoring, evaluation and reporting;
- technical support and training by executing agency; and
- project management and training.

Table 15.48 United Nations Convention to Combat Desertification Data Reporting Project

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|---------------|---------------|---------------|----------|----------|----------|
| Recurrent expenses | 81,000 | 60,000 | 20,100 | 0 | 0 | 0 |
| Total | 81,000 | 60,000 | 20,100 | 0 | 0 | 0 |

This project funded by the Global Environment Facility supports the implementation of the Convention's Ten Year Strategy. The Cook Islands chose to access this funding in partnership with United Nations Environment Programme (UNEP) who provide training, help-desk services, templates, reporting guidelines, and an online reporting facility through the Performance Review and Assessment of Implementation System (PRAIS) portal www.unccd-prais.com.

The goal of this project is to strengthen national systems for monitoring and evaluation of land and other natural resources to support the preparation of national reports using the PRAIS for the next two reporting cycles ending 2014/15.

Table 15.49 Protecting biodiversity and enhancing ecosystem functions through "Ridge to Reef" approach in the Cook Islands

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|------------------|----------------|------------------|------------------|------------------|----------------|
| Recurrent expenses | 5,806,000 | 100,000 | 1,535,000 | 2,012,000 | 1,343,000 | 816,000 |
| Total | 5,806,000 | 100,000 | 1,535,000 | 2,012,000 | 1,343,000 | 816,000 |

This new regional programme is funded by Global Environment Fund and administered by the United Nations Development Programme on behalf of the Cook Islands. The programme involves the Ministry of Marine Resources, Ministry of Agriculture, Infrastructure and Tourism. The goals of this initiative include:

- improving the conservation and management of biodiversity, to increase resilience to the impacts of climate change;
- strengthening and build resilience in the fisheries sector, ensuring a higher resilience to the impacts of climate; and
- Promoting agricultural Livelihood resilience and food security, and resilience to the impacts of climate change.

Table 15.50 Ozone Depleting Substances

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|------------|---------|---------|---------|---------|---------|
| Recurrent expenses | 406,400 | 85,600 | 80,200 | 80,200 | 80,200 | 80,200 |

| | | | | | | |
|--------------|----------------|---------------|---------------|---------------|---------------|---------------|
| Total | 406,400 | 85,600 | 80,200 | 80,200 | 80,200 | 80,200 |
|--------------|----------------|---------------|---------------|---------------|---------------|---------------|

This project monitors the importation and use of Ozone Depleting Substances (ODS) in the country with the ultimate goal of eventually phasing out use of all ODS. Import information is collected and filed with United Nations Environment Program that 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.

15.15 Office of the Prime Minister (OPM)

Table 15.51 Green Climate Fund Readiness

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|-------------------|----------------|----------------|----------------|----------------|----------------|
| Recurrent expenses | 150,000 | 0 | 150,000 | 0 | 0 | 0 |
| Total | 150,000 | 0 | 150,000 | 0 | 0 | 0 |

Climate Change Cook Islands will receive technical assistance in 2015/16 to determine the most appropriate approach in accessing climate change finance from the Green Climate Fund. Future funding will be based on whether the Cook Islands decides to access the fund regionally or will work toward National Designated Authority accreditation.

Table 15.52 Global Climate Change Alliance: Pacific Small Islands States regional project

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|-------------------|----------------|----------------|----------------|----------------|----------------|
| Recurrent expenses | 356,000 | 356,000 | 0 | 0 | 0 | 0 |
| Total | 356,000 | 356,000 | 0 | 0 | 0 | 0 |

This regional project is implemented by the Secretariat of the Pacific Community and funded by the European Union. It is a three year project which aims to promote long-term strategies and approaches to adaptation and improve coordination for aid delivery to address climate change.

The project has three activity streams, and will conclude in December 2015:

- **Environmental Monitoring to Enhance Community Livelihoods and Build Resilience to Climate Change** for Penrhyn, Manihiki, Rakahanga and Pukapuka. The project seeks to benefit pearl farmers, artisanal and small scale commercial fisheries and will fund a marine biologist based in Manihiki, monitoring buoy and marine resources laboratory upgrade. This activity stream is managed by MMR.
- Completion of application for **National Implementing Entity** status with the UN Adaptation Fund to reduce reliance on regional organisations to administer climate change funding (outlined above under MFEM projects). The Ministry of Finance is planning for further engagement with the Green Climate Fund (GCF) to explore direct access options.

- A **National Coordinator** based within Climate Change Cook Islands, in the Office of the Prime Minister

Table 15.53 Strengthening the Resilience of our Islands and Communities to Climate Change (SRIC)

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|------------------|-------------------|------------------|------------------|----------------|----------------|----------------|
| Capital expenses | 4,658,000 | 3,013,000 | 1,370,000 | 275,000 | 0 | 0 |
| Total | 4,658,000 | 3,013,000 | 1,370,000 | 275,000 | 0 | 0 |

Strengthening the Resilience of our Islands and Communities to Climate Change is funded by the United Nation Adaptation Fund, which commenced in 2012. The objective of this programme is to strengthen the ability of the Pa Enua communities and the public service to enable them to make informed decisions and manage climate change driven pressures (including extreme events) in a proactive, integrated and strategic manner. The programme supports the Cook Islands at the National, Sector, and Pa Enua levels through the implementation of the Cook Island's Joint National Action Plan for Disaster Risk Management and Climate Change Adaptation.

Table 15.54 National Report to the United Nations Framework Convention on Climate Change

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|-------------------|----------------|----------------|----------------|----------------|----------------|
| Recurrent expenses | | 200,000 | 142,000 | 245,000 | 206,000 | 51,000 |
| Total | | 200,000 | 142,000 | 245,000 | 206,000 | 51,000 |

This project is funded by the Global Environment Facility through the United Nations Environment Programme Umbrella Programme for National Communication to the Climate Change Convention. It is a global programme to assist twelve countries, including the Cook Islands, to prepare the third National Communication Report.

The project will provide the Cook Islands with the resources to fulfil its commitments pursuant to Articles 4.1 and 12 of the convention.

Table 15.55 Renewable Energy Programme Support – New Zealand

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|-------------------|-------------------|----------------|----------------|----------------|----------------|
| Capital | | 10,800,000 | 0 | 0 | 0 | 0 |
| Recurrent expenses | | 0 | 0 | 0 | 0 | 0 |
| Total | | 10,800,000 | 0 | 0 | 0 | 0 |

The goal of the Renewable Energy Programme Support is to establish a solid foundation for renewable energy sector development and operations in the Cook Islands.

In February 2014, this funding agreement was revised and split into two, one managed by Ministry of Foreign Affairs and Trade New Zealand and the other managed by Cook Islands Office of the Prime Minister. The Cook Islands has managed the Enabling Environmental for Energy Sector Development and will deliver activities to support the establishment of an enabling environment conducive to long term physical and financial stability of renewable energy infrastructure assets.

New Zealand funding has been used for the construction of renewable energy infrastructure on Rarotonga and islands of the Northern Group and involves the installation of the following renewable energy generation infrastructure:

- one utility-scale photovoltaic(PV) array for the Airport on Rarotonga;

- eight PV/diesel hybrid mini-grid systems, a powerhouse and distribution networks and metering for the following islands and atolls of the Northern Group: Pukapuka, Nassau, Manihiki (installations at Tukao and Tauhunu), Rakahanga, Penrhyn (installations at Te Tautua and Omoka) and Palmerston.

This project ends in June 2015, when focus will shift to the Southern group and Rarotonga under a new program (refer to below).

Table 15.56 Renewable Energy – European Union (via Asian Development Bank)

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|------------------|------------------|----------|------------------|------------------|----------|----------|
| Capital expenses | 7,260,000 | 0 | 4,500,000 | 2,760,000 | 0 | 0 |
| Total | 7,260,000 | 0 | 4,500,000 | 2,760,000 | 0 | 0 |

Table 15.57 Renewable Energy – Japan, Pacific Environment Community Fund

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|------------------|------------------|----------|------------------|----------|----------|----------|
| Capital expenses | 5,232,000 | 0 | 5,232,000 | 0 | 0 | 0 |
| Total | 5,232,000 | 0 | 5,232,000 | 0 | 0 | 0 |

Table 15.58 Global Environment Facility (via Asian Development Bank)

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------|------------------|----------|----------------|------------------|----------|----------|
| Capital | 5,517,000 | 0 | 0 | 5,517,000 | 0 | 0 |
| Recurrent | 183,000 | 0 | 183,000 | 0 | 0 | 0 |
| Total | 5,700,000 | 0 | 183,000 | 5,517,000 | 0 | 0 |

As part of the Renewable Energy Roadmap a grant of EUR 5.3 million (NZD 7.26 million) has been pledged to the Cook Islands from the European Union. The Japan PEC Fund is contributing \$5.231 million of product to the Southern Energy project. The project, estimated at around \$25 million, will have a loan component of NZD12.98million and will be administered by the Asian Development Bank to complete the transformation of electricity generation from diesel to solar power for the Southern Cook Islands and selected projects on Rarotonga. The Cook Islands is budgeting for USD 136,986 (NZD 183,000) to be spent by ADB on behalf of the Cook Islands to develop a Global Environment Facility project proposal in 2015/16. It is anticipated that the \$5.517 million will be spent in 2016/17 to implement the project.

Table 15.59 Northern Water Project (Phase 2)

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------|------------|----------|----------------|----------------|----------|----------|
| Capital | 630,000 | 0 | 210,000 | 420,000 | 0 | 0 |
| Total | | 0 | 210,000 | 420,000 | 0 | 0 |

Northern Water Project (Phase 2) will improve Rain Water Harvesting and storage by repairing and restoring community water tanks on Pukapuka, Nassau, Penrhyn, Manihiki and Rakahanga. This will provide an additional 2.5 million litres of water to the communities and improve water security for the northern islands. In doing so, this will enhance the resilience of these islands to natural disasters and strengthen disaster management capabilities aimed at increasing capacity for rainwater harvesting and storage.

The project is funded by the European Union and channelled through the “Adapting to Climate Change and Sustainable Energy” programme which is administered by the German Development Cooperation agency, GIZ.

Table 15.60 Promoting Energy Efficiency in the Pacific – Phase 2 (PEEP) ADB TA 7798

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|------------------|----------------|----------|----------|----------|----------|
| Capital | 480,000 | 234,000 | 0 | 0 | 0 | 0 |
| Recurrent expenses | 538,241 | 277,000 | 0 | 0 | 0 | 0 |
| Total | 1,018,241 | 511,000 | 0 | 0 | 0 | 0 |

This regional project aimed to promote energy efficiency in the region. Approved in 2008, the first phase was completed in May 2011 and identified a pipeline of specific energy efficiency projects to be co-financed by the ADB, the Global Environmental Facility and other sources. The second phase involved implementing energy efficiency measures including an energy use database now available on: www.ee-pacific.net; fridge/freezer replacement programme; national energy policies with implementable energy efficiency targets are finalised; training has been completed for local participants; large scale implementation of energy efficiency projects in residential, commercial and government sectors and public lighting in various stages of implementation; Energy Efficiency guidelines available for use; Building code recommendations; information dissemination and public awareness for all stakeholders; Airport lighting, Punanga Nui Night Market Lighting, Public Sector energy efficiency measures, Ports Authority marina and wharf lighting, Private Sector Energy Efficiency - Edgewater Hotel. This project will come to a close in 2014/15.

15.16 Cook Islands Police Service

Table 15.61 Partnership for Pacific Policing

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|---------------|---------------|----------|----------|----------|
| Recurrent expenses | 119,600 | 66,000 | 53,600 | 0 | 0 | 0 |
| Total | 119,000 | 66,000 | 53,600 | 0 | 0 | 0 |

This funding is part of a regional Police programme managed by New Zealand. The programmes key objectives are to:

- build capacity within CI Police to deliver effective policing services while increasing trust and confidence within Cook Islands communities;
- strengthen governance at all levels within CI Police and build ownership of the community policing philosophy;
- implement sustainable management and policing practices that will contribute to a safe and secure Cook Islands in the medium to long term; and
- develop capability for CI Police to deliver effective policing services to all Cook Islanders including the outer islands, as well as provide the technical and infrastructure support where required.

Table 15.62 Pacific Patrol Boat Project Te Kukupa

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|------------------|------------------|----------------|----------------|----------------|----------------|
| Capital | 6,760,000 | 6,760,000 | 0 | 0 | 0 | 0 |
| Recurrent expenses | 6,880,000 | 0 | 295,000 | 405,000 | 295,000 | 405,000 |
| Total | 6,880,000 | 6,760,000 | 295,000 | 405,000 | 295,000 | 405,000 |

Australia provides this assistance through the Australian Defence Force to the Cook Islands through continued investment in a Pacific Patrol Boat Project. The vessel has undergone a full refit in 2014/15. Normal support for operations and project costs for infrastructure and equipment is ongoing.

15.17 Office of the Public Service Commissioner

Table 15.63 Cook Islands Technical Assistance Fund (CITAF) – New Zealand

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|------------------|------------------|----------|----------|----------|----------|
| Recurrent expenses | 2,970,000 | 1,261,000 | 0 | 0 | 0 | 0 |
| Total | 2,970,000 | 1,261,000 | 0 | 0 | 0 | 0 |

The Cook Islands Technical Assistance Fund (CITAF) has continued to address capacity and capability development needs across the Public Sector through the provision of technical assistance and training. CITAF is funded through the New Zealand Aid programme with \$2.97million approved for the period December 2011 to 30 June 2015.

As at 31 March 2015, a total of 36 projects were approved with \$2.96m committed. These include 25 completed projects at \$1.88m and 11 active projects totalling \$1.08m. Savings from completed projects were returned to CITAF and reallocated to new proposals. All active projects are to be completed by 30 June 2015.

Table 15.64 CITAF Projects and funding approved by Agency

| Agency Name | Total Projects | Total approved funding |
|---|----------------|------------------------|
| Ministry of Finance and Economic Management | 7 | 784,445 |
| Ministry of Health | 4 | 298,097 |
| Office of the Public Service Commissioner | 3 | 272,312 |
| Ministry of Education | 3 | 241,315 |
| Seabed Mining Authority | 1 | 227,391 |
| Cook Islands Audit Office | 2 | 194,615 |
| Ministry of Marine Resources | 1 | 175,604 |
| Crown Law | 1 | 134,960 |
| Office of the Prime Minister | 2 | 115,056 |
| Ministry of Internal Affairs | 5 | 98,684 |
| Financial Services Development Agency | 1 | 89,470 |
| Cook Islands Investment Corporation | 1 | 56,500 |
| Infrastructure Cook Islands | 2 | 43,200 |
| Ministry of Transport | 1 | 38,967 |
| Office of the Ombudsman | 1 | 20,000 |
| Ministry of Agriculture | 1 | 7,365 |
| CITAF Management costs | | 167,768 |
| Total | 36 | 2,965,749 |

From July 2015, public sector strengthening support will be delivered as direct budget support with incentivized payments for achieving public sector improvement targets.

15.18 Seabed Minerals Authority

Table 15.65 Minerals and Natural Resources Support – Commonwealth Secretariat

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------------|---------------|---------------|----------|----------|----------|
| Recurrent expenses | 156,000 | 83,000 | 73,000 | 0 | 0 | 0 |
| Total | 156,000 | 83,000 | 73,000 | 0 | 0 | 0 |

This funding is provided by the Commonwealth Secretariat Technical Cooperation Facility to support the Seabed Minerals Advisor's position in the Ministry of Marine Resources including salary and operational services (estimated in kind) such as:

- advisory services provided in kind; and

- support for Cook Islands application for an extended continental shelf.

Table 15.66 Deep Sea Minerals Project – Secretariat of the Pacific Community

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|-------------------|----------------|----------------|----------------|----------------|----------------|
| Recurrent expenses | 128,000 | 48,000 | 40,000 | 40,000 | 0 | 0 |
| Total | 128,000 | 48,000 | 40,000 | 40,000 | 0 | 0 |

This funding supports attendance at deep sea minerals workshops and conferences, and advisory board administration in addition to other work.

15.19 Cook Islands Red Cross Society

Table 15.67 Global Environment Facility – Small Grants Programme

| | Total cost | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|-------------------|----------------|----------------|----------------|----------------|----------------|
| Capital | | 0 | 0 | 0 | 0 | 0 |
| Recurrent expenses | 535,000 | 300,000 | 535,000 | 0 | 0 | 0 |
| Total | 535,000 | 300,000 | 535,000 | 0 | 0 | 0 |

The Global Environment Facility Small Grants Programme provides funds of up to USD 50,000 to support registered CSOs, NGOs and island communities to deliver services to vulnerable and at-risk groups in 5 areas: Biodiversity, Land Degradation, Climate Change, International Waters and Persistent Organic Pollutants.

The GEF Small Grants Programme is administered by the Cook Islands Red Cross Society, which as of 2015 is also responsible for coordinating both the GEF Small Grants Programme and the SRIC Small Grants Programme (budget included as part of SRIC).

16 Schedules

16.1 Statement of Fiscal Responsibility (Operating)

Operating Revenue and Expenditure Statement for the year ended 30 June 2016 All Values (\$'000)

| | 2014/15 Budget | 2015/16 Budget | 2016/17 Estimate | 2017/18 Forecast | 2018/19 Forecast | Variance |
|---|-------------------|-------------------|---------------------|---------------------|---------------------|----------------|
| Operating Revenue | | | | | | |
| Taxation Revenue | 101,289 | 102,914 | 103,871 | 104,624 | 106,645 | 1,625 |
| Other Crown Revenue | 17,411 | 17,932 | 14,474 | 14,346 | 14,346 | 521 |
| Trading Revenue | 5,720 | 5,720 | 5,720 | 5,720 | 5,720 | -0 |
| Interest on Loans to Subsidiaries | 684 | 684 | 702 | 676 | 676 | 0 |
| Dividends | 2,115 | 2,020 | 2,020 | 2,020 | 2,020 | -95 |
| Interest on Balances | 1,848 | 1,885 | 1,885 | 1,885 | 1,885 | 37 |
| Higher Modality Partnership | 0 | 7,910 | 8,175 | 8,130 | 0 | 7,910 |
| Higher Modality Partnership Strengthening | 0 | 1,250 | 1,350 | 1,390 | 0 | 1,250 |
| Total Operating Revenue | 129,067 | 140,315 | 138,197 | 138,790 | 131,292 | 2,088 |
| Operating Expenditure | | | | | | |
| Ministry Outputs | 65,566 | 70,850 | 70,222 | 69,808 | 65,757 | 5,284 |
| <i>Personnel</i> | 46,477 | 48,541 | 48,000 | 47,875 | 46,660 | 2,065 |
| <i>Operating</i> | 15,357 | 18,535 | 18,433 | 18,152 | 15,317 | 3,178 |
| <i>Depreciation</i> | 3,732 | 3,774 | 3,789 | 3,782 | 3,780 | 42 |
| POBOC | 47,527 | 54,594 | 51,976 | 51,060 | 45,412 | 7,067 |
| Operational Support Airport Authority | 2,048 | 2,048 | 2,048 | 2,048 | 2,048 | 0 |
| Payment to BCI for Outer Island Services | 181 | 120 | 120 | 120 | 120 | -61 |
| Concessional Loan to Vanilla Farmers (BCI) | 0 | 150 | 0 | 0 | 0 | 150 |
| Jubilee Jumpstart Primary School Saver | 0 | 230 | 0 | 0 | 0 | 230 |
| Public Sector Strengthening | 0 | 672 | 12 | 41 | 41 | 672 |
| Ports Authority –Social Responsibility Cost | 0 | 110 | 110 | 110 | 110 | 110 |
| Te Aponga Uira | 350 | 380 | 380 | 380 | 380 | 30 |
| Debt Interest Contribution to LRF | 2,227 | 2,246 | 2,246 | 2,246 | 2,246 | 19 |
| Asset Management (CIIC) | 1,800 | 1,798 | 1,798 | 1,798 | 1,798 | -2 |
| Crown Infrastructure Depreciation | 2,920 | 2,920 | 3,682 | 3,682 | 3,682 | -0 |
| Transfer to Disaster Response Trust Fund | 400 | 50 | 50 | 50 | 50 | -350 |
| Depreciation Contingency Fund | 3,100 | 2,453 | 3,973 | 3,978 | 3,974 | -647 |
| Disaster/ Contingency Operating Expenses | 190 | 100 | 100 | 100 | 100 | -90 |
| Total Operating Expenses | 126,310 | 138,721 | 136,718 | 135,423 | 125,719 | 17,696 |
| Underlying Operating Surplus/(Shortfall) | 2,759 | 1,594 | 1,479 | 3,368 | 5,573 | -15,608 |

16.2 Statement of Fiscal Responsibility (Non-Operating)

Financing and Applications Statement for the year ended 30 June 2016 All Values (\$'000)

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Variance |
|---|----------------|----------------|----------------|----------------|----------------|---------------|
| | Budget | Budget | Forecast | Forecast | Forecast | |
| Reductions in Net Borrowings | | | | | | |
| Loan Disbursements | -6,452 | -9,485 | -12,714 | 0 | 0 | -3,033 |
| Loan Reserve Fund | 5,067 | 5,739 | 5,762 | 5,765 | 5,718 | 673 |
| | -1,385 | -3,746 | -6,952 | 5,765 | 5,718 | -2,360 |
| Capital Expenditures | | | | | | |
| Ministries and Outer Islands (Including CIIC Capital) | 17,028 | 23,617 | 17,267 | 8,912 | 3,915 | 6,589 |
| <i>Infrastructure Capital Investment in SOEs</i> | 0 | 0 | 0 | 0 | 0 | 0 |
| Airport Authority | 0 | 0 | 0 | 0 | 0 | 0 |
| Contingency | 50 | 50 | 50 | 50 | 50 | 0 |
| | 17,078 | 23,667 | 17,317 | 8,962 | 3,965 | 6,589 |
| Foreign Aid | | | | | | |
| Receipts | -63,693 | -49,115 | -46,485 | -26,139 | -5,547 | 14,578 |
| Expenditure | 63,693 | 49,115 | 46,485 | 26,139 | 5,547 | -14,578 |
| | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Committed Considerations | | | | | | |
| Expenditure of ADB Loans | 0 | 3,245 | 9,735 | 0 | 0 | 3,245 |
| Expenditure of China Loans (TMV) | 6,452 | 6,240 | 2,979 | 0 | 0 | -212 |
| Increase in Reserve Trust Fund | 506 | 515 | 519 | 523 | 533 | 8 |
| ADB Share Capital | 27 | 0 | 0 | 0 | 0 | -27 |
| Disaster Response Fund | 400 | 50 | 50 | 50 | 50 | -350 |
| | 7,385 | 10,050 | 13,283 | 573 | 583 | 2,665 |
| | | | | | | 0 |
| Total Non-Operating balance | -23,077 | -29,970 | -23,648 | -15,300 | -10,266 | -6,893 |
| | | | | | | 0 |
| To be Funded by | | | | | | |
| Operating Surplus | 2,759 | 1,594 | 1,479 | 3,368 | 5,573 | -1,165 |
| Depreciation | 9,752 | 9,147 | 11,444 | 11,442 | 11,436 | -605 |
| Unencumbered Cash Reserves | 3,595 | 11,638 | 4,913 | -5,325 | -12,510 | 8,043 |
| Contribution to Loan Reserve Fund | 5,067 | 5,739 | 5,762 | 5,765 | 5,718 | 673 |
| Economic Recovery Support Program | 1,505 | 1,802 | 0 | 0 | 0 | 297 |
| Transfer to Emergency Response Trust Fund | 400 | 50 | 50 | 50 | 50 | -350 |
| Total Funding Items | 23,078 | 29,970 | 23,648 | 15,301 | 10,266 | 6,892 |
| Net Surplus/Shortfall | 0 | 0 | 0 | 0 | 0 | 0 |

16.3 Schedule 1 – Ministry Appropriations

| Ministry | Personnel | Operating | Depreciation | Gross Operating Appropriation | Trading Revenue | Net Operating Appropriation | POBOCS | Capital Expenditure | Total Gross Appropriation | Total Net Appropriation |
|--|-------------------|-------------------|------------------|----------------------------------|--------------------|--------------------------------|-------------------|------------------------|------------------------------|----------------------------|
| Agriculture | 868,653 | 124,643 | 5,035 | 998,330 | 90,535 | 907,795 | 0 | 0 | 998,330 | 907,795 |
| Audit (PERCA) | 895,440 | 100,180 | 26,678 | 1,022,298 | 178,700 | 843,598 | 138,100 | 0 | 1,160,398 | 981,698 |
| Crown Law | 493,054 | 214,100 | 5,983 | 713,137 | 0 | 713,137 | 0 | 0 | 713,137 | 713,137 |
| Cultural Development | 545,601 | 193,782 | 96,655 | 836,038 | 175,000 | 661,038 | 200,500 | 0 | 1,036,538 | 861,538 |
| Business Trade and Investment Board | 414,486 | 232,574 | 9,000 | 656,060 | 23,380 | 632,680 | 0 | 0 | 656,060 | 632,680 |
| Education | 10,844,690 | 3,513,301 | 362,364 | 14,720,355 | 0 | 14,720,355 | 4,221,882 | 448,000 | 19,390,237 | 19,390,237 |
| Environment | 790,683 | 158,724 | 30,381 | 979,788 | 35,000 | 944,788 | 50,000 | 0 | 1,029,788 | 994,788 |
| Finance and Economic Management | 2,804,359 | 688,439 | 128,530 | 3,621,328 | 503,500 | 3,117,828 | 18,861,831 | 7,411,000 | 29,894,160 | 29,390,660 |
| Financial Services Development Authority | 235,200 | 177,906 | 9,867 | 422,973 | 0 | 422,973 | 0 | 0 | 422,973 | 422,973 |
| Foreign Affairs | 1,182,596 | 542,151 | 77,726 | 1,802,473 | 20,000 | 1,782,473 | 620,166 | 0 | 2,422,639 | 2,402,639 |
| Head Of State | 185,168 | 34,080 | 15,057 | 234,305 | 0 | 234,305 | 15,000 | 0 | 249,305 | 249,305 |
| Health | 8,337,307 | 2,506,330 | 654,788 | 11,498,425 | 400,000 | 11,098,425 | 1,646,870 | 525,000 | 13,670,295 | 13,270,295 |
| Infrastructure Cook Islands | 1,615,670 | 303,351 | 241,596 | 2,160,617 | 295,626 | 1,864,991 | 645,000 | 9,458,500 | 12,264,117 | 11,968,491 |
| Internal Affairs | 940,109 | 113,085 | 17,264 | 1,070,457 | 6,000 | 1,064,457 | 18,620,788 | 100,000 | 19,791,245 | 19,785,245 |
| Justice | 1,442,361 | 399,371 | 118,047 | 1,959,779 | 500,000 | 1,459,779 | 217,000 | 0 | 2,176,779 | 1,676,779 |
| Marine Resources | 1,135,833 | 345,125 | 57,318 | 1,538,276 | 15,000 | 1,523,276 | 300,000 | 0 | 1,838,276 | 1,823,276 |
| Ombudsman | 210,382 | 63,840 | 5,822 | 280,044 | 0 | 280,044 | 0 | 0 | 280,044 | 280,044 |
| Parliamentary Services | 472,676 | 79,611 | 24,579 | 576,866 | 8,419 | 568,447 | 2,560,446 | 0 | 3,137,312 | 3,128,893 |
| Pearl Authority | 208,493 | 234,688 | 21,916 | 465,097 | 0 | 465,097 | 0 | 0 | 465,097 | 465,097 |
| Police | 2,924,739 | 495,663 | 218,622 | 3,639,024 | 69,360 | 3,569,664 | 255,000 | 0 | 3,894,024 | 3,824,664 |
| Prime Minister's Office | 980,638 | 216,849 | 36,069 | 1,233,556 | 0 | 1,233,556 | 550,000 | 805,000 | 2,588,556 | 2,588,556 |
| Public Service Commission | 1,618,708 | 52,447 | 81,747 | 1,752,902 | 0 | 1,752,902 | 0 | 0 | 1,752,902 | 1,752,902 |
| Tourism Corporation | 1,426,893 | 3,027,553 | 16,000 | 4,470,446 | 352,000 | 4,118,446 | 5,100,000 | 0 | 9,570,446 | 9,218,446 |
| Transport | 486,465 | 135,964 | 39,047 | 661,476 | 36,000 | 625,476 | 56,000 | 0 | 717,476 | 681,476 |
| Cook Islands Investment Corporation | 0 | 0 | 0 | 0 | 0 | 0 | 535,000 | 3,544,000 | 4,079,000 | 4,079,000 |
| Cook Islands Seabed Minerals Authority | 236,801 | 72,139 | 5,060 | 314,000 | 0 | 314,000 | 0 | 0 | 314,000 | 314,000 |
| Capital Funds Committee- Administered by MFEM | 0 | 0 | 45,000 | 45,000 | 0 | 45,000 | 0 | 300,000 | 345,000 | 345,000 |
| Total Ministries | 41,297,003 | 14,025,895 | 2,350,151 | 57,673,048 | 2,708,520 | 54,964,528 | 54,593,584 | 22,591,500 | 134,858,132 | 132,149,612 |
| Ministerial Support | | | | | | | | | | |
| Prime Minister | 293,509 | 109,773 | 11,100 | 414,382 | 0 | 414,382 | 0 | 0 | 414,382 | 414,382 |

| Ministry | Personnel | Operating | Depreciation | Gross Operating Appropriation | Trading Revenue | Net Operating Appropriation | POBOCS | Capital Expenditure | Total Gross Appropriation | Total Net Appropriation |
|---|-------------------|-------------------|------------------|----------------------------------|--------------------|--------------------------------|-------------------|------------------------|------------------------------|----------------------------|
| Deputy Prime Minister | 130,000 | 85,372 | 5,628 | 221,000 | 0 | 221,000 | 0 | 0 | 221,000 | 221,000 |
| Minister Mark Brown | 196,455 | 81,613 | 6,802 | 284,870 | 0 | 284,870 | 0 | 0 | 284,870 | 284,870 |
| Minister Kiriau Turepu | 122,907 | 56,931 | 11,162 | 191,000 | 0 | 191,000 | 0 | 0 | 191,000 | 191,000 |
| Minister Nandi Glassie | 101,585 | 78,415 | 12,000 | 192,000 | 0 | 192,000 | 0 | 0 | 192,000 | 192,000 |
| Minister Albert Nicholas | 68,500 | 116,000 | 5,500 | 190,000 | 0 | 190,000 | 0 | 0 | 190,000 | 190,000 |
| Leader Of Opposition | 147,000 | 48,200 | 6,800 | 202,000 | 0 | 202,000 | 0 | 0 | 202,000 | 202,000 |
| Total Ministerial Support Offices | 1,059,956 | 576,304 | 58,992 | 1,695,252 | 0 | 1,695,252 | 0 | 0 | 1,695,252 | 1,695,252 |
| Outer Islands | | | | | | | | | | |
| Aitutaki | 1,078,767 | 491,578 | 143,884 | 1,714,229 | 48,250 | 1,665,979 | 0 | 931,000 | 2,645,229 | 2,596,979 |
| Autitaki Power Supply | 254,316 | 1,608,228 | 348,789 | 2,211,333 | 1,900,943 | 310,390 | 0 | 0 | 2,211,333 | 310,390 |
| Atiu | 671,621 | 404,678 | 138,561 | 1,214,860 | 224,318 | 990,542 | 0 | 12,000 | 1,226,860 | 1,002,542 |
| Mangaia | 783,799 | 539,982 | 204,700 | 1,528,481 | 301,000 | 1,227,481 | 0 | 12,000 | 1,540,481 | 1,239,481 |
| Manihiki | 608,465 | 173,741 | 92,199 | 874,406 | 136,300 | 738,106 | 0 | 10,000 | 884,406 | 748,106 |
| Mauke | 623,522 | 206,471 | 80,877 | 910,870 | 113,853 | 797,017 | 0 | 10,000 | 920,870 | 807,017 |
| Mitiaro | 475,163 | 66,586 | 55,200 | 596,948 | 58,899 | 538,049 | 0 | 8,000 | 604,948 | 546,049 |
| Palmerston | 250,130 | 65,614 | 42,000 | 357,743 | 20,599 | 337,144 | 0 | 10,000 | 367,743 | 347,144 |
| Penrhyn | 351,717 | 205,023 | 52,407 | 609,146 | 83,904 | 525,242 | 0 | 12,000 | 621,146 | 537,242 |
| Pukapuka-Nassau | 701,990 | 146,452 | 140,552 | 988,994 | 73,695 | 915,299 | 0 | 12,000 | 1,000,994 | 927,299 |
| Rakahanga | 384,960 | 24,285 | 37,829 | 447,074 | 49,336 | 397,738 | 0 | 8,000 | 455,074 | 405,738 |
| Outer Islands Capital Fund- Administered by MFEM | 0 | 0 | 27,500 | 27,500 | 0 | 27,500 | 0 | 0 | 27,500 | 27,500 |
| Total Outer Islands | 6,184,448 | 3,932,640 | 1,364,497 | 11,481,585 | 3,011,097 | 8,470,488 | 0 | 1,025,000 | 12,506,585 | 9,495,488 |
| Gross Total | 48,541,407 | 18,534,838 | 3,773,640 | 70,849,885 | 5,719,617 | 65,130,268 | 54,593,584 | 23,616,500 | 149,059,969 | 143,340,352 |

16.4 Schedule 2 – Benefits and Other Unrequited Expenses

| Category of Benefit | Budget Estimate | Budget Estimate | Variance |
|---|-------------------|-------------------|----------------|
| | 2014/15 | 2015/16 | |
| Welfare Payments | 16,541,348 | 16,967,788 | 426,440 |
| Parliamentary Superannuation | 180,000 | 180,000 | 0 |
| Total Benefits and Other Unrequited Expenses | 16,721,348 | 17,147,788 | 426,440 |

16.5 Schedule 3 – Borrowing Expenses and Debt Repayment

| | Budget Estimate | Budget Estimate | Variance |
|--|------------------|------------------|------------------|
| | 2014/15 | 2015/16 | |
| Gross Debt Servicing (see Schedule 10) | 5,424,736 | 4,676,468 | - 748,268 |
| Total Borrowing Expenses and Debt Repayment | 5,424,736 | 4,676,468 | - 748,268 |

16.6 Schedule 4 – Other Expenses

| Category of Expense | Budget Estimate | Budget Estimate | Variance |
|--|-------------------|-------------------|--------------------|
| | 2014/15 | 2015/16 | |
| Airport Authority | 2,047,997 | 2,047,997 | 0 |
| Bank of the Cook Islands | 181,000 | 120,000 | -61,000 |
| Te Aponga Uira | 350,000 | 380,000 | 30,000 |
| Ports Authority | 0 | 110,099 | 110,099 |
| Asset Management (CIIC) | 1,800,000 | 1,798,000 | -2,000 |
| Contingency Funds - Capital Expenditure | 50,000 | 50,000 | 0 |
| Contingency Funds - Operating | 100,000 | 100,000 | 0 |
| Crown Infrastructure Depreciation | 2,920,397 | 2,920,397 | 0 |
| Concessional Loan to Vanilla Farmers (BCI) | 0 | 150,000 | 150,000 |
| Cook Islands Primary Schools 50 year Saver | 0 | 230,000 | 230,000 |
| Public Sector Strengthening | 0 | 672,000 | 672,000 |
| Expenditure of ADB Loan | 3,245,000 | 3,245,000 | 0 |
| Expenditure of Chinese Loans (TMV) | 6,452,000 | 6,240,000 | -212,000 |
| Overseas Development Assistance | 63,693,150 | 49,115,200 | -14,577,950 |
| ADB Share Capital | 26,600 | 0 | -26,600 |
| Transfer to Emergency Response Trust Fund | 400,000 | 50,000 | -350,000 |
| Transfer to Reserve Trust Fund | 506,445 | 514,570 | 8,125 |
| Depreciation Contingency Fund | 3,100,000 | 2,490,000 | -610,000 |
| Debt Interest Contribution to LRF | 2,227,247 | 2,246,275 | 19,028 |
| Total Other Expenses | 87,099,837 | 72,479,539 | -14,620,298 |

16.7 Schedule 5 – Summary

| Category of Payment | Budget Estimate | Budget Estimate | Variance |
|---|--------------------|--------------------|------------------|
| | 2014/15 | 2015/16 | |
| Schedule 1 - Ministry Outputs (Gross), POBOCs and Capital Expenditure (less the POBOCs in Schedule 2) | 114,001,010 | 131,912,181 | 17,911,171 |
| Schedule 2 - Benefits and Other Unrequited Expenses | 16,721,348 | 17,147,788 | 426,440 |
| Schedule 3 - Borrowing Expenses and Debt repayment | 5,424,736 | 4,676,468 | -748,268 |
| Schedule 4 - Other Expenses | 87,099,837 | 72,479,539 | -14,620,298 |
| TOTAL APPROPRIATION | 223,246,931 | 226,215,975 | 2,969,044 |

16.8 Schedule 6 – Capital Schedule

| MINISTRY | PROJECT/PROGRAMME | 2014/15 Committed Spend | 2015/16 Budget Estimate | 2016/17 Budget Estimate | 2017/18 Budget Estimate | 2018/19 Budget Estimate | 5-Year 2014- 2019 |
|--|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------|
| Aitutaki Island Council | | 304,000 | 915,000 | 0 | 0 | 0 | 1,915,000 |
| | Aitutaki Fuel Storage Facility | 258,000 | 0 | 0 | 0 | 0 | 658,000 |
| | Aitutaki Mini Transformers | 13,000 | 0 | 0 | 0 | 0 | 205,000 |
| | Aitutaki road sealing | 0 | 915,000 | 0 | 0 | 0 | 915,000 |
| | Aitutaki Water Pumps (Vaipeka, Tautu, Vaipae) | 33,000 | 0 | 0 | 0 | 0 | 137,000 |
| Cook Islands Investment Corporation | | 1,410,000 | 3,544,000 | 1,400,000 | 750,000 | 250,000 | 17,140,000 |
| | Apii Nikao design, demolition, construction supervision and quality assurance | 780,000 | 384,000 | 250,000 | 0 | 0 | 4,242,000 |
| | Asset Management Information System | 253,000 | 0 | 0 | 0 | 0 | 759,000 |
| | Provision for land rent reviews | 0 | 500,000 | 500,000 | 500,000 | 0 | 1,500,000 |
| | Mangaia School Bus | 73,000 | 0 | 0 | 0 | 0 | 233,000 |
| | Orongo Development Master Plan and Centre reconstruction (Ports Authority) | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 2,112,000 |
| | Pa Enua Renewable Energy Projects-Land Acquisition | 10,000 | 1,410,000 | 400,000 | 0 | 0 | 6,144,000 |
| | Pukapuka Hospital Reconstruction | 0 | 500,000 | 0 | 0 | 0 | 1,500,000 |
| | Renovations Cook Islands High Commission (Wellington) | 44,000 | 0 | 0 | 0 | 0 | 150,000 |
| | Te Mato Vai - Land acquisition for water intakes | 0 | 500,000 | 0 | 0 | 0 | 500,000 |
| Education | | 155,000 | 448,000 | 448,000 | 360,000 | 110,000 | 3,063,000 |
| | Fund to be Prioritised by Education | 110,000 | 360,000 | 360,000 | 360,000 | 110,000 | 2,400,000 |
| | ICT upgrades (computers & laptops) | 45,000 | 88,000 | 88,000 | 0 | 0 | 663,000 |
| Health | | 1,160,000 | 525,000 | 275,000 | 275,000 | 275,000 | 6,328,000 |
| | Cobas e411 Immuno Assay Analyser | 85,000 | 0 | 0 | 0 | 0 | 255,000 |
| | Fund to be Prioritised by Health for Technical Equipment | 275,000 | 275,000 | 275,000 | 275,000 | 275,000 | 4,123,000 |
| | Haematology Instrument | 120,000 | 0 | 0 | 0 | 0 | 120,000 |
| | ICT (laptops and equipment) upgrades | 150,000 | 0 | 0 | 0 | 0 | 450,000 |
| | Laparoscope Machine | 200,000 | 0 | 0 | 0 | 0 | 600,000 |
| | New Hospital Pharmacy Warehouse fit-out | 100,000 | 0 | 0 | 0 | 0 | 300,000 |
| | Oxygen Plant Overhaul | 170,000 | 0 | 0 | 0 | 0 | 170,000 |
| | Ultrasound Machine | 60,000 | 0 | 0 | 0 | 0 | 60,000 |
| | Theatre bed | 0 | 250,000 | 0 | 0 | 0 | 250,000 |
| Infrastructure Cook Islands | | 7,789,500 | 9,458,500 | 2,937,000 | 3,350,000 | 2,670,000 | 83,369,000 |
| | Atiu Airport Runway Stabilisation | 142,000 | 858,000 | 0 | 0 | 0 | 3,000,000 |
| | Atiu Crusher | 540,000 | 102,000 | 0 | 0 | 0 | 1,642,000 |

| MINISTRY | PROJECT/PROGRAMME | 2014/15 Committed Spend | 2015/16 Budget Estimate | 2016/17 Budget Estimate | 2017/18 Budget Estimate | 2018/19 Budget Estimate | 5-Year 2014- 2019 |
|--|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------|
| | Atiu Tipper Truck | 100,000 | 0 | | 0 | 0 | 100,000 |
| | Bitumen Truck | 0 | 120,000 | 0 | 0 | 0 | 120,000 |
| | Bridges & Drainage | 355,000 | 1,500,000 | 227,000 | 0 | 0 | 7,082,000 |
| | Development of Punanga Nui Coastal Area - ADB ERSP | 40,000 | 0 | 0 | 0 | 0 | 142,000 |
| | Mangaia Water and Roads | 80,000 | 100,000 | 0 | 0 | 0 | 540,000 |
| | Manihiki Harbours | 800,000 | 100,000 | 0 | 0 | 0 | 6,980,000 |
| | Manihiki Lagoon Dredging | 0 | 0 | 0 | 0 | 0 | 100,000 |
| | Mauke Manea Games | 53,000 | 0 | 0 | 0 | 0 | 329,000 |
| | Mitiaro Airport Repairs | 131,000 | 0 | 0 | 0 | 0 | 361,000 |
| | Muri Road Widening (including Aroko) | 100,000 | 335,000 | 0 | 0 | 0 | 1,305,000 |
| | National Incinerator Feasibility Study | 0 | 150,000 | 0 | 0 | 0 | 450,000 |
| | Pa Enuā Machinery Shelters | 0 | 500,000 | 0 | 0 | 0 | 500,000 |
| | Portable Incinerator | 0 | 0 | 0 | 0 | 0 | 170,000 |
| | Project City Project Management Unit | 365,000 | 62,000 | 0 | 0 | 0 | 427,000 |
| | Project City Stage 1 - ADB ERSP | 0 | 0 | 0 | 0 | 0 | 622,000 |
| | Project City Stage 2 - ADB ERSP | 100,000 | 0 | 0 | 0 | 0 | 1,278,000 |
| | Project City Stage 3 - ADB ERSP | 3,091,500 | 3,091,500 | 0 | 0 | 0 | 16,183,000 |
| | Pukapuka Bobcat | 81,000 | 0 | 0 | 0 | 0 | 245,000 |
| | Rakahanga Harbour Improvement (feasibility study) | 60,000 | 0 | 0 | 0 | 0 | 180,000 |
| | Road Network Maintenance | 430,000 | 430,000 | 430,000 | 430,000 | 430,000 | 5,664,000 |
| | Rutaki Foreshore Rock Revetment | 0 | 200,000 | 0 | 0 | 0 | 5,200,000 |
| | Sanitation Upgrade Programme | 750,000 | 1,410,000 | 1,780,000 | 2,420,000 | 1,740,000 | 22,990,000 |
| | Tereora/Tepuka Enviro-Flow | 3,000 | 0 | 0 | 0 | 0 | 79,000 |
| | Vaimaru Water Upgrade | 68,000 | 0 | 0 | 0 | 0 | 620,000 |
| | Water Network Maintenance | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 7,060,000 |
| Internal Affairs | | 50,000 | 100,000 | 50,000 | 50,000 | 50,000 | 700,000 |
| | Internal Affairs Tipper Truck | 0 | 50,000 | 0 | 0 | 0 | 50,000 |
| | Vaka Maintenance Capital Projects | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 650,000 |
| Marine Resources | Central Laboratory | 0 | 0 | 500,000 | 0 | 0 | 500,000 |
| Ministry of Finance and Economic Management | | | 4,069,000 | 7,411,000 | 11,597,000 | 3,567,000 | 0 |
| | China Grant Heavy Machinery & Pearl Equipment Freight, Training & Inspections | 1,800,000 | 500,000 | 0 | 0 | 0 | 4,300,000 |
| | CIGov Procurement Website - ADB ERSP | 50,000 | 100,000 | 0 | 0 | 0 | 450,000 |
| | Government IT Network | 150,000 | 100,000 | 0 | 0 | 0 | 980,000 |
| | Rarotonga Watertank Subsidy - ADB ERSP | 609,000 | 207,000 | 0 | 0 | 0 | 6,366,000 |
| | RMS Web Lodgement System | 275,000 | 300,000 | 0 | 0 | 0 | 1,169,000 |
| | Te Mato Vai - Rarotonga Water Upgrade | 1,185,000 | 6,204,000 | 11,597,000 | 3,567,000 | 0 | 64,147,000 |

| MINISTRY | PROJECT/PROGRAMME | 2014/15 Committed Spend | 2015/16 Budget Estimate | 2016/17 Budget Estimate | 2017/18 Budget Estimate | 2018/19 Budget Estimate | 5-Year 2014- 2019 |
|---------------------------------|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------|
| Office Of Prime Minister | | 1,626,000 | 805,000 | 250,000 | 250,000 | 250,000 | 9,387,000 |
| | Atiu Power Distribution | 300,000 | 105,000 | 0 | 0 | 0 | 1,297,000 |
| | Atiu water distribution mains | 0 | 450,000 | 0 | 0 | 0 | 450,000 |
| | Manihiki and Penrhyn Electrical Distribution and Meters | 122,000 | 0 | 0 | 0 | 0 | 566,000 |
| | Mitiaro Generator, Powerhouse Relocation | 0 | 0 | 0 | 0 | 0 | 560,000 |
| | Nassau New Generator Set and Powerline Upgrade | 35,000 | 0 | 0 | 0 | 0 | 99,000 |
| | Northern Group Wiring Upgrades and Certification | 500,000 | 0 | 0 | 0 | 0 | 1,900,000 |
| | Palmerston New Generator Set and Powerline Upgrade | 22,000 | 0 | 0 | 0 | 0 | 66,000 |
| | Penrhyn New Generator Set and Powerline Upgrade | 56,000 | 0 | 0 | 0 | 0 | 168,000 |
| | Pukapuka New Generator Set and Powerline Upgrade | 46,000 | 0 | 0 | 0 | 0 | 138,000 |
| | Rakahanga New Generator Set and Powerline Upgrade | 95,000 | 0 | 0 | 0 | 0 | 285,000 |
| | Rakahanga New Generator Set and Powerline Upgrade | 0 | 0 | 0 | 0 | 0 | 190,000 |
| | Renewable Management Project Management and Support | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 3,468,000 |
| | Tractors for Northern Group | 200,000 | 0 | 0 | 0 | 0 | 200,000 |
| Police | | 154,000 | 0 | 0 | 0 | 0 | 462,000 |
| | Search and rescue boat | 59,000 | 0 | 0 | 0 | 0 | 177,000 |
| | Te Kukupa Refit | 95,000 | 0 | 0 | 0 | 0 | 285,000 |
| MINISTRY TOTAL | | 16,717,500 | 23,206,500 | 16,957,000 | 8,602,000 | 3,605,000 | 199,776,000 |
| | Capital Funds Administered BY MFEM | 310,000 | 410,000 | 310,000 | 310,000 | 310,000 | 1,650,000 |
| | Capital Distribution Fund | 200,000 | 300,000 | 200,000 | 200,000 | 200,000 | 1,100,000 |
| | Outer Islands Small Capital Fund | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 | 550,000 |
| GRAND TOTAL | | 17,027,500 | 23,616,500 | 17,267,000 | 8,912,000 | 3,915,000 | 201,426,000 |

16.9 Schedule 7 – Revenues on Behalf of the Crown (ROBOCs)

| | 2014/15 Estimated Budget Outcome | 2014/15 Estimate | 2015/16 Budget Estimate | 2016/17 Budget Estimate | 2017/18 Budget Estimate | 2018/19 Budget Estimate | Variance |
|--|--|---------------------|----------------------------|----------------------------|----------------------------|----------------------------|------------------|
| Taxation Revenue | | | | | | | |
| VAT | 45,614,273 | 49,063,280 | 50,315,624 | 50,601,208 | 50,854,307 | 51,597,925 | 1,252,344 |
| Income tax | 16,657,643 | 21,897,036 | 22,201,268 | 21,896,350 | 21,881,460 | 22,291,920 | 304,232 |
| Company tax | 9,517,024 | 11,186,645 | 10,625,126 | 11,204,492 | 11,274,896 | 11,490,378 | -561,519 |
| Import levies | 10,315,180 | 11,098,651 | 11,955,549 | 12,153,628 | 12,362,323 | 12,738,384 | 856,898 |
| Withholding tax | 428,221 | 388,000 | | | | 0 | -388,000 |
| Departure tax | 7,338,424 | 7,655,484 | 7,816,510 | 8,014,842 | 8,251,177 | 8,526,784 | 161,026 |
| Total | 89,870,765 | 101,289,097 | 102,914,077 | 103,870,520 | 104,624,162 | 106,645,391 | 1,624,980 |
| Other Crown Revenue | | | | | | | |
| Financial Services Development Authority | 238,910 | 276,296 | 262,065 | 262,065 | 262,065 | 262,065 | -14,231 |
| FSC Vested Assets | 555,684 | 500,000 | 260,000 | 0 | 0 | 0 | -240,000 |
| Immigration Fees | 595,450 | 587,221 | 583,512 | 583,512 | 583,512 | 583,512 | -3,709 |
| IMO Subscription - Maritime Cook Islands | 63,461 | 63,461 | 63,461 | 63,461 | 63,461 | 63,461 | 0 |
| Court Services | 47,505 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 0 |
| Instant Fines | 22,848 | 65,000 | 20,000 | 20,000 | 20,000 | 20,000 | -45,000 |
| Fishing Licences | 7,027,757 | 5,566,000 | 3,807,000 | 7,538,000 | 7,538,000 | 5,538,000 | -1,759,000 |
| Fisheries Catch Revenue | 1,777,480 | 1,700,000 | 1,700,000 | 1,700,000 | 1,700,000 | 1,700,000 | 0 |
| Fisheries - US Treaties (purse seing) | 1,045,947 | 4,280,000 | 4,280,000 | 780,000 | 780,000 | 780,000 | 0 |
| Fishing Fines | 1,224,934 | 1,225,000 | 0 | 0 | 0 | - | -1,225,000 |
| Research Fees | 2,113 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 0 |
| Permits | 14,994 | 55,816 | 24,000 | 24,000 | 24,000 | 24,000 | -31,816 |
| Banana Court - dividend | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 0 |
| Bank of the Cook Islands - dividend | 557,053 | 557,053 | 481,000 | 481,000 | 481,000 | 481,000 | -76,053 |
| Ports Authority - dividend | 0 | 0 | 0 | 0 | 0 | - | 0 |
| Punganga Nui Market - dividend | 0 | 0 | 0 | 0 | 0 | - | 0 |
| Te Aponga Uira - dividend | 337,800 | 337,800 | 319,190 | 319,190 | 319,190 | 319,190 | -18,610 |
| Extraordinary SOE Dividends | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 | 0 |
| Telecom Cook Islands - dividend | 1,150,000 | 1,150,000 | 1,150,000 | 1,150,000 | 1,150,000 | 1,150,000 | 0 |
| Numismatics | 222,531 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 0 |
| Drivers Licences | 119,224 | 350,000 | 180,000 | 180,000 | 180,000 | 180,000 | -170,000 |
| Motor Vehicle Registration | 971,951 | 775,000 | 875,000 | 875,000 | 875,000 | 875,000 | 100,000 |
| Interest on balances | 1,521,027 | 1,848,000 | 1,885,000 | 1,885,000 | 1,885,000 | 1,885,000 | 37,000 |
| Interest on loans to subsidiaries | 684,357 | 684,357 | 684,357 | 702,211 | 675,595 | 675,595 | 0 |
| Foreign Investment Fees | 22,346 | 20,149 | 25,725 | 25,725 | 25,725 | 25,725 | 5,576 |
| Upper Air Management Agreement | 497,996 | 497,996 | 510,446 | 510,446 | 510,446 | 510,446 | 12,450 |

| | 2014/15 Estimated Budget Outcome | 2014/15 Estimate | 2015/16 Budget Estimate | 2016/17 Budget Estimate | 2017/18 Budget Estimate | 2018/19 Budget Estimate | Variance |
|---|---|-----------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|-------------------|
| Shipping Registration | 57,938 | 130,000 | 231,000 | 231,000 | 150,000 | 150,000 | 101,000 |
| International Shipping Licence | 15,000 | 15,000 | 10,000 | 10,000 | 10,000 | 10,000 | -5,000 |
| Liquor Licencing | 25,290 | 26,000 | 30,000 | 30,000 | 30,000 | 30,000 | 4,000 |
| Tattslotto Grants | 119,537 | 143,000 | 120,000 | 120,000 | 120,000 | 120,000 | -23,000 |
| Censorship Fees | 4,586 | 12,000 | 12,000 | 12,000 | 12,000 | 12,000 | 0 |
| Circulating Currency - Coins | 205,000 | 205,000 | 100,000 | 100,000 | 100,000 | 100,000 | -105,000 |
| Sale of NZ coins | 0 | 0 | 961,000 | 0 | 0 | 0 | 961,000 |
| Sale of Circulating Currency Cook Islands Coins | 0 | 0 | 3,141,600 | 809,200 | 761,600 | 761,600 | 3,141,600 |
| Smelting of Old Coins | 0 | 0 | 135,000 | 0 | 0 | 0 | 135,000 |
| Employer Liabilities | 20,000 | 20,000 | 44,000 | 44,000 | 44,000 | 44,000 | 24,000 |
| Motor Vehicle Dealers | 3,370 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 0 |
| Justice Unclaimed Rental Monies | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Higher Modality Partnership NZ | 0 | 0 | 7,910,000 | 8,175,000 | 8,130,000 | 0 | 7,910,000 |
| Public Sector Strengthening-processes and systems MFEM | 0 | 0 | 1,250,000 | 1,350,000 | 1,390,000 | 0 | 1,250,000 |
| Total Other | 19,222,089 | 21,716,149 | 31,681,356 | 28,606,810 | 28,446,594 | 18,926,594 | 9,965,207 |
| Total Crown Receipts | 109,092,854 | 123,005,246 | 134,595,433 | 132,477,330 | 133,070,756 | 125,571,985 | 11,590,187 |

16.10 Schedule 8 – Payments on Behalf of Crown (POBOCs)

| Administering Ministry | POBOC | Estimated Spend 2014/15 | Budget Estimate 2014/15 | Budget Estimate 2015/16 | Budget Estimate 2016/17 | Budget Estimate 2017/18 | Budget Estimate 2018/19 | Variance |
|-------------------------------------|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|------------------|
| Compensation of Employees | | | | | | | | |
| Cook Islands Investment Corporation | Infrastructure Committee | 74,820 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 0 |
| Cook Islands Investment Corporation | Establishment of an SOE to manage Consortia on Deep Sea Minerals Harvesting | 0 | 40,000 | 175,000 | 175,000 | 175,000 | 175,000 | 135,000 |
| Finance & Economic Management | Parliamentary Superannuation | 139,582 | 180,000 | 180,000 | 180,000 | 180,000 | 180,000 | 0 |
| Finance & Economic Management | National Heritage Trust | 80,063 | 82,241 | 82,241 | 82,241 | 82,241 | 82,241 | 0 |
| Finance & Economic Management | Public Sector Strengthening-processes and systems MFEM | 0 | 0 | 1,250,000 | 1,350,000 | 1,390,000 | 0 | 1,250,000 |
| Audit | Transfer of PERC Salaries and Administration Costs | 41,584 | 42,500 | 42,500 | 42,500 | 42,500 | 42,500 | 0 |
| Internal Affairs | Price Tribunal | 17,818 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 0 |
| Justice | Judges Allowances | 166,836 | 177,000 | 177,000 | 177,000 | 177,000 | 177,000 | 0 |
| Parliamentary Services | Civil List - Personnel | 1,999,181 | 2,104,630 | 1,819,630 | 1,819,630 | 1,819,630 | 1,819,630 | -285,000 |
| Parliamentary Services | House of Ariki | 215,385 | 226,341 | 176,341 | 176,341 | 176,341 | 176,341 | -50,000 |
| Public Service Commission | HOM's Salaries | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cook Islands Investment Corporation | School Security | 250,000 | 285,000 | 250,000 | 100,000 | 100,000 | 100,000 | -35,000 |
| Transport | Director of Civil Aviation | 97,654 | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 | 0 |
| | | 3,082,922 | 3,298,712 | 4,313,712 | 4,263,712 | 4,303,712 | 2,913,712 | 1,015,000 |
| Use of Goods and Services | | | | | | | | |
| Audit | Audit Fees | 58,800 | 95,600 | 95,600 | 95,600 | 95,600 | 95,600 | 0 |
| Crown Law | Operation Eagle Defendants | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cultural Development | Te Maeva Nui Constitution Celebrations | 350,717 | 450,500 | 200,500 | 722,500 | 722,500 | 722,500 | -250,000 |
| Cook Islands Investment Corporation | Hosting Te Maeva Nui participants at schools | 0 | 485,000 | 35,000 | 0 | 0 | 0 | -450,000 |
| Cultural Development | Te Maeva Nui temp structure | | 310,000 | | 0 | 0 | 0 | -310,000 |
| Cook Islands Investment Corporation | Apii Nikao Support | 0 | 25,000 | 0 | 0 | 0 | 0 | -25,000 |
| Education | Tertiary Training Institutions | 759,855 | 759,855 | 759,855 | 759,855 | 759,855 | 759,855 | 0 |
| Finance & Economic Management | Audit of Crown Accounts | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 0 |

| Administering Ministry | POBOC | Estimated Spend 2014/15 | Budget Estimate 2014/15 | Budget Estimate 2015/16 | Budget Estimate 2016/17 | Budget Estimate 2017/18 | Budget Estimate 2018/19 | Variance |
|---------------------------------|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------|
| Finance & Economic Management | National Superannuation Fund | 286,446 | 283,048 | 268,896 | 255,450 | 242,678 | 242,678 | -14,152 |
| Finance & Economic Management | Standard and Poor's Subscription | 45,161 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 0 |
| Foreign Affairs and Immigration | Cook Islands Student Association Support | 0 | 0 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Justice | General Elections, Petitions and By-Elections | 38,108 | 50,000 | 0 | 0 | 0 | 0 | -50,000 |
| Head Of State | Domestic Hosting Entertainment | 12,809 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 0 |
| Head Of State | Queens Representative Travel to Samoa | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Health | Pharmaceuticals | 668,875 | 667,800 | 667,800 | 667,800 | 667,800 | 667,800 | 0 |
| Infrastructure and Planning | Outer Islands Equipment Repairs of Unanticipated Breakdowns | 85,628 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 0 |
| Infrastructure and Planning | Waste Management | 544,997 | 545,000 | 545,000 | 545,000 | 545,000 | 545,000 | 0 |
| Internal Affairs | Lease extension | 72,000 | 72,000 | 72,000 | 72,000 | 72,000 | 72,000 | 0 |
| Internal Affairs | Vaka Maintenance | 326,001 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 0 |
| Parliamentary Services | Civil List - Operating Expenses | 549,612 | 529,475 | 529,475 | 529,475 | 529,475 | 529,475 | 0 |
| Parliamentary Services | PPAPD - FDOC Secretariat | 41,280 | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 | 0 |
| Prime Minister's Office | Social Responsibility Fund | 199,000 | 338,000 | 195,000 | 195,000 | 195,000 | 195,000 | -143,000 |
| Prime Minister's Office | Self Government Golden Anniversary | 176,755 | 250,000 | 250,000 | 0 | 0 | 0 | 0 |
| Prime Minister's Office | Local Government Election | 35,000 | 35,000 | 0 | 0 | 0 | 0 | -35,000 |
| Police | Search and Rescue | 8,212 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 0 |
| Police | Serious Crime Investigations | 31,661 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 0 |
| Police | Te Kukupa - Fuel Contribution | 85,130 | 140,000 | 140,000 | 140,000 | 140,000 | 140,000 | 0 |
| Police | Te Kukupa Refit | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Police | Youth Program | 0 | 0 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 |
| Tourism Corporation | Marketing Resources - Tourism Growth Strategy | 2,236,379 | 2,250,000 | 5,100,000 | 4,850,000 | 4,850,000 | 2,950,000 | 2,850,000 |
| Prime Minister's Office | Returned Services Association | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 0 |
| Prime Minister's Office | Cook Islands Marine Park | 9,632 | 40,000 | 0 | 0 | 0 | 0 | -40,000 |
| Prime Minister's Office | Community Development Fund | 73,489 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 0 |
| Prime Minister's Office | Te Maeva Nui transport (OPM) | 1,300,000 | 1,300,000 | 0 | 0 | 0 | 0 | -1,300,000 |
| Foreign Affairs and Immigration | International Maritime Organisation - Maritime Cook Islands | 63,010 | 63,461 | 63,461 | 63,641 | 63,641 | 63,641 | 0 |
| Environment | E - Waste Collection | 50,000 | 50,000 | 50,000 | 0 | 100,000 | 0 | 0 |
| | | 8,143,557 | 9,534,739 | 9,817,587 | 9,741,321 | 9,828,549 | 7,828,549 | 282,848 |
| Subsidies | | | | | | | | |
| Education | University of the South Pacific Contribution | 285,000 | 285,000 | 285,000 | 285,000 | 285,000 | 285,000 | 0 |
| Finance & Economic | Air New Zealand - Subsidies | 4,925,802 | 10,500,000 | 12,000,000 | 12,000,000 | 12,000,000 | 12,000,000 | 1,500,000 |

| Administering Ministry | POBOC | Estimated Spend 2014/15 | Budget Estimate 2014/15 | Budget Estimate 2015/16 | Budget Estimate 2016/17 | Budget Estimate 2017/18 | Budget Estimate 2018/19 | Variance |
|--|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|------------------|
| Management | | | | | | | | |
| Finance & Economic Management | Apex - Profit Guarantee | 1,162,825 | 1,500,000 | 1,500,000 | 1,500,000 | 750,000 | 0 | 0 |
| Finance & Economic Management | FSC - subsidy to meet depreciation expenses | 35,000 | 35,000 | 0 | 0 | 0 | 0 | -35,000 |
| Finance & Economic Management | Provision for Inter Island Shipping | 0 | 0 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Finance & Economic Management | Subsidy of audio/visual broadcasting in Pa Enuā | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 | 0 |
| | | 6,453,627 | 12,365,000 | 14,330,000 | 14,330,000 | 13,580,000 | 12,830,000 | 1,965,000 |
| Social Assistance | | | | | | | | |
| Education | Government Funded Scholarships | 280,000 | 280,000 | 1,030,000 | 1,045,000 | 1,000,000 | 280,000 | 750,000 |
| Health | Patient Referrals | 549,908 | 550,000 | 550,000 | 550,000 | 550,000 | 550,000 | 0 |
| Health | Nursing School | 187,072 | 187,070 | 234,070 | 234,070 | 234,070 | 234,070 | 47,000 |
| Health | NCD Fund | 195,001 | 195,000 | 195,000 | 195,000 | 195,000 | 195,000 | 0 |
| Health | Oxygen Plant | | 0 | 0 | 0 | 0 | 0 | 0 |
| Internal Affairs | Welfare Payments | 16,541,348 | 16,541,348 | 16,967,788 | 17,056,660 | 17,058,542 | 17,060,431 | 426,440 |
| Justice | Legal Aid | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 0 |
| | | 17,793,329 | 17,793,418 | 19,016,858 | 19,120,730 | 19,077,612 | 18,359,501 | 1,223,440 |
| Other Expense | | | | | | | | |
| Education | Private School Funding | 2,126,966 | 1,982,627 | 2,147,027 | 2,147,027 | 2,147,027 | 2,007,027 | 164,400 |
| Finance & Economic Management | Pacific Catastrophe Risk Insurance | 0 | 120,694 | 120,694 | 120,694 | 120,694 | 120,694 | 0 |
| Foreign Affairs and Immigration | International Subscriptions | 253,685 | 545,705 | 551,705 | 551,705 | 551,705 | 551,705 | 6,000 |
| Marine Resources | Establishment of Fisheries Development Facility | 177,768 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 0 |
| Marine Resources | Fisheries Development Facility in the Pa Enuā | 0 | 0 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Cook Islands Seabed Minerals Authority | Establishment of the Seabed Minerals Authority | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Internal Affairs | CISNOC Grant | 152,131 | 220,000 | 220,000 | 220,000 | 220,000 | 220,000 | 0 |
| Internal Affairs | Hosting of the Oceania Championships | 0 | 0 | | | 0 | 0 | 0 |
| Internal Affairs | SIF - Cook Islands Government Contribution | 120,620 | 221,000 | 931,000 | 931,000 | 931,000 | 281,000 | 710,000 |
| Internal Affairs | Assistance for Attendance to the Pacific Games | 230,000 | 235,000 | | 0 | 0 | 0 | -235,000 |
| Finance & Economic Management | 2017 Baseline Funding for Conduct of the National Census | 0 | 0 | 0 | 250,000 | 0 | 0 | 0 |
| Finance & Economic Management | Production of new currency, transportation and sale of old coins | 0 | 1,010,000 | 2,845,000 | 0 | 0 | 0 | 1,835,000 |

| Administering Ministry | POBOC | Estimated Spend 2014/15 | Budget Estimate 2014/15 | Budget Estimate 2015/16 | Budget Estimate 2016/17 | Budget Estimate 2017/18 | Budget Estimate 2018/19 | Variance |
|------------------------|-------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|------------------|
| | | 3,061,171 | 4,535,026 | 7,115,426 | 4,520,426 | 4,270,426 | 3,480,426 | 2,580,400 |
| Grand Total | | 38,534,606 | 47,526,895 | 54,593,584 | 51,976,189 | 51,060,299 | 45,412,188 | 7,066,688 |

16.11 Schedule 9 – Debt Servicing Schedule

| | Total Loans | | | On-Lent Loans | | | Net |
|-----------------------------|--------------|--------------|--------------|---------------|------------|--------------|--------------|
| | Principal | Interest | Gross | Principal | Interest | Gross | |
| Creditors | | | | | | | |
| France | 515 | 13 | 527 | 515 | 13 | 527 | 0 |
| Asian Development Bank | 1,349 | 996 | 2,345 | 963 | 670 | 1,633 | 712 |
| China | 1,051 | 753 | 1,804 | 0 | | 0 | 1,804 |
| Total Debt Servicing | 2,915 | 1,762 | 4,676 | 1,478 | 683 | 2,161 | 2,516 |

16.12 Schedule 10 – Official Development Assistance Schedule

| Agency | Programs/Projects by Agency | Development Partner | Budget 2014/15 | Spend YTD 2014/15 | Budget 2015/16 | Budget 2016/17 | Budget 2017/18 | Budget 2018/19 | Total (4yr Forecast) |
|---------|--|--------------------------|----------------|-------------------|----------------|----------------|----------------|----------------|----------------------|
| Airport | Improving Pacific Air Safety TA | European Investment Bank | 600,000 | 222,570 | 513,000 | 0 | 0 | 0 | 513,000 |
| CIIC | ADB Asset Management Technical Assistance | Asian Development Bank | 150,000 | 222,611 | 0 | 0 | 0 | 0 | 0 |
| CIIC | Improve infrastructure service delivery technical assistance (CI-NIIP) | Asian Development Bank | 83,500 | 148,082 | 0 | 0 | 0 | 0 | 0 |
| CITC | Tourism Sector Support | New Zealand | 2,150,000 | 1,500,000 | 0 | 0 | 0 | 0 | 0 |
| COC | Agribusiness and agricultural value chain investment support | FAO | 0 | 0 | 240,500 | 0 | 0 | 0 | 240,500 |
| ICI | Mauke & Mitiaro Harbours | New Zealand | 234,000 | 0 | 234,000 | 0 | 0 | 0 | 234,000 |
| ICI | Sanitation Upgrade Programme | New Zealand | 2,175,000 | 500,000 | 3,550,000 | 2,450,000 | 1,875,000 | 1,325,000 | 9,200,000 |
| INTAFF | Social welfare review, protection of the vulnerable | Asian Development Bank | 100,000 | 153,869 | 0 | 0 | 0 | 0 | 0 |
| INTAFF | Disability Inclusive Development | Australia | 137,950 | 90,218 | 206,000 | 0 | 0 | 0 | 206,000 |
| INTAFF | SIF Gender Component | Australia | 0 | 0 | 235,000 | 0 | 0 | 0 | 235,000 |
| INTAFF | Social Impact Fund (NGO and community initiatives scheme) | New Zealand | 1,160,000 | 508,500 | 0 | 0 | 0 | 0 | 0 |
| MFAI | Pacific Integration Technical Assistance Programme (PITAP) | European Union | 0 | 88,261 | 88,300 | 88,300 | 0 | 0 | 176,600 |
| MFEM | Public Sector Reform TA Support | Asian Development Bank | 600,000 | 0 | 500,000 | 300,000 | 0 | 0 | 800,000 |
| MFEM | PRC Grants | China | 17,952,000 | 9,123,000 | 6,481,200 | 8,800,000 | 3,900,000 | 0 | 19,181,200 |
| MFEM | General Budget Support | European Union | 0 | 0 | 2,207,000 | 0 | 2,100,000 | 0 | 4,307,000 |
| MFEM | NIE Accreditation Process | European Union | 49,000 | 46,268 | 100,000 | 0 | 0 | 0 | 100,000 |
| MFEM | Pacific Regional Tourism Capability Building Programme | European Union | 0 | 38,698 | 0 | 0 | 0 | 0 | 0 |
| MFEM | Trade Facilitation in Customs Cooperation | European Union | 0 | 17,873 | 44,000 | 0 | 0 | 0 | 44,000 |
| MFEM | Pacific Financial Technical Assistance Facility (PFTAC) | European Union | 0 | 163,814 | 0 | 0 | 0 | 0 | 0 |
| MFEM | India Grant Fund | India | 150,000 | 110,414 | 260,000 | 260,000 | 260,000 | 260,000 | 1,040,000 |
| MFEM | Non-Project Grant Aid | Japan | 0 | 0 | 1,000,000 | 0 | 0 | 0 | 1,000,000 |
| MFEM | Korean Grant for Service Vehicles | Korea | 0 | 0 | 268,000 | 0 | 0 | 0 | 268,000 |
| MFEM | Korean Grant for AV Equipment | Korea | 236,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| MFEM | Aid Effectiveness | New Zealand | 150,000 | 201,407 | 100,000 | 100,000 | 100,000 | 100,000 | 400,000 |
| MFEM | Automated Border Management System | New Zealand | 135,000 | 135,000 | 84,400 | 0 | 0 | 0 | 84,400 |

| Agency | Programs/Projects by Agency | Development Partner | Budget 2014/15 | Spend YTD 2014/15 | Budget 2015/16 | Budget 2016/17 | Budget 2017/18 | Budget 2018/19 | Total (4yr Forecast) |
|--------|---|------------------------------|----------------|-------------------|----------------|----------------|----------------|----------------|----------------------|
| MFEM | Pacific Maritime Safety project | New Zealand | 0 | 0 | 225,000 | 0 | 0 | 0 | 225,000 |
| MFEM | Pearl Industry Revitalisation | New Zealand | 870,000 | 250,000 | 90,500 | 0 | 0 | 0 | 90,500 |
| MFEM | Performance Based Budget Support | New Zealand | 0 | 0 | 8,600,000 | 8,600,000 | 8,600,000 | 0 | 25,800,000 |
| MFEM | Public Service Strengthening | New Zealand | 0 | 0 | 1,260,000 | 1,350,000 | 1,395,000 | 0 | 4,005,000 |
| MFEM | Sanitation Upgrade Program-Manihiki Lagoon | New Zealand | 0 | 0 | 390,000 | 0 | 0 | 0 | 390,000 |
| MFEM | Te Mato Vai | New Zealand | 4,118,000 | 693,000 | 3,438,000 | 8,169,000 | 1,847,000 | 0 | 13,454,000 |
| MFEM | Climate Change Finance | UN Adaptation Fund | 0 | 0 | 0 | 2,200,000 | 2,200,000 | 2,200,000 | 6,600,000 |
| MFEM | TRAC Funds | UNDP | 242,000 | 0 | 69,500 | 93,600 | 93,600 | 0 | 256,700 |
| MFEM | Pacific Parliamentary Development Project | UNDP | 0 | 0 | 59,000 | 50,000 | 50,000 | 0 | 159,000 |
| MFEM | NIE Accreditation Process (AMC, Anti-Corruption Committee) | UNEP | 33,000 | 25,340 | 0 | 0 | 0 | 0 | 0 |
| MFEM | Strengthening Reproductive Health | UNFPA | 194,000 | 27,244 | 112,000 | 0 | 0 | 0 | 112,000 |
| MMR | Fisheries Policy Support | European Union | 640,000 | 0 | 600,000 | 600,000 | 600,000 | 0 | 1,800,000 |
| MMR | Supporting the Scientific Management of Coastal and Oceanic Fisheries in the Pacific Islands Region (SciCOFish) | European Union | 0 | 83,113 | 0 | 0 | 0 | 0 | 0 |
| MMR | US Fisheries Treaty | Forum Fisheries Agency | 0 | 0 | 200,000 | 200,000 | 200,000 | 0 | 600,000 |
| MMR | Pago Pago CIFFO Operations | Forum Fisheries Agency | 50,000 | 40,000 | 45,000 | 45,000 | 0 | 0 | 90,000 |
| MMR | Fisheries Project Development Fund | Forum Fisheries Agency | 180,000 | 0 | 200,000 | 200,000 | 200,000 | 0 | 600,000 |
| MMR | Japan Trust Fund IT Upgrade | Japan | 45,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| MMR | Pago Pago CIFFO Operations | Western Pacific Council (US) | 70,000 | 0 | 30,000 | 30,000 | 30,000 | 0 | 90,000 |
| MOA | Increasing agricultural commodity trade (IACT) | European Union | 0 | 23,536 | 24,000 | 0 | 0 | 0 | 24,000 |
| MOA | Crop Enhancement Technical Cooperation | FAO | 115,000 | 0 | 138,300 | 138,300 | 0 | 0 | 276,600 |
| MOA | Improved production, processing and marketing of agricultural produce | FAO | 0 | 0 | 161,000 | 161,000 | 161,000 | 0 | 483,000 |
| MOA | Biocontrol of Invasive Weeds | New Zealand | 25,000 | 144,858 | 50,000 | 50,000 | 50,000 | 50,000 | 200,000 |
| MOA | Water-logging Project | SPC | 38,500 | 0 | 0 | 0 | 0 | 0 | 0 |
| MOA | Taro Revitalisation program | SPC | 9,300 | 0 | 0 | 0 | 0 | 0 | 0 |
| MOA | Plant Genetic Resources Benefit Sharing | SPC/FAO | 14,500 | 0 | 14,500 | 0 | 0 | 0 | 14,500 |
| MOE | Education Budget Support | New Zealand | 3,375,000 | 3,374,930 | 0 | 0 | 0 | 0 | 0 |
| MOE | Education Sector Partnership | New Zealand | 12,500 | 0 | 0 | 0 | 0 | 0 | 0 |

| Agency | Programs/Projects by Agency | Development Partner | Budget 2014/15 | Spend YTD 2014/15 | Budget 2015/16 | Budget 2016/17 | Budget 2017/18 | Budget 2018/19 | Total (4yr Forecast) |
|--------|--|-----------------------------------|----------------|-------------------|----------------|----------------|----------------|----------------|----------------------|
| MOE | Computers for Health/Education | Turkey | 60,000 | 0 | 60,000 | 0 | 0 | 0 | 60,000 |
| MOE | Participation Program | UNESCO | 85,000 | 93,000 | 71,000 | 85,000 | 85,000 | 85,000 | 326,000 |
| MOH | Trauma Training | Australia | 11,200 | 0 | 11,000 | 0 | 0 | 0 | 11,000 |
| MOH | Strengthening the management, prevention of TB in CK | Global Fund | 32,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| MOH | HIV-New Funding Model | Global Fund | 61,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| MOH | Nursing School Training and Development | Marama Global | 30,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| MOH | Health Specialist Visits Programme | New Zealand | 562,000 | 532,000 | 0 | 0 | 0 | 0 | 0 |
| MOH | SPC Small Grants | SPC | 20,000 | 0 | 10,000 | 0 | 0 | 0 | 10,000 |
| MOH | Human Resources Development (Fellowships) | WHO | 148,000 | 0 | 176,700 | 176,700 | 0 | 0 | 353,400 |
| MOH | Technical Cooperation Programme | WHO | 163,000 | 0 | 135,000 | 0 | 0 | 0 | 135,000 |
| NES | Pacific Hazardous Waste Management | European Union | 0 | 0 | 132,000 | 132,000 | 0 | 0 | 264,000 |
| NES | Prevention, control and management of invasive alien species | Global Environment Facility | 151,800 | 54,876 | 57,200 | 0 | 0 | 0 | 57,200 |
| NES | Conservation Management of Island Biodiversity | Global Environment Facility | 142,300 | 62,136 | 136,200 | 0 | 0 | 0 | 136,200 |
| NES | UNCCD Data Reporting Project | Global Environment Facility | 60,000 | 22,618 | 20,100 | 0 | 0 | 0 | 20,100 |
| NES | Ridge to Reef | Global Environment Facility | 100,000 | 0 | 1,535,000 | 2,012,000 | 1,343,000 | 816,000 | 5,706,000 |
| NES | Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands | Global Environment Facility | 0 | 0 | 850,900 | 291,500 | 173,000 | 175,000 | 1,490,400 |
| NES | National Biodiversity Planning to Support the Implementation of the CBD 2011-2020 Strategic Plan (NBSAP) | Global Environment Facility | 0 | 5,000 | 172,100 | 75,600 | 0 | 0 | 247,700 |
| NES | Monitoring of Ozone Depletion Substance | Multilateral Fund | 85,600 | 78,856 | 80,200 | 80,200 | 80,200 | 80,200 | 320,800 |
| OPM | Promoting Energy Efficiency in the Pacific | Asian Development Bank | 511,000 | 162,511 | 0 | 0 | 0 | 0 | 0 |
| OPM | Northern Water Project Phase 2 | EU-German Development Cooperation | 210,000 | 0 | 420,000 | 210,000 | 0 | 0 | 630,000 |
| OPM | SPC EU GCCA PSIS Projects | European Union | 356,000 | 310,969 | 232,000 | 0 | 0 | 0 | 232,000 |
| OPM | Renewable Energy Grant (Southern Group) | European Union | 0 | 0 | 4,500,000 | 2,760,000 | 0 | 0 | 7,260,000 |
| OPM | ACP-EU Building Resilience and Safety in | European Union | 0 | 0 | 295,000 | 295,000 | 295,000 | 0 | 885,000 |

| Agency | Programs/Projects by Agency | Development Partner | Budget 2014/15 | Spend YTD 2014/15 | Budget 2015/16 | Budget 2016/17 | Budget 2017/18 | Budget 2018/19 | Total (4yr Forecast) |
|--------------|---|--------------------------------|-------------------|----------------------|-------------------|-------------------|-------------------|-------------------|----------------------------|
| OPM | the Pacific Renewable Energy Project Support (Southern Group) | Global Environment Facility | 0 | 0 | 183,000 | 5,517,000 | 0 | 0 | 5,700,000 |
| OPM | National Adaptation to CC (3rd Nat Com & 3-4 Nat Rept) | Global Environment Facility | 200,000 | 23,419 | 142,000 | 245,000 | 206,000 | 51,000 | 644,000 |
| OPM | Green Climate Fund Readiness | Green Climate Fund | 0 | 0 | 150,000 | 0 | 0 | 0 | 150,000 |
| OPM | PV Mini Grids | Japan | 1,000,000 | 0 | 5,232,000 | 0 | 0 | 0 | 5,232,000 |
| OPM | Cook Islands Water Shortage Response | New Zealand | 115,000 | 110,000 | 0 | 0 | 0 | 0 | 0 |
| OPM | National Disaster Trust Fund | New Zealand | 329,000 | 0 | 329,000 | 0 | 0 | 0 | 329,000 |
| OPM | Renewable Energy Program Support | New Zealand | 10,800,000 | 3,874,783 | 0 | 0 | 0 | 0 | 0 |
| OPM | Energy Transformation (Palmerston) | SIDS-DOCK | 708,000 | 708,000 | 0 | 0 | 0 | 0 | 0 |
| OPM | Power sector study, EIA, verfications (PIGGAREP) | SPREP | 127,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| OPM | Strengthening Resilience of Island Communities | UN Adaptation Fund | 3,013,000 | 389,000 | 1,370,000 | 275,000 | 0 | 0 | 1,645,000 |
| OPSC | CI Technical Assistance Facility | New Zealand | 1,261,000 | 757,076 | 0 | 0 | 0 | 0 | 0 |
| POLICE | Te Kukupa TA, operations | Australia Defence Force | 6,760,000 | 6,760,000 | 295,000 | 405,000 | 295,000 | 405,000 | 1,400,000 |
| POLICE | Partnership for Pacific Policing | New Zealand | 66,000 | 0 | 53,600 | 0 | 0 | 0 | 53,600 |
| REDCR OSS | GEF Small Grants Programme | Global Environment Facility | 300,000 | 467,789 | 535,000 | 0 | 0 | 0 | 535,000 |
| SBMA | Minerals and Natural Resources TA | Commonwealth Secretariat | 83,000 | 83,000 | 73,000 | 0 | 0 | 0 | 73,000 |
| SBMA | Deep Sea Minerals Project | SPC | 48,000 | 0 | 40,000 | 40,000 | 0 | 0 | 80,000 |
| Total | | | 63,693,150 | 32,427,640 | 49,115,200 | 46,485,200 | 26,138,800 | 5,547,200 | 127,286,400 |

16.13 Schedule 11 – Comparative Analysis of Ministry Appropriations

| Ministry | Budget Estimates 2014/15 | | | Budget Estimates 2015/16 | | | Gross Operating Variance | |
|--|-------------------------------|------------------|-----------------------------|-------------------------------|------------------|-----------------------------|--------------------------|------------|
| | Gross Operating Appropriation | Trading Revenue | Net Operating Appropriation | Gross Operating Appropriation | Trading Revenue | Net Operating Appropriation | Amount | Per cent |
| Agriculture | 902,330 | 90,535 | 811,795 | 998,331 | 90,535 | 907,796 | 96,001 | 11.8% |
| Audit (PERCA) | 1,008,298 | 178,700 | 829,598 | 1,022,298 | 178,700 | 843,598 | 14,000 | 1.7% |
| Crown Law | 645,137 | 0 | 645,137 | 713,137 | 0 | 713,137 | 68,000 | 10.5% |
| Cultural Development | 838,038 | 175,000 | 663,038 | 836,038 | 175,000 | 661,038 | -2,000 | -0.3% |
| Business Trade and Investment Board | 655,060 | 23,380 | 631,680 | 656,060 | 23,380 | 632,680 | 1,000 | 0.2% |
| Education | 11,073,255 | 0 | 11,073,255 | 14,720,355 | 0 | 14,720,355 | 3,647,100 | 32.9% |
| Environment | 980,788 | 35,000 | 945,788 | 979,788 | 35,000 | 944,788 | -1,000 | -0.1% |
| Finance and Economic Management | 3,325,828 | 503,500 | 2,822,328 | 3,621,328 | 503,500 | 3,117,828 | 295,500 | 10.5% |
| Financial Services Development Authority | 419,973 | 0 | 419,973 | 422,973 | 0 | 422,973 | 3,000 | 0.7% |
| Foreign Affairs | 1,770,473 | 20,000 | 1,750,473 | 1,802,473 | 20,000 | 1,782,473 | 32,000 | 1.8% |
| Head Of State | 232,305 | 0 | 232,305 | 234,305 | 0 | 234,305 | 2,000 | 0.9% |
| Health | 10,618,425 | 400,000 | 10,218,425 | 11,498,425 | 400,000 | 11,098,425 | 880,000 | 8.6% |
| Infrastructure Cook Islands | 2,002,034 | 245,626 | 1,756,408 | 2,160,617 | 295,626 | 1,864,991 | 158,583 | 9.0% |
| Internal Affairs | 1,077,457 | 6,000 | 1,071,457 | 1,070,458 | 6,000 | 1,064,458 | -6,999 | -0.7% |
| Justice | 1,914,279 | 500,000 | 1,414,279 | 1,959,779 | 500,000 | 1,459,779 | 45,500 | 3.2% |
| Marine Resources | 1,456,276 | 15,000 | 1,441,276 | 1,538,276 | 15,000 | 1,523,276 | 82,000 | 5.7% |
| Ombudsman | 268,044 | 0 | 268,044 | 280,044 | 0 | 280,044 | 12,000 | 4.5% |
| Parliamentary Services | 571,866 | 8,419 | 563,447 | 576,866 | 8,419 | 568,447 | 5,000 | 0.9% |
| Pearl Authority | 464,097 | 0 | 464,097 | 465,097 | 0 | 465,097 | 1,000 | 0.2% |
| Police | 3,554,024 | 69,360 | 3,484,664 | 3,639,024 | 69,360 | 3,569,664 | 85,000 | 2.4% |
| Prime Minister's Office | 1,149,556 | 0 | 1,149,556 | 1,233,556 | 0 | 1,233,556 | 84,000 | 7.3% |
| Public Service Commission | 1,653,902 | 0 | 1,653,902 | 1,752,902 | 0 | 1,752,902 | 99,001 | 6.0% |
| Tourism Corporation | 4,347,446 | 200,000 | 4,147,446 | 4,470,446 | 352,000 | 4,118,446 | 123,000 | 3.0% |
| Transport | 658,476 | 36,000 | 622,476 | 661,476 | 36,000 | 625,476 | 3,000 | 0.5% |
| Cook Islands Investment Corporation | 0 | 0 | 0 | - | 0 | 0 | 0 | 0.0% |
| Cook Islands Seabed Minerals Authority | 340,000 | 0 | 340,000 | 314,000 | 0 | 314,000 | -26,000 | -7.6% |
| Total Ministries | 51,927,365 | 2,506,520 | 49,420,845 | 57,628,052 | 2,708,520 | 54,919,532 | 5,700,687 | 12% |
| Capital Funds Committee- Administered by MFEM | | | | 45,000 | 0 | 45,000 | 45,000 | |
| Ministerial Support | | | | | | | | |
| Prime Minister | 422,382 | 0 | 422,382 | 404,382 | 0 | 404,382 | -18,000 | -4.3% |
| Deputy Prime Minister | 221,000 | 0 | 221,000 | 221,000 | 0 | 221,000 | 0 | 0.0% |
| Minister Mark Brown | 274,870 | 0 | 274,870 | 294,870 | 0 | 294,870 | 20,000 | 7.3% |
| Minister Kiriau Turepu | 191,000 | 0 | 191,000 | 191,000 | 0 | 191,000 | 0 | 0.0% |

| Ministry | Budget Estimates 2014/15 | | | Budget Estimates 2015/16 | | | Gross Operating Variance | |
|--|-------------------------------|------------------|-----------------------------|-------------------------------|------------------|-----------------------------|--------------------------|--------------|
| | Gross Operating Appropriation | Trading Revenue | Net Operating Appropriation | Gross Operating Appropriation | Trading Revenue | Net Operating Appropriation | Amount | Per cent |
| Minister Nandi Glassie | 192,000 | 0 | 192,000 | 192,000 | 0 | 192,000 | 0 | 0.0% |
| Minister Albert Nicholas | 192,000 | 0 | 192,000 | 190,000 | 0 | 190,000 | -2,000 | -1.0% |
| Leader Of Opposition | 202,000 | 0 | 202,000 | 202,000 | 0 | 202,000 | 0 | 0.0% |
| Total Ministerial Support Offices | 1,740,252 | 0 | 1,740,252 | 1,740,252 | 0 | 1,740,252 | 0 | 0.0% |
| Outer Islands | | | | | | | | |
| Aitutaki | 1,555,277 | 48,250 | 1,507,027 | 1,714,229 | 48,250 | 1,665,979 | 158,952 | 10.5% |
| Autitaki Power Supply | 2,211,333 | 1,900,943 | 310,390 | 2,211,333 | 1,900,943 | 310,390 | - | 0.0% |
| Atiu | 1,209,302 | 224,318 | 984,984 | 1,214,860 | 224,318 | 990,542 | 5,558 | 0.6% |
| Mangaia | 1,538,812 | 301,000 | 1,237,812 | 1,528,481 | 301,000 | 1,227,481 | - 10,331 | -0.8% |
| Manihiki | 880,930 | 136,300 | 744,630 | 874,405 | 136,300 | 738,105 | - 6,525 | -0.9% |
| Mauke | 918,104 | 113,853 | 804,251 | 910,870 | 113,853 | 797,017 | - 7,234 | -0.9% |
| Mitiaro | 593,798 | 58,899 | 534,899 | 596,949 | 58,899 | 538,050 | 3,151 | 0.6% |
| Palmerston | 358,630 | 20,599 | 338,031 | 357,744 | 20,599 | 337,145 | - 886 | -0.3% |
| Penrhyn | 606,062 | 83,904 | 522,158 | 609,147 | 83,904 | 525,243 | 3,085 | 0.6% |
| Pukapuka-Nassau | 983,939 | 73,695 | 910,244 | 988,994 | 73,695 | 915,299 | 5,055 | 0.6% |
| Rakahanga | 450,709 | 49,336 | 01,373 | 447,074 | 49,336 | 397,738 | - 3,635 | -0.9% |
| Outer Islands Capital Fund-Administered by MFEM | | | | 27,500 | 0 | 27,500 | 27,500 | |
| Total Outer Islands | 11,334,397 | 3,011,097 | 8,323,300 | 11,481,586 | 3,011,097 | 8,470,489 | 147,189 | 1.8% |
| Gross Total | 65,002,014 | 5,517,617 | 59,484,397 | 70,849,890 | 5,719,617 | 65,130,273 | 5,847,876 | 13.3% |

16.14 Schedule 12 – Output Analysis

| | Budget Estimate 2014/15 | | | Budget Estimate 2015/16 | | | Gross Change |
|---|-------------------------|-----------------|-------------------|-------------------------|-----------------|-------------------|---------------|
| | Gross Expenditure | Trading Revenue | Net Appropriation | Gross Expenditure | Trading Revenue | Net Appropriation | |
| AGRICULTURE | | | | | | | |
| Administration | 109,371 | 0 | 109,371 | 108,461 | 0 | 108,461 | -910 |
| Crop Research & Development | 339,575 | 30,000 | 309,575 | 359,140 | 30,000 | 329,140 | 19,565 |
| Bio-Security Management | 304,829 | 59,535 | 245,294 | 369,175 | 59,535 | 309,640 | 64,346 |
| Policy & Projects | 88,955 | 0 | 88,955 | 92,555 | 0 | 92,555 | 3,600 |
| Livestock Development | 59,600 | 1,000 | 58,600 | 69,000 | 1,000 | 68,000 | 9,400 |
| | 902,330 | 90,535 | 811,795 | 998,331 | 90,535 | 907,796 | 96,001 |
| AUDIT (PERCA) | | | | | | | |
| Crown Audit | 155,052 | 30,000 | 125,052 | 162,052 | 30,000 | 132,052 | 7,000 |
| Ministries, Crown Agencies and SOE Audits | 494,212 | 143,700 | 350,512 | 501,212 | 143,700 | 357,512 | 7,000 |
| Special Reviews and Investigations | 326,469 | 5,000 | 321,469 | 326,469 | 5,000 | 321,469 | 0 |
| Corporate Services | 32,565 | 0 | 32,565 | 32,565 | 0 | 32,565 | 0 |
| | 1,008,298 | 178,700 | 829,598 | 1,022,298 | 178,700 | 843,598 | 14,000 |
| CROWN LAW | | | | | | | |
| Legal Advisory | 315,818 | 0 | 315,818 | 313,780 | 0 | 313,780 | -2,038 |
| Litigation | 200,112 | 0 | 200,112 | 235,335 | 0 | 235,335 | 35,223 |
| Legislative Drafting | 129,207 | 0 | 129,207 | 164,022 | 0 | 164,022 | 34,815 |
| | 645,137 | 0 | 645,137 | 713,137 | 0 | 713,137 | 68,000 |
| CULTURAL DEVELOPMENT | | | | | | | |
| Corporate Services | 118,452 | 6,000 | 112,452 | 131,055 | 6,000 | 125,055 | 12,603 |
| Cultural National Identity | 318,638 | 6,000 | 312,638 | 352,247 | 153,000 | 199,247 | 33,609 |
| Cultural Heritage | 274,963 | 158,000 | 116,963 | 121,865 | 10,000 | 111,865 | -153,098 |
| Public Records & National Bibliography | 125,985 | 5,000 | 120,985 | 230,871 | 6,000 | 224,871 | 104,886 |
| | 838,038 | 175,000 | 663,038 | 836,038 | 175,000 | 661,038 | -2,000 |
| BUSINESS TRADE & INVESTMENT BOARD | | | | | | | |
| Business Support | 149,315 | 0 | 149,315 | 148,514 | 0 | 148,514 | -801 |
| Maximising Trade Opportunities | 104,315 | 12,500 | 91,815 | 103,515 | 12,500 | 91,015 | -800 |
| Foreign Direct Investment (FDI) Participation | 113,315 | 0 | 113,315 | 112,515 | 0 | 112,515 | -800 |
| Regulation & Compliance | 81,101 | 0 | 81,101 | 80,301 | 0 | 80,301 | -800 |
| Finance & Administration Support | 207,014 | 10,880 | 196,134 | 211,215 | 10,880 | 200,335 | 4,201 |
| | 655,060 | 23,380 | 631,680 | 656,060 | 23,380 | 632,680 | 1,000 |
| EDUCATION | | | | | | | |
| Taku Ipukarea Kia Rangatira | 385,556 | 0 | 385,556 | 385,556 | 0 | 385,556 | 0 |
| Learning and Teaching | 501,460 | 0 | 501,460 | 501,460 | 0 | 501,460 | 0 |
| Learning and the Community | 418,864 | 0 | 418,864 | 418,864 | 0 | 418,864 | 0 |

| | Budget Estimate 2014/15 | | | Budget Estimate 2015/16 | | | |
|---|-------------------------|-----------------|-------------------|-------------------------|-----------------|-------------------|----------------|
| | Gross Expenditure | Trading Revenue | Net Appropriation | Gross Expenditure | Trading Revenue | Net Appropriation | Gross Change |
| Infrastructure and Support | 9,542,172 | 0 | 9,542,172 | 9,714,272 | 0 | 9,714,272 | 172,100 |
| Corporate Services | 225,203 | 0 | 225,203 | 225,203 | 0 | 225,203 | 0 |
| | 11,073,255 | 0 | 11,073,255 | 11,245,355 | 0 | 11,245,355 | 172,100 |
| ENVIRONMENT (TU'ANGA TAPOROPORO) | | | | | | | |
| Advisory & Compliance | 353,248 | 25,000 | 328,248 | 352,024 | 25,000 | 327,024 | -1,224 |
| Island Futures | 284,317 | 10,000 | 274,317 | 270,350 | 10,000 | 260,350 | -13,967 |
| Corporate Services | 343,222 | 0 | 343,222 | 357,414 | 0 | 357,414 | 14,192 |
| | 980,787 | 35,000 | 945,787 | 979,788 | 35,000 | 944,788 | -999 |
| FINANCE AND ECONOMIC MANAGEMENT | | | | | | | |
| Fiscal Advice | 186,220 | | 186,220 | 218,220 | | 218,220 | 32,000 |
| Fiscal and Economic Management | 849,874 | 3,500 | 846,374 | 887,617 | 3,500 | 884,117 | 37,743 |
| Taxation | 1,482,679 | 500,000 | 982,679 | 1,697,637 | 500,000 | 1,197,637 | 214,958 |
| Statistics | 282,783 | 0 | 282,783 | 283,583 | 0 | 283,583 | 800 |
| Development Coordination | 262,866 | 0 | 262,866 | 272,865 | 0 | 272,865 | 9,999 |
| Corporate Services | 261,406 | 0 | 261,406 | 261,406 | 0 | 261,406 | 0 |
| | 3,325,828 | 503,500 | 2,822,328 | 3,621,328 | 503,500 | 3,117,828 | 295,500 |
| FOREIGN AFFAIRS AND IMMIGRATION | | | | | | | |
| Enhancing Cook Islands relations with New Zealand & the Pacific | 95,724 | 0 | 95,724 | 100,004 | 0 | 100,004 | 4,280 |
| Promoting Cook Islands interests in the Broader International community | 130,463 | 0 | 130,463 | 162,202 | 0 | 162,202 | 31,739 |
| Promoting Cook Island regional & International trade Policy Interests | 51,779 | 0 | 51,779 | 51,517 | 0 | 51,517 | -262 |
| Enhance Participation in Global Institutions | 131,440 | 0 | 131,440 | 135,566 | 0 | 135,566 | 4,126 |
| Responsible & Effective Management of Immigration Service | 292,945 | 0 | 292,945 | 285,566 | 0 | 285,566 | -7,379 |
| Administration, Protocol & Overseas Representation | 1,068,122 | 20,000 | 1,048,122 | 1,067,619 | 20,000 | 1,047,619 | -503 |
| | 1,770,473 | 20,000 | 1,750,473 | 1,802,474 | 20,000 | 1,782,474 | 32,001 |
| HEAD OF STATE | | | | | | | |
| Administrative Support | 232,305 | 0 | 232,305 | 234,305 | 0 | 234,305 | 2,000 |
| | 232,305 | 0 | 232,305 | 234,305 | 0 | 234,305 | 2,000 |
| HEALTH | | | | | | | |
| Community Health Services | 1,627,797 | 90,000 | 1,537,797 | 1,737,762 | 90,000 | 1,647,762 | 109,965 |
| Hospital Health Services | 8,234,923 | 310,000 | 7,924,923 | 9,034,859 | 310,000 | 8,724,859 | 799,936 |
| Funding & Planning | 755,706 | 0 | 755,706 | 725,804 | 0 | 725,804 | -29,902 |
| | 10,618,426 | 400,000 | 10,218,426 | 11,498,425 | 400,000 | 11,098,425 | 879,999 |
| INFRASTRUCTURE & PLANNING | | | | | | | |
| Policy & Programmes | 416,726 | 0 | 416,726 | 387,834 | 0 | 387,834 | -28,892 |
| Regulatory Services | 150,179 | 39,800 | 110,379 | 169,141 | 42,626 | 126,515 | 18,962 |
| Civil Works | 414,468 | 55,000 | 359,468 | 493,556 | 55,000 | 438,556 | 79,088 |

| | Budget Estimate 2014/15 | | | Budget Estimate 2015/16 | | | |
|--|-------------------------|-----------------|-------------------|-------------------------|-----------------|-------------------|----------------|
| | Gross Expenditure | Trading Revenue | Net Appropriation | Gross Expenditure | Trading Revenue | Net Appropriation | Gross Change |
| Funding & Planning | 340,767 | 8,000 | 332,767 | 431,701 | 8,000 | 423,701 | 90,934 |
| WATSAN | 679,894 | 142,826 | 537,068 | 678,385 | 190,000 | 488,385 | -1,509 |
| | 2,002,034 | 245,626 | 1,756,408 | 2,160,617 | 295,626 | 1,864,991 | 158,583 |
| INTERNAL AFFAIRS | | | | | | | |
| Welfare Payments | 282,689 | 0 | 282,689 | 286,641 | 0 | 286,641 | 3,952 |
| Social Policy | 260,505 | 0 | 260,505 | 258,506 | 0 | 258,506 | -1,999 |
| Labour & Employment | 111,294 | 6,000 | 105,294 | 110,794 | 6,000 | 104,794 | -500 |
| Consumer | 70,042 | 0 | 70,042 | 69,542 | 0 | 69,542 | -500 |
| Civil | 124,292 | 0 | 124,292 | 123,792 | 0 | 123,792 | -500 |
| Censorship | 64,249 | 0 | 64,249 | 63,749 | 0 | 63,749 | -500 |
| Corporate Services | 164,386 | 0 | 164,386 | 157,433 | 0 | 157,433 | -6,953 |
| | 1,077,457 | 6,000 | 1,071,457 | 1,070,457 | 6,000 | 1,064,457 | -7,000 |
| JUSTICE | | | | | | | |
| Court & Tribunal Services | 471,520 | 130,235 | 341,285 | 507,108 | 130,000 | 377,108 | 35,588 |
| Land Administration | 321,012 | 122,730 | 198,282 | 307,108 | 120,000 | 187,108 | -13,904 |
| Registry Services | 203,435 | 151,335 | 52,100 | 214,410 | 150,000 | 64,410 | 10,975 |
| Prison Services | 514,739 | 95,700 | 419,039 | 509,108 | 100,000 | 409,108 | -5,631 |
| Probation Services | 198,400 | | 198,400 | 213,410 | | 213,410 | 15,010 |
| Corporate & ICT Services | 205,173 | | 205,173 | 208,635 | | 208,635 | 3,462 |
| | 1,914,279 | 500,000 | 1,414,279 | 1,959,779 | 500,000 | 1,459,779 | 45,500 |
| | | | | | | | 0 |
| MARINE RESOURCES | | | | | | | |
| Offshore Fisheries | 335,782 | 0 | 335,782 | 333,182 | 0 | 333,182 | -2,600 |
| Pearl Industry Support | 268,783 | 5,000 | 263,783 | 266,183 | 5,000 | 261,183 | -2,600 |
| Inshore Fisheries and Aquaculture | 390,862 | 10,000 | 380,862 | 458,262 | 10,000 | 448,262 | 67,400 |
| Policy and Legal Services | 99,604 | 0 | 99,604 | 122,004 | 0 | 122,004 | 22,400 |
| Corporate Services | 361,245 | 0 | 361,245 | 358,645 | 0 | 358,645 | -2,600 |
| | 1,456,276 | 15,000 | 1,441,276 | 1,538,276 | 15,000 | 1,523,276 | 82,000 |
| OMBUDSMAN | | | | | | | |
| Investigations | 80,032 | 0 | 80,032 | 77,739 | 0 | 77,739 | -2,293 |
| Special Reviews | 66,819 | 0 | 66,819 | 67,220 | 0 | 67,220 | 401 |
| Corporate Services | 40,397 | 0 | 40,397 | 48,354 | 0 | 48,354 | 7,957 |
| Education and Advocacy | 40,397 | 0 | 40,397 | 59,144 | 0 | 59,144 | 18,747 |
| Regional and International Relations | 40,399 | 0 | 40,399 | 27,587 | 0 | 27,587 | -12,812 |
| | 268,044 | 0 | 268,044 | 280,044 | 0 | 280,044 | 12,000 |
| | | | | | | | 0 |
| PARLIAMENTARY SERVICES | | | | | | | |
| Services to Parliament (Civil list, Legislative Service PLPG & HOA & Koutu Nui | 319,186 | 8,419 | 310,767 | 312,550 | 8,419 | 304,131 | -6,636 |
| Finance and Corporate Services | 252,680 | 0 | 252,680 | 264,316 | 0 | 264,316 | 11,636 |

| | Budget Estimate 2014/15 | | | Budget Estimate 2015/16 | | | Gross Change |
|--|-------------------------|-----------------|-------------------|-------------------------|-----------------|-------------------|------------------|
| | Gross Expenditure | Trading Revenue | Net Appropriation | Gross Expenditure | Trading Revenue | Net Appropriation | |
| Services to House of Ariki | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 571,866 | 8,419 | 563,447 | 576,866 | 8,419 | 568,447 | 5,000 |
| PEARL AUTHORITY | | | | | | | |
| Farm Support | | | 0 | | | 0 | 0 |
| Pearl Standards & Quality Control | | 0 | 0 | | 0 | 0 | 0 |
| Marketing Strategy | 105,000 | 0 | 105,000 | 105,000 | 0 | 105,000 | 0 |
| Industry Reform & Development | 134,290 | 0 | 134,290 | 135,790 | 0 | 135,790 | 1,500 |
| Management & Support Services | 224,807 | 0 | 224,807 | 224,307 | 0 | 224,307 | -500 |
| | 464,097 | 0 | 464,097 | 465,097 | 0 | 465,097 | 1,000 |
| POLICE | | | | | | | |
| Crime Prevention & Policing operations | 2,640,578 | 69,360 | 2,571,218 | 2,759,520 | 69,360 | 2,690,160 | 118,942 |
| Maritime Policing | 464,756 | 0 | 464,756 | 370,040 | 0 | 370,040 | -94,716 |
| Enabling & Support Services | 448,690 | 0 | 448,690 | 509,463 | 0 | 509,463 | 60,773 |
| | 3,554,024 | 69,360 | 3,484,664 | 3,639,023 | 69,360 | 3,569,663 | 84,999 |
| PRIME MINISTER'S OFFICE | | | | | | | |
| Central Policy & Planning Office | 161,149 | 0 | 161,149 | 296,247 | 0 | 296,247 | 135,098 |
| Cabinet Services & Government Representative | 124,695 | 0 | 124,695 | 267,075 | 0 | 267,075 | 142,380 |
| Renewable Energy Development Division | 105,491 | 0 | 105,491 | 275,291 | 0 | 275,291 | 169,800 |
| Corporate Services | 196,734 | 0 | 196,734 | 374,872 | 0 | 374,872 | 178,138 |
| Information & Communication Technology | 137,788 | 0 | 137,788 | 316,220 | 0 | 316,220 | 178,432 |
| Emergency Management Cook Islands | 103,456 | 0 | 103,456 | 279,563 | 0 | 279,563 | 176,107 |
| Climate Change Cook Islands | 102,615 | 0 | 102,615 | 303,829 | 0 | 303,829 | 201,214 |
| Outer Islands Local Government | 217,628 | 0 | 217,628 | 354,013 | 0 | 354,013 | 136,385 |
| | 1,149,556 | 0 | 1,149,556 | 2,467,110 | 0 | 2,467,110 | 1,317,554 |
| PUBLIC SERVICE COMMISSION | | | | | | | |
| Policy and Employment Relations | 196,305 | 0 | 196,305 | 194,055 | 0 | 194,055 | -2,250 |
| Human Resources | 151,600 | 0 | 151,600 | 210,567 | 0 | 210,567 | 58,967 |
| Leadership | 1,187,256 | 0 | 1,187,256 | 1,234,716 | 0 | 1,234,716 | 47,460 |
| Corporate Services | 118,741 | 0 | 118,741 | 113,565 | 0 | 113,565 | -5,176 |
| | 1,653,902 | 0 | 1,653,902 | 1,752,903 | 0 | 1,752,903 | 99,001 |
| TOURISM CORPORATION | | | | | | | |
| Head Office | 1,242,073 | 0 | 1,242,073 | 1,227,258 | 0 | 1,227,258 | -14,815 |
| Destination Market | 2,785,512 | 200,000 | 2,585,512 | 2,921,994 | 352,000 | 2,569,994 | 136,482 |
| Destination Development | 319,861 | 0 | 319,861 | 321,194 | 0 | 321,194 | 1,333 |
| | 4,347,446 | 200,000 | 4,147,446 | 4,470,446 | 352,000 | 4,118,446 | 123,000 |
| TRANSPORT | | | | | | | |
| Civil Aviation | 82,302 | 0 | 82,302 | 84,552 | 0 | 84,552 | 2,250 |

| | Budget Estimate 2014/15 | | | Budget Estimate 2015/16 | | | |
|---|-------------------------|------------------|-------------------|-------------------------|------------------|-------------------|----------------|
| | Gross Expenditure | Trading Revenue | Net Appropriation | Gross Expenditure | Trading Revenue | Net Appropriation | Gross Change |
| Maritime Transport | 113,176 | 0 | 113,176 | 114,426 | 0 | 114,426 | 1,250 |
| Meteorological Service | 325,769 | 36,000 | 289,769 | 323,519 | 36,000 | 287,519 | -2,250 |
| Finance & Administration | 137,229 | 0 | 137,229 | 138,979 | 0 | 138,979 | 1,750 |
| | 658,476 | 36,000 | 622,476 | 661,476 | 36,000 | 625,476 | 3,000 |
| FINANCIAL SERVICES DEVELOPMENT AUTHORITY | | | | | | | |
| Develop Cook islands financial Service Industry | 419,973 | 0 | 419,973 | 422,973 | 0 | 422,973 | 3,000 |
| | 419,973 | 0 | 419,973 | 422,973 | 0 | 422,973 | 3,000 |
| COOK ISLANDS SEABED MINERALS AUTHORITY | | | | | | | |
| Effective Seabed Minerals sector | 340,000 | 0 | 0 | 253,896 | 0 | 253,896 | -86,104 |
| Stakeholder Engagement | | | | 20,000 | 0 | 20,000 | 20,000 |
| Corporate Services | | | | 40,104 | 0 | 40,104 | 40,104 |
| | 340,000 | 0 | 0 | 314,000 | 0 | 314,000 | -26,000 |
| OUTER ISLANDS | | | | | | | |
| Aitutaki | | | | | | | 0 |
| Infrastructure | 949,373 | 43,250 | 906,123 | 1,049,373 | 43,250 | 1,006,123 | 100,000 |
| Waste Facility | 124,582 | 3,000 | 121,582 | 124,582 | 3,000 | 121,582 | 0 |
| Finance & Administration | 237,999 | 0 | 237,999 | 237,999 | 0 | 237,999 | 0 |
| Island Council | 89,263 | 0 | 89,263 | 139,263 | 0 | 139,263 | 50,000 |
| Women, Youth, Sport, Culture | 54,011 | 0 | 54,011 | 62,963 | 0 | 62,963 | 8,952 |
| Agriculture | 100,050 | 2,000 | 98,050 | 100,050 | 2,000 | 98,050 | 0 |
| | 1,555,278 | 48,250 | 1,507,028 | 1,714,230 | 48,250 | 1,665,980 | 158,952 |
| Aitutaki Power Supply | | | | | | | |
| Electricity Supply | 2,211,333 | 1,900,943 | 310,390 | 2,211,333 | 1,900,943 | 310,390 | 0 |
| | 2,211,333 | 1,900,943 | 310,390 | 2,211,333 | 1,900,943 | 310,390 | 0 |
| Atiu | | | | | | | |
| Agriculture | 130,250 | 8,602 | 121,648 | 130,250 | 8,602 | 121,648 | 0 |
| Infrastructure | 460,702 | 9,600 | 451,102 | 460,702 | 9,600 | 451,102 | 0 |
| Energy | 396,413 | 182,016 | 214,397 | 399,881 | 182,016 | 217,865 | 3,468 |
| Corporate | 157,746 | 1,100 | 156,646 | 159,836 | 1,100 | 158,736 | 2,090 |
| Island Council | 64,190 | 23,000 | 41,190 | 64,190 | 23,000 | 41,190 | 0 |
| | 1,209,301 | 224,318 | 984,983 | 1,214,859 | 224,318 | 990,541 | 5,558 |
| Mangaia | | | | | | | |
| Agriculture | 143,330 | 3,000 | 140,330 | 149,740 | 3,000 | 146,740 | 6,410 |
| Tourism & Community Development | 42,826 | 1,000 | 41,826 | 47,001 | 1,000 | 46,001 | 4,175 |
| Infrastructure Amenities | 471,856 | 25,000 | 446,856 | 458,401 | 25,000 | 433,401 | -13,455 |
| Public Utilities | 641,505 | 270,000 | 371,505 | 613,357 | 270,000 | 343,357 | -28,148 |

| | Budget Estimate 2014/15 | | | Budget Estimate 2015/16 | | | |
|--|-------------------------|-----------------|-------------------|-------------------------|-----------------|-------------------|------------------|
| | Gross Expenditure | Trading Revenue | Net Appropriation | Gross Expenditure | Trading Revenue | Net Appropriation | Gross Change |
| Finance & Administration Island Council | 164,242 75,054 | 500 1,500 | 163,742 73,554 | 186,288 73,694 | 500 1,500 | 185,788 72,194 | 22,046 -1,360 |
| Manihiki | 1,538,813 | 301,000 | 1,237,813 | 1,528,481 | 301,000 | 1,227,481 | -10,332 |
| Gender, Youth & Sports | 14,018 | 0 | 14,018 | 14,018 | 0 | 14,018 | 0 |
| Infrastructure | 318,257 | 10,500 | 307,757 | 318,257 | 10,500 | 307,757 | 0 |
| Energy | 304,163 | 111,600 | 192,563 | 291,796 | 111,600 | 180,196 | -12,367 |
| Finance and Administration | 137,482 | 7,200 | 130,282 | 143,325 | 7,200 | 136,125 | 5,843 |
| Island Council | 78,501 | 5,000 | 73,501 | 78,501 | 5,000 | 73,501 | 0 |
| Agriculture | 28,509 | 2,000 | 26,509 | 28,509 | 2,000 | 26,509 | 0 |
| Mauke | 880,930 | 136,300 | 744,630 | 874,406 | 136,300 | 738,106 | -6,524 |
| Infrastructure | 324,436 | 10,000 | 314,436 | 294,981 | 4,000 | 290,981 | -29,455 |
| Energy | 289,483 | 89,000 | 200,483 | 247,883 | 101,300 | 146,583 | -41,600 |
| Water | 90,907 | 3,800 | 87,107 | 77,050 | 500 | 76,550 | -13,857 |
| Finance & Administration | 54,074 | 1,053 | 53,021 | 137,656 | 5,000 | 132,656 | 83,582 |
| Corporate Services | 159,203 | 10,000 | 149,203 | 74,321 | 2,000 | 72,321 | -84,882 |
| Gender & Development | | 0 | 0 | 13,555 | 0 | 13,555 | 13,555 |
| Island Council | 0 | 0 | 0 | 65,424 | 1,053 | 64,371 | 65,424 |
| Mitiaro | 918,104 | 113,853 | 804,251 | 910,870 | 113,853 | 797,017 | -7,234 |
| Island Administration | 124,723 | 350 | 124,373 | 121,958 | 100 | 121,858 | -2,765 |
| Island Council | 53,875 | 200 | 53,675 | 49,095 | 100 | 48,995 | -4,780 |
| Social & Economic Growth | 10,640 | 300 | 10,340 | 12,800 | 0 | 12,800 | 2,160 |
| Infrastructure | 272,150 | 9,050 | 263,100 | 275,745 | 3,850 | 271,895 | 3,595 |
| Energy | 94,224 | 48,599 | 45,625 | 96,233 | 54,699 | 41,534 | 2,009 |
| Agriculture | 38,187 | 400 | 37,787 | 41,118 | 150 | 40,968 | 2,931 |
| Palmerston | 593,799 | 58,899 | 534,900 | 596,949 | 58,899 | 538,050 | 3,150 |
| Island Administration | 92,241 | 20,599 | 71,642 | 93,156 | 500 | 92,656 | 915 |
| Agriculture | 12,193 | 0 | 12,193 | 13,203 | 0 | 13,203 | 1,010 |
| Education | 111,944 | 0 | 111,944 | 109,132 | 0 | 109,132 | -2,812 |
| Energy | 52,061 | 0 | 52,061 | 52,061 | 19,299 | 32,762 | 0 |
| Infrastructure | 51,391 | 0 | 51,391 | 51,391 | 300 | 51,091 | 0 |
| Island Council | 38,800 | 0 | 38,800 | 38,800 | 500 | 38,300 | 0 |
| Penrhyn | 358,630 | 20,599 | 338,031 | 357,743 | 20,599 | 337,144 | -887 |

| | Budget Estimate 2014/15 | | | Budget Estimate 2015/16 | | | |
|--|-------------------------|------------------|-------------------|-------------------------|------------------|-------------------|------------------|
| | Gross Expenditure | Trading Revenue | Net Appropriation | Gross Expenditure | Trading Revenue | Net Appropriation | Gross Change |
| Gender, Youth & Sport | 26,488 | 0 | 26,488 | 14,200 | 0 | 14,200 | -12,288 |
| Infrastructure | 132,077 | 10,000 | 122,077 | 127,462 | 0 | 127,462 | -4,615 |
| Energy | 211,567 | 73,904 | 137,663 | 205,070 | 83,904 | 121,166 | -6,497 |
| Island Administration & Island Council | 205,480 | 0 | 205,480 | 208,880 | 0 | 208,880 | 3,400 |
| Agriculture | 30,450 | 0 | 30,450 | 53,535 | 0 | 53,535 | 23,085 |
| | 606,062 | 83,904 | 522,158 | 609,147 | 83,904 | 525,243 | 3,085 |
| Pukapuka and Nassau | | | | | | | |
| Infrastructure | 143,032 | 2,800 | 140,232 | 530,405 | 13,086 | 517,319 | 387,373 |
| Energy | 103,430 | 22,369 | 81,061 | 124,893 | 16,000 | 108,893 | 21,463 |
| Island Administration | 124,893 | 16,000 | 108,893 | 145,302 | 2,800 | 142,502 | 20,409 |
| Island Council | 505,351 | 13,086 | 492,265 | 81,161 | 22,369 | 58,792 | -424,190 |
| Women, Culture, Youth & Sport | 107,233 | 19,440 | 87,793 | 107,233 | 19,440 | 87,793 | 0 |
| Agriculture | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 983,939 | 73,695 | 910,244 | 988,994 | 73,695 | 915,299 | 5,055 |
| Rakahanga | | | | | | | |
| Agriculture | 14,150 | 1,000 | 13,150 | 14,150 | 1,000 | 13,150 | 0 |
| Marine | 106,650 | 22,000 | 84,650 | 119,908 | 22,000 | 97,908 | 13,258 |
| Beautification | 38,402 | 500 | 37,902 | 35,402 | 500 | 34,902 | -3,000 |
| Infrastructure | 81,867 | 2,600 | 79,267 | 81,867 | 2,600 | 79,267 | 0 |
| Energy | 60,566 | 15,000 | 45,566 | 52,566 | 15,000 | 37,566 | -8,000 |
| Island Administration | 102,529 | 2,400 | 100,129 | 97,529 | 2,400 | 95,129 | -5,000 |
| Island Council | 46,545 | 5,836 | 40,709 | 45,651 | 5,836 | 39,815 | -894 |
| | 450,709 | 49,336 | 401,373 | 447,073 | 49,336 | 397,737 | -3,636 |
| MINISTERIAL SUPPORT | | | | | | | |
| Prime Minister | 422,382 | 0 | 422,382 | 404,382 | 0 | 404,382 | -18,000 |
| Deputy Prime Minister | 221,000 | 0 | 221,000 | 221,000 | 0 | 221,000 | 0 |
| Minister Mark Brown | 274,870 | 0 | 274,870 | 294,870 | 0 | 294,870 | 20,000 |
| Minister Kiriau Turepu | 191,000 | 0 | 191,000 | 191,000 | 0 | 191,000 | 0 |
| Minister Nandi Glassie | 192,000 | 0 | 192,000 | 192,000 | 0 | 192,000 | 0 |
| Minister Albert Nicholas | 192,000 | 0 | 192,000 | 190,000 | 0 | 190,000 | -2,000 |
| Leader of the Opposition | 202,000 | 0 | 202,000 | 202,000 | 0 | 202,000 | 0 |
| | 1,695,252 | 0 | 1,695,252 | 1,695,252 | 0 | 1,695,252 | 0 |
| OTHER FUNDING - ADMINISTERED BY MFEM | | | | | | | |
| Capital distribution fund - depreciation only | 45,000 | 0 | 45,000 | 45,000 | 0 | 45,000 | 0 |
| Outer Islands small capital fund - depreciation only | 27,500 | 0 | 27,500 | 27,500 | 0 | 27,500 | 0 |
| | 72,500 | 0 | 72,500 | 72,500 | 0 | 72,500 | 0 |
| TOTAL APPROPRIATIONS | 64,662,017 | 5,517,617 | 59,144,400 | 68,608,443 | 5,719,617 | 62,888,826 | 3,606,426 |

17 Financial Statements

Financial Statements

As at 30 June 2016

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

17.1 Statement of Financial Performance

For the year ending 30 June 2016

| | Budget 2014-15 ('000) | Budget 2015-16 ('000) | Projected 2016-17 ('000) | Projected 2017-18 ('000) | Projected 2018-19 ('000) |
|---|-----------------------------|-----------------------------|--------------------------------|--------------------------------|--------------------------------|
| Revenue | | | | | |
| Taxation revenues | 101,289 | 102,914 | 103,871 | 104,624 | 106,645 |
| <u>Other revenue</u> | | | | | |
| Revenue on behalf of the Crown | 17,411 | 27,092 | 23,999 | 23,864 | 14,345 |
| Sale of goods and services | 5,720 | 5,720 | 5,720 | 5,720 | 5,720 |
| Interest | 2,532 | 2,569 | 2,587 | 2,561 | 2,561 |
| Dividends | 2,115 | 2,020 | 2,020 | 2,020 | 2,020 |
| Total Revenue | 129,067 | 140,315 | 138,197 | 138,789 | 131,291 |
| Expenditure | | | | | |
| Appropriations to agencies | 65,565 | 70,849 | 70,222 | 69,808 | 65,756 |
| Payments on behalf of Crown | 47,527 | 54,594 | 51,976 | 51,060 | 45,412 |
| Debt-servicing interest | 2,057 | 2,285 | 2,626 | 2,450 | 2,273 |
| Building maintenance | 1,800 | 1,798 | 1,798 | 1,798 | 1,798 |
| Infrastructure depreciation | 2,920 | 2,920 | 3,682 | 3,682 | 3,682 |
| Other expenditure | 6,269 | 6,314 | 6,794 | 6,827 | 6,824 |
| Total Expenditure | 126,138 | 138,760 | 137,098 | 135,625 | 125,745 |
| NET OPERATING SURPLUS / (DEFICIT)* | 2,929 | 1,555 | 1,099 | 3,164 | 5,546 |

* Net Operating Surplus/(Deficit) balance vary to Operating Revenue and Expenditure Statement for the year ended 30 June 2016 due to the difference in treatment of Debt -servicing interest.

17.2 Statement of Financial Position

As at 30 June 2016

| | Budget 2014-15 ('000) | Budget 2015-16 ('000) | Projected 2016-17 ('000) | Projected 2017-18 ('000) | Projected 2018-19 ('000) |
|--------------------------------|-----------------------------|-----------------------------|--------------------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Cash and equivalents | 34,751 | 16,714 | 6,211 | 3,416 | 7,928 |
| Loan reserves | 15,770 | 16,903 | 17,067 | 14,702 | 12,669 |
| Trust accounts | 7,142 | 7,706 | 8,275 | 8,799 | 9,332 |
| Inventory | 4,395 | 4,395 | 4,395 | 4,395 | 4,395 |
| Tax receivables | 16,713 | 16,462 | 15,986 | 21,328 | 27,351 |
| Debtors and other receivables | 10,699 | 10,699 | 10,699 | 10,699 | 10,699 |
| Advances to SOEs | 26,206 | 26,206 | 26,206 | 26,206 | 26,206 |
| Investment in SOEs | 146,733 | 146,733 | 146,733 | 146,733 | 146,733 |
| Plant, property, and equipment | 271,190 | 344,310 | 409,382 | 433,041 | 431,117 |
| Total Assets | 533,599 | 590,128 | 644,954 | 669,319 | 676,430 |
| Liabilities | | | | | |
| Creditors and other payables | 35,625 | 30,954 | 26,607 | 25,501 | 25,451 |
| Trust liabilities | 8,510 | 8,510 | 8,510 | 8,510 | 8,510 |
| Borrowings | 101,074 | 109,127 | 113,703 | 110,413 | 102,491 |
| Total Liabilities | 145,209 | 148,591 | 148,820 | 144,424 | 136,452 |
| Net Crown Balance | 388,390 | 441,537 | 496,134 | 524,895 | 539,978 |

17.3 Statement of Cashflows

For the year ending 30 June 2016

| | Budget 2014-15 ('000) | Budget 2015-16 ('000) | Budget 2016-17 ('000) | Projected 2017-18 ('000) | Projected 2018-19 ('000) |
|--|-----------------------------|-----------------------------|-----------------------------|--------------------------------|--------------------------------|
| Cashflows from Operating Activities | | | | | |
| <u>Cash provided from:</u> | | | | | |
| Taxation and levies | 101,289 | 102,914 | 103,871 | 104,624 | 106,645 |
| Collection of tax arrears | 231 | 251 | 476 | -5,342 | -6,023 |
| Sale of goods and services | 5,720 | 5,720 | 5,720 | 5,720 | 5,720 |
| Interest | 2,532 | 2,569 | 2,587 | 2,561 | 2,561 |
| Dividends | 2,115 | 2,020 | 2,020 | 2,020 | 2,020 |
| Other income | 17,411 | 27,092 | 23,999 | 23,864 | 14,345 |
| | <u>129,298</u> | <u>140,566</u> | <u>138,673</u> | <u>133,447</u> | <u>125,268</u> |
| <u>Cash applied to:</u> | | | | | |
| Appropriations to agencies (less depn) | 61,833 | 67,075 | 66,433 | 66,026 | 61,976 |
| Payments on behalf of Crown | 47,527 | 54,594 | 51,976 | 51,060 | 45,412 |
| Debt-servicing interest | 2,057 | 2,285 | 2,626 | 2,450 | 2,273 |
| Building maintenance | 1,800 | 1,798 | 1,798 | 1,798 | 1,798 |
| Other expenditure | -3,174 | 10,985 | 11,141 | 7,933 | 6,874 |
| | <u>110,043</u> | <u>136,737</u> | <u>133,974</u> | <u>129,267</u> | <u>118,333</u> |
| Net Operating Activity Cashflows | 19,255 | 3,829 | 4,699 | 4,180 | 6,935 |
| Cashflows from Investing Activities | | | | | |
| <u>Cash provided from:</u> | | | | | |
| Subsidiary loan repayments | 0 | 0 | 0 | 0 | 0 |
| | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| <u>Cash applied to:</u> | | | | | |
| Capital expenditure | 23,530 | 33,152 | 30,031 | 8,962 | 3,965 |
| Advances to Subsidiaries | 0 | 0 | 0 | 0 | 0 |
| | <u>23,530</u> | <u>33,152</u> | <u>30,031</u> | <u>8,962</u> | <u>3,965</u> |
| Net Investing Activity Cashflows | -23,530 | -33,152 | -30,031 | -8,962 | -3,965 |
| Cashflows from Financing Activities | | | | | |
| <u>Cash provided from:</u> | | | | | |
| Loans drawn down | 6,452 | 9,485 | 12,714 | 0 | 0 |
| Cash drawn from loan reserves | 6,111 | 7,986 | 8,008 | 8,011 | 7,964 |
| | <u>12,563</u> | <u>17,471</u> | <u>20,722</u> | <u>8,011</u> | <u>7,964</u> |
| <u>Cash applied to:</u> | | | | | |
| Loan repayments | 4,496 | 4,508 | 5,159 | 7,866 | 7,922 |
| Loan reserves | -441 | 1,113 | 164 | -2,365 | -2,033 |
| Other reserves | 906 | 565 | 569 | 523 | 533 |
| | <u>4,961</u> | <u>6,186</u> | <u>5,892</u> | <u>6,024</u> | <u>6,422</u> |
| Net Financing Activity Cashflows | 7,602 | 11,285 | 14,830 | 1,987 | 1,542 |
| Net cash movements | 3,327 | -18,037 | -10,503 | -2,795 | 4,512 |
| Add: Opening Cash and Equivalents | 31,425 | 34,751 | 16,714 | 6,211 | 3,416 |
| Closing Cash and Equivalents | 34,751 | 16,714 | 6,211 | 3,416 | 7,928 |

17.4 Statement of Borrowings

For the year ending 30 June 2016

| | Budget 2014-15 | Budget 2015-16 | Projected 2016-17 | Projected 2017-18 | Projected 2018-19 |
|---|-------------------|-------------------|----------------------|----------------------|----------------------|
| | ('000) | ('000) | ('000) | ('000) | ('000) |
| Total Gross Borrowings | 101,074 | 109,127 | 113,703 | 105,837 | 97,915 |
| Assets Held Against Borrowings: | | | | | |
| Advances to subsidiaries | 26,206 | 26,206 | 26,206 | 26,206 | 26,206 |
| Loan reserves | 20,482 | 18,688 | 21,688 | 26,478 | 34,420 |
| Total Assets Held Against Borrowings | 46,688 | 44,894 | 47,894 | 52,684 | 60,626 |
| Net Borrowings of the Government | 54,386 | 64,233 | 65,809 | 53,153 | 37,289 |

17.5 Revenue Levied on Behalf of the Crown

For the year ending 30 June 2016

| | Budget 2014-15 | Budget 2015-16 | Projected 2016-17 | Projected 2017-18 | Projected 2018-19 |
|--|-------------------|-------------------|----------------------|----------------------|----------------------|
| | ('000) | ('000) | ('000) | ('000) | ('000) |
| <u>Taxation</u> | | | | | |
| Income tax | 21,897 | 22,201 | 21,896 | 21,881 | 22,292 |
| Company tax | 11,187 | 10,625 | 11,204 | 11,275 | 11,490 |
| Import levies | 11,099 | 11,956 | 12,154 | 12,362 | 12,738 |
| Departure tax | 7,655 | 7,817 | 8,015 | 8,251 | 8,527 |
| VAT | 49,063 | 50,316 | 50,601 | 50,854 | 51,598 |
| Withholding tax | 388 | 0 | 0 | 0 | 0 |
| Total Revenue Levied on Behalf of the Crown | 101,289 | 102,914 | 103,871 | 104,624 | 106,645 |

17.6 Statement of Fiscal Risks

As at 30 June 2016

| Quantifiable Contingent Liabilities | ('000) |
|--|---------------|
| Guarantees and indemnities | 500 |
| Uncalled capital | 1,586 |
| Legal proceedings and disputes | 5,434 |
| Total Quantifiable Contingent Liabilities | 7,520 |

The total quantifiable contingent liabilities are estimated at \$7.5 million in 2014/15. This is made up of the guarantees and indemnities outlined below. Possible liabilities stemming from the Outer Island Governments are also discussed.

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.

Uncalled Capital

The Government also holds \$1.6 million in the Asian Development Bank - Cook Islands Government Property Corporation. This takes the form of 88 uncalled shares with a par value of USD 13,500 each.

Legal Proceedings and Disputes

Total quantifiable risk to the Crown under legal proceedings and disputes is \$5.4 million.

Financial liabilities relating to Island Governments

Currently, MFEM has not approved any of the Island Governments to take out any contract or security that could result in a potential liability for the Crown.

In terms of public liability or other indemnity, the Island Administrations are not treated differently to other government agencies. The capacity for the Island Administrations to generate such liabilities is estimated to be low. No risk mitigation has been undertaken to ameliorate risk any more than for other government bodies that are based in Rarotonga.

Unpaid invoices are a potential risk that would be difficult to mitigate without tighter financial controls than those imposed on other Government agencies. Island Administrations are fully covered by the MFEM Act, MFEM financial policies and procedures, and are accountable to the National Audit Office and the Cook Islands Parliament.

18 Statement of Accounting Policies

There have been no changes since the Half Year Economic and Fiscal Update 2014/15. There are no major changes to accounting policies anticipated in the foreseeable future.

18.1 Basis of Preparation

18.1.1 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 64.

18.1.2 Statement of Compliance

These financial statements in Chapter 17 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).

18.1.3 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.

18.2 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> |
|---|-----------------------|
| IPSAS 28 Financial Instruments: Recognition and Measurement | 1/01/2013 |
| IPSAS 29 Financial Instruments: Presentation | 1/01/2011 |
| IPSAS 30 Financial Instruments: Disclosure | 1/01/2013 |

These new standards have been issued but are not yet effective for the consolidated Crown accounts as the preparation of the 30 June 2013 accounts are currently in progress – the 30 June 2012 consolidated accounts were completed and audited on 29 April 2015. The Crown will have to consider these new standards in future years. Crown has not yet determined the effect of these new standards.

18.2.1 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.

18.2.2 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.

18.2.3 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.

| Revenue Type | Revenue Recognition Point |
|-----------------------|--|
| Individual Income Tax | When an individual earns income that is subject to PAYE or provisional tax. This also includes withholding taxes. |
| Company Income Tax | When the corporate community earns taxable income. |
| Value Added Tax | When the liability to the Crown is incurred. For example, the liability arising from sales in June being paid in July however recognised as revenue in June. |
| Customs levies | When goods liable to duty are assessed, except for Oil Companies which are accounted for when the liability to the Crown is incurred. |
| Departure Tax | When departure tax coupons are purchased. |
| Other Revenue | When the debt to the Crown arises. |

18.2.4 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.

18.2.5 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 |
| Plant and Equipment | 5 – 15 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 |

18.2.6 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.

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
- Harbours & ports
- Airports

These assets are now carried at re-valued amounts which are the fair value at revaluation date less subsequent depreciation and impairment losses.

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.

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.

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.

18.2.7 Liabilities

18.2.8 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.

18.2.9 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.

18.2.10 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.

18.2.11 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.

18.2.12 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.

18.2.13 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.