COOK ISLANDS GOVERNMENT

2020/21 Half-Year Economic and Fiscal Update

Hon. Mark Brown

Minister of Finance

16th December 2020

Disclaimer

The 2019/20 actual expenditure and revenue data will differ from the June 2020 Quarterly Financial Report due to the accrual accounting system used by the Cook Islands Government. The data presented in the 2020/21 HYEFU is a more accurate reflection of actual expenditure and revenues in 2019/20.

Abbreviations and Acronyms

Term	Definition
ACL	Avaroa Cable Limited
ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
BCCF	Business Continuity Credit Facility
CF	Carry Forward
COFOG	Classification of Functions of Government
COVID-19	Coronavirus Disease 2019
CPRO Loan	COVID-19 Pandemic Response Option Loan
CPI	Consumer Price Index
CSS	Core Sector Support
EDS	Economic Development Strategy
EEZ	Exclusive Economic Zone
EO	Executive Order
ERP	Economic Response Plan
GBS	General Budget Support
GDP	Gross Domestic Product
GFA	Grant Funding Agreement
GFS	Government Financial Statistics
HYEFU	Half Year Economic and Fiscal Update
IMF	International Monetary Fund
LRF	Loan Reserve Fund
MTEC	Medium-term Expenditure Ceiling
MTFF	Medium-term Fiscal Framework
MTFS	Medium-term Fiscal Strategy
NSDA	National Sustainable Development Agenda
NSDP	National Sustainable Development Plan
NZD	New Zealand Dollars
ODA	Official Development Assistance
PHEIC	Public Health Emergency of International Concern
POBOC	Payments on Behalf of Crown
ROBOC	Revenue on Behalf of Crown
SARS-CoV-2	Severe Acute Respiratory Syndrome Coronavirus 2
SOE	State Owned Enterprise
USD	United States Dollars
WHO	World Health Organisation

All figures presented in this report are in New Zealand Dollars ($) unless otherwise specified.

Table of Contents

List of Tables

List of Figures

GOVERNMENT OF THE COOK ISLANDS
OFFICE OF THE MINISTER OF FINANCE

P.O. Box 3246 Rarotonga, Cook Islands
Telephone: (+682) 24-875; Facsimile: (+682) 24-178

16 December 2020

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the 2020/21 Half-year Economic and Fiscal Update (HYEFU).

To enable the Ministry of Finance and Economic Management to prepare the 2020/21 HYEFU, I have ensured that the Financial Secretary has been advised of all Government decisions and other circumstances as at December 2020 of which I was aware and had material economic and fiscal implications.

The 2020/21 HYEFU has been produced in accordance with the *Ministry of Finance and Economic Management Act 1995-96*.

I accept the overall responsibility for the integrity of the disclosures contained in this document, and the consistency and completeness of the information in compliance with the requirements of the *Ministry of Finance and Economic Management Act 1995-96*.

Kia Manuia,

Honourable Mark Brown

Minister of Finance

MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT
GOVERNMENT OF THE COOK ISLANDS

PO Box 120, Rarotonga, Cook Islands
Phone (+682) 22878 or 22879 Fax (+682) 23877
E-mail: garth.henderson@cookislands.gov.ck

16 December 2020

STATEMENT OF RESPONSIBILITY

This Half Year Economic and Fiscal Update (HYEFU) 2020/21 is prepared in accordance with Section 11 and 16 of the *Ministry of Finance and Economic Management Act 1995-96*. Section 16 further states that the Minister shall no earlier than the 1st day of December, nor later than the 31st day of December in each financial year, cause to be published a report containing an economic and fiscal update prepared by the Ministry.

Therefore in accordance with Section 30(2) of the *Ministry of Finance and Economic Management Act 1995-96*, the Minister of Finance and the Financial Secretary shall prepare and sign a Statement of Responsibility for the financial statements.

The integrity of the disclosures and consistency with the requirements of the Ministry of Finance and Economic Management Act 1995-96 are warranted in relation to the financial statements included within the 2020/21 HYEFU.

The update incorporates the fiscal and economic implications both of Government decisions and circumstances as at December 2020 that were communicated to me, and of other economic and fiscal information available to the Ministry in accordance with the provisions of the *Ministry of Finance and Economic Management Act 1995-96.*

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

Kia Manuia,

Garth Henderson

Financial Secretary

1 Introduction and Overview

The Half Year Economic and Fiscal Update (HYEFU) revises the fiscal forecasts that underpin the 2020/21 Budget based on the latest economic data, actual expenditure in 2019/20 and unanticipated expenditures and revenues in 2020/21.

The HYEFU also contains the Government's Medium-term Fiscal Strategy 2021/22 – 2024/25 (MTFS), providing details on Government's fiscal planning and anticipated expenditure profile over this period, including performance against the fiscal rules which underpin the MTFS.

The 2020/21 HYEFU has been developed amidst the substantial economic impacts of the COVID-19 pandemic, which has had a significant effect on the tourism industry of the Cook Islands since March 2020. This economic shock has severely impacted the Gross Domestic Product (GDP) of the Cook Islands, with flow on effects to Government revenues.

The economic shock has had far reaching impacts in the Cook Islands, disrupting the private sector and affecting households through reduced income. Government responded to this through a rapidly developed Economic Response Plan (ERP) launched in April 2020, with Phase II released in the 2020/21 Budget.

The size of the shock triggered the use of the MTFS exit clause in the 2020/21 Budget, allowing Government to respond to the crisis with all the resources available to it, without being required to adhere to the fiscal rules. The response included the use of funds from the $56.7 million Stabilisation Account to pay for the $64.0 million appropriation for Phase II of the ERP.

Government has drawn on debt to reinforce its resources in 2020/21, and will continue to do this until 2023/24 when modest fiscal surpluses are forecast. While Government is working to adhere to the fiscal rules as far as possible, downward revisions to GDP see net debt forecast at $175.6 million, or 40.9 per cent of GDP, by the end of 2020/21.

On present forecasts, in particular that no additional budget support is received from donor partners, the MTFS outlines Government's plan to return to adherence to the core fiscal rule, the fiscal anchor, by 2024/25 when net debt falls below the hard cap, and cash reserves begin to recover.

The Cook Islands has received substantial support from our Official Development Assistance partners to date, totalling $25.2 million, the bulk of which consists of an additional $15.0 million grant from the New Zealand Government to support the ERP Phase II.

The continuing impacts of COVID-19 on the Cook Islands is challenging to forecast due to the substantial unknowns impacting the assumptions. This HYEFU assumes the reopening of borders to New Zealand and commencement of tourism in April 2021, substantially later than forecast in the 2020/21 Budget, which has subsequent impacts on the economy. Other unknowns include the potential arrival of a vaccine, and debt funding options.

The assumptions underpinning the economic and fiscal forecasts are detailed in this report consisting of known information as at the time of publication, these are considered conservative, but it is noted that the COVID-19 pandemic continues to be an evolving situation. The Ministry of Finance and Economic Management continues to monitor developments and will tailor its responses as the situation further develops.

2 COVID-19 Special Note

Coronavirus disease 2019 (COVID-19) is a new respiratory illness caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The virus was first reported in December 2019 in Wuhan, China and was declared a Public Health Emergency of International Concern (PHEIC) by the World Health Organization (WHO) on 30 January 2020, and later declared a pandemic on 11 March 2020.

Demographics and the limited intensive-care medical facilities within the Cook Islands indicated that a strategy to delay and mitigate the spread of COVID-19 within the community was appropriate to manage the impact on available resources. The Cook Islands border was closed in March 2020, and has subsequently operated on a restricted basis for citizens and residents only. To date this approach has been effective in preventing the arrival of COVID-19 in the Cook Islands.

These restrictions have directly impacted the tourism market in the Cook Islands, with a complete reduction in tourist volumes in the last quarter of 2019/20, and extending into 2020/21 to the time of publication. With a tourism-oriented private sector contributing an estimated 65 per cent of economic activity, this has had direct impacts on business viability and employment, with flow-on effects to Government revenues.

The size of the economic shock to the private sector necessitated an unprecedented Government response which focused on expenditure on social and economic support for both individuals and businesses to mitigate the economic impact to society. In addition to providing lifeline support, the intent of Government's response measures is to position the Cook Islands for rapid recovery once the tourism industry restarts, and to minimise any economic scarring due to the loss of productive potential from economic impacts becoming entrenched. Any delay in commencing the economic recovery resulting from the enforced border closures will further compromise the Government's efforts to minimise economic scarring.

The Cook Islands is working to ensure that required infrastructure and operational processes are in place in order to open a 'travel bubble' with New Zealand. In December 2020, the New Zealand Government advised that a two-way travel bubble, which would reopen the border to New Zealand-based tourism, is only likely to commence in March 2021. However, quarantine-free movement of Cook Islanders between New Zealand and Rarotonga is expected prior. These new developments have significant negative implications for the Cook Islands economic and fiscal outlook, both in the short and medium-term.

The immediate impact of a further delay in the travel bubble, which effectively means no in-bound tourists until April 2021, is the need for additional ERP support to maintain community livelihoods and keep businesses viable for longer. The Government will make every effort to fund this additional expenditure, which at a minimum will include another extension of the wage subsidy and a further round of business grants, using the existing 2020/21 Budget Appropriation. However, the risk of the Government requiring additional debt funding, which would require an emergency Supplementary Budget, has increased. Even with additional fiscal support, there is an increased risk of depopulation over the next three months as people may choose to relocate to New Zealand in search of economic opportunities, weakening the Cook Islands ability to rebound from the pandemic.

An asymmetric border opening allowing quarantine free access into New Zealand from the Cook Islands would address a number of key concerns such as urgent relief for critical essential health and judiciary professionals, and for Cook Islands business travel. However, it does increase the risk of depopulation.

The medium-term impact of the delayed travel bubble is a slower recovery in the Government's finances than would otherwise be the case, which is likely to postpone the ability to commence a number of major capital infrastructure investment projects. Any additional debt taken on to extend ERP support will cause further delay. This will in turn slow the post-pandemic Cook Islands economic recovery, for which these projects are intended to be a key driver. The signature projects likely to be affected include the Mei Te Vai Ki Te Vai centralised sewerage network planned for the Muri catchment, unless innovative new loan or grant products can be offered by donor partners and leveraged by the Cook Islands.

2.1 Fiscal Response

The Government temporarily departed from the Fiscal Rules, with the exception of the Fiscal Anchor (the Net Debt Rule) in the 2020/21 Budget. This allowed Government to draw on financial reserves, including the Stabilisation Account, and implement funding measures, such as the Economic Response Plan (ERP), which would otherwise be restricted under the Medium-term Fiscal Strategy.

The deterioration in the GDP forecast since the 2020/21 Budget resulting from the delayed reopening of the border with New Zealand, together with the requirement to fully draw down on the AIIB loan, has resulted in the Government departing from the Fiscal Anchor in this 2020/21 HYEFU. The Government has designed its MTFS to deliver a return to adherence of the fiscal rules by 2024/25, with net debt falling back within the hard cap and cash reserves becoming positive. This is further detailed in Chapters 3 and 7.

In order to mitigate the anticipated fiscal impacts of COVID-19, Government has deferred most operational funding increases, including the Government-wide pay increases that commenced in the 2019/20 Budget and non-core expenditure, until fiscal recovery is established. In many cases this funding has been redirected to support the ERP.

To enable a flexible response to the evolving medical and economic needs of the Cook Islands resulting from the pandemic, Government created two administered funding lines:

- COVID-19 Medical Response Fund
- COVID-19 Economic Response Plan

The Medical Response Fund enables Government to fund operating expenditures for tactical responses to emerging medical and border control issues. Estimated expenditures to date for this fund (Table 2-1) show that the bulk of expenditure relates to medical consumables, followed by costs related to quarantine and repatriation, the majority being the managed isolation costs in New Zealand.

Table 2-1: Expenditure of COVID-19 Medical Response Fund ($000's)

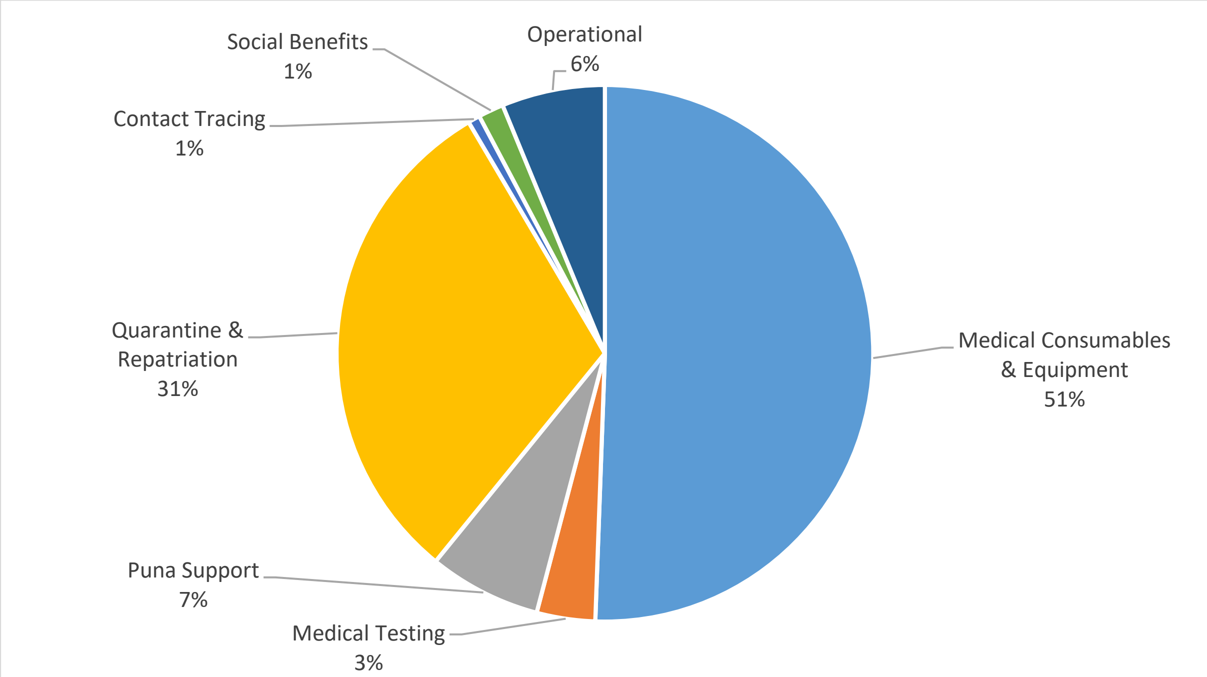
Expenditure	2019/20	2020/21*	Total to Date*
Medical Consumables & Equipment	2,614	33	2,647
Medical Testing	185	0	185
Puna Support	100	254	354
Quarantine & Repatriation	1,588	17	1,605
Contact Tracing	6	32	38
Social Benefits	80	0	80
Operational	322	4	326
Grand Total	**4,895**	**340**	**5,235**

*Note that expenditures for 2020/21 are estimates to date and may not include committed expenditures.

Medical consumables include personal protective equipment (PPE) as well as other single use items unrelated to testing requirements. Social benefits consist of funding provided to stranded students in New Zealand.

Operational costs include COVID-related personnel overtime costs, advertising and marketing and other associated costs incurred in support of the medical response to COVID-19 that are not classified earlier.

Figure 2-1: Allocation of COVID-19 Medical Response Fund



A capital fund of $750,000 was also created in the 2019/20 Supplementary Budget to facilitate tactical purchases related to the pandemic. The capital fund was primarily used to prepare the hospital for a potential response to the virus, including the purchase of oxygen piping and equipment.

2.2 Economic Response Plan

The ERP Phase II is a single administered fund which provides for a multi-faceted economic response including social benefits such as unemployment support and the wage subsidy, and economic stimulus measures such as the low interest lending facilities and interest relief program through the domestic banks. Further documentation on the ERP is available on the Ministry of Finance and Economic Management website[1].

A breakdown of expenditure to date for the Economic Response Plan is provided in Table 2-2 and Figure 2-2. Approximately 60.7 per cent of the expenditure, totaling $30.4 million, has been provided in wage subsidy and training subsidy payments. A further 30.9 per cent, totaling $15.4 million, has been provided through the Business Continuity Credit Facility (BCCF), Business and Sole Trader Grants and the Interest Relief Program.

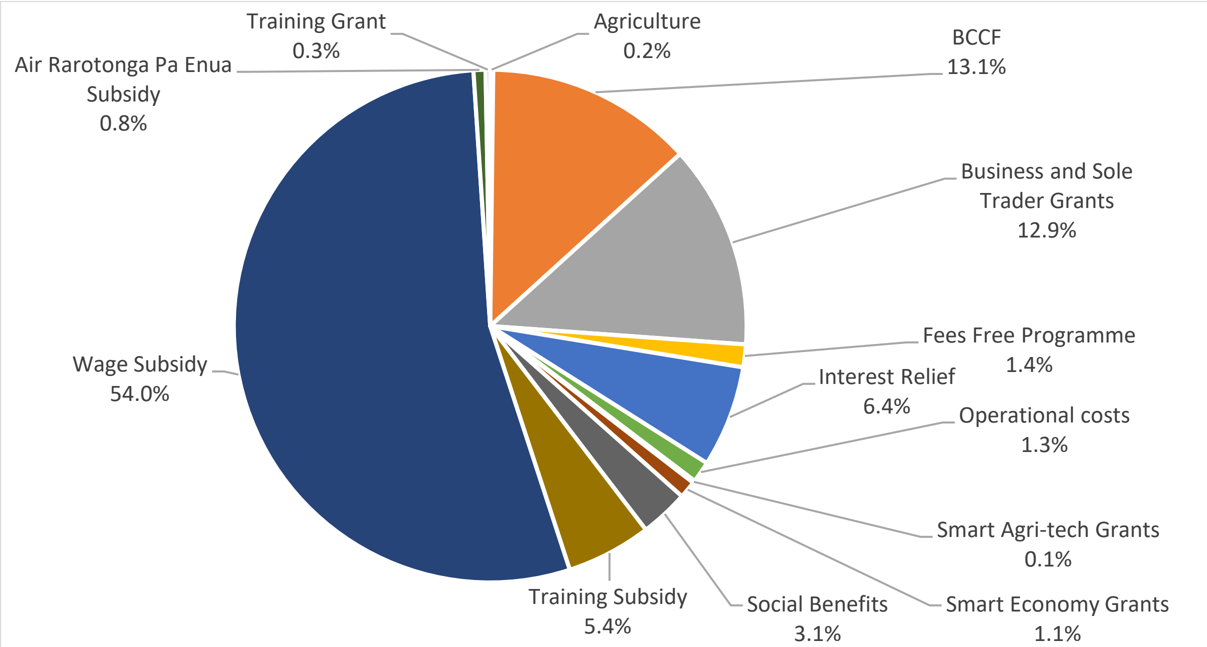
[1] http://www.mfem.gov.ck/economic-planning/erp-phase-ii

Table 2-2: Approximate Expenditure of COVID-19 Economic Response Plan ($000's)

Expenditure	2019/20	2020/21*	Total to Date*
Agriculture	99		99
Business Continuity Credit Facility (BCCF)		6,904	6,904
Business and Sole Trader Grants	4,892	1,895	6,787
Fees Free Programme		755	755
Interest Relief		3,376	3,376
Operational costs	376	331	707
Smart Agri-tech Grants		78	78
Smart Economy Grants		577	577
Social Benefits	1,476	136	1,612
Training Subsidy		2,829	2,829
Wage Subsidy	10,926	17,542	28,468
Air Rarotonga Pa Enua Subsidy	100	300	400
Training Grant		152	152
Total	**17,869**	**34,875**	**52,744**

*Note that expenditures for 2020/21 are estimates to date and do not include committed expenditures.

Figure 2-2: Allocation of COVID-19 Economic Response Plan ($000's)



2.3 Debt Funding

The ERP, when combined with ongoing Government operating commitments and capital investments, will consume Government's fiscal reserves in 2020/21, requiring the use of debt funding to supplement Government's resources in the 2020/21 – 2023/24 Budgets, with a small fiscal surplus forecast in 2023/24.

Debt totaling $60.4 million has been drawn down in 2020/21 for this purpose, with further drawdowns of $64.7 million[2] forecast to cover the financing gap facing the government over the following three years.

Debt funding requirements, based on economic estimates of GDP and Government revenues, are explained in chapter 7.

2.4 Official Development Assistance

The Cook Islands Government would like to acknowledge our aid partners for their support towards our economic and medical response to COVID-19.

A summary of support provided since March 2020 specifically for COVID-19 is outlined in Table 2-3, with further detail provided in Chapter 8.

Table 2-3: Summary of Official Development Assistance related to COVID-19

Development Partner	**Support Type**	**Value (NZD $000)**
New Zealand Government	Financial Support	22,014
	Materials & Equipment	262
		22,276
Australian Government	Financial Support	604
	Materials & Equipment	12
		616
People's Republic of China	Financial Support	83
	Materials & Equipment	186
		268
Government of Japan	Materials & Equipment	1,418
UNICEF		172
Jack Ma Foundation		352
Mr Stemm.		107
UNFPA		2
WHO		14
Total ODA Support towards COVID-19		**25,225**

[2] This differs to the amount provided in Chapter 7 of $71.2 million as the planned expenditure reductions of the Medium-Term Fiscal Strategy are included, reducing the required debt funding.

3 Medium-term Fiscal Strategy 2021/22 – 2024/25

This chapter presents the Cook Islands Government's Medium-term Fiscal Strategy (MTFS) for the period 2021/22 to 2024/25, and serves as the 2021/22 Budget Policy Statement. The MTFS reconfirms the Government's commitment to sound fiscal and economic management, within the context of a severe global and domestic economic shock.

The Government's medium-term fiscal strategy is to deliver fiscally sustainable budgets. To achieve this the Government commits to:

- Adhere to the fiscal rules on debt, fiscal balance, expenditure growth and cash reserves.
- The development of, and appropriation into, reserve funds (Stabilisation Account and Sovereign Wealth Fund) to ensure that excess revenues are saved for periods of economic downturn or natural disasters, and for future generations.
- An expenditure profile that is steered by the economic context, through the use of internal guiding principles.

The Government's fiscal strategy is underpinned by the following policy elements:

- Investing in the capabilities of Government Agencies to ensure they operate effectively and efficiently.
- Investing in infrastructure that will ensure the sustainability of economic growth and the resilience of the economy to climate change.
- Increasing revenue without increasing the tax burden on society, through economic growth and by ensuring that tax legislation is enforced in an equitable manner.

The scale of the present economic shock being experienced by the Cook Islands has required the temporary departure from the fiscal rules and the utilisation of the reserve funds in order to achieve an expenditure profile which responds to the current economic context.

In the context of the pandemic and economic shock the following policy elements are also being considered at the present time:

- Stimulating demand through support to local business to ensure that the economy is able to continue to operate, even at a reduced level, during this period of extreme uncertainty surrounding COVID-19.
- Supporting the livelihoods of those that are likely to be most affected by the economic fallout, including those required to self-isolate, those that lose their jobs and the elderly and infirm.
- Focusing the efforts of Government departments on core deliverables and limiting the expansion of new programs and costs.

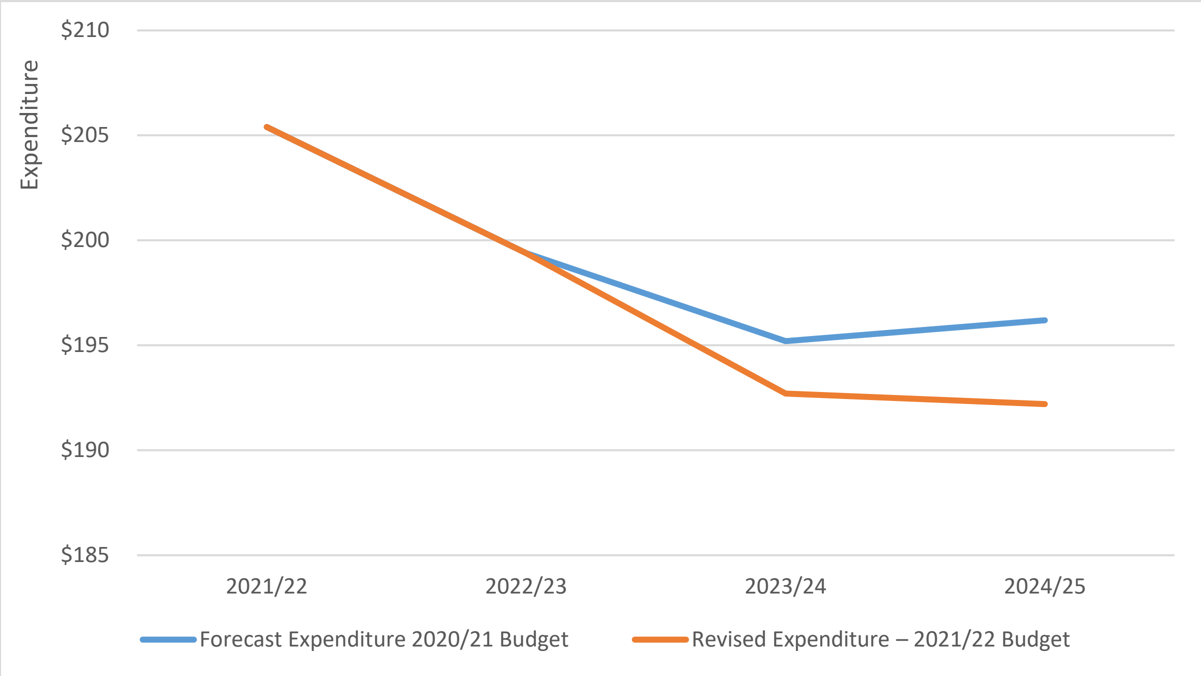
The Government is committed to the expenditure profile set out in Table 3-1 over the medium-term, with the fiscal space indicating the amount of additional expenditure, or reduction in expenditure, that the Government can undertake in each year.

Table 3-1: Medium-term Fiscal Strategy Expenditure Ceilings ($ Million)

$ million	2021/22	2022/23	2023/24	2024/25
Current expenditure planned	205.4	199.4	195.2	196.2
Fiscal Space	0	0	-2.5	-4.0
Total expenditure – 2021/22 Budget	**205.4**	**199.4**	**192.7**	**192.2**

The total expenditure limits are expected to remain at the level previously budgeted for 2021/22 and 2022/23 before small reductions in planned expenditure for the outer years are enacted as the need for economic stimulus lessens, and debt repayments increase. The expenditure profile changes are shown in Figure 3-1.

Figure 3-1: Expenditure Profile Shift through MTFS ($000's)



3.1 MTFS Economic and Fiscal Forecasts

3.1.1 Economic Forecast

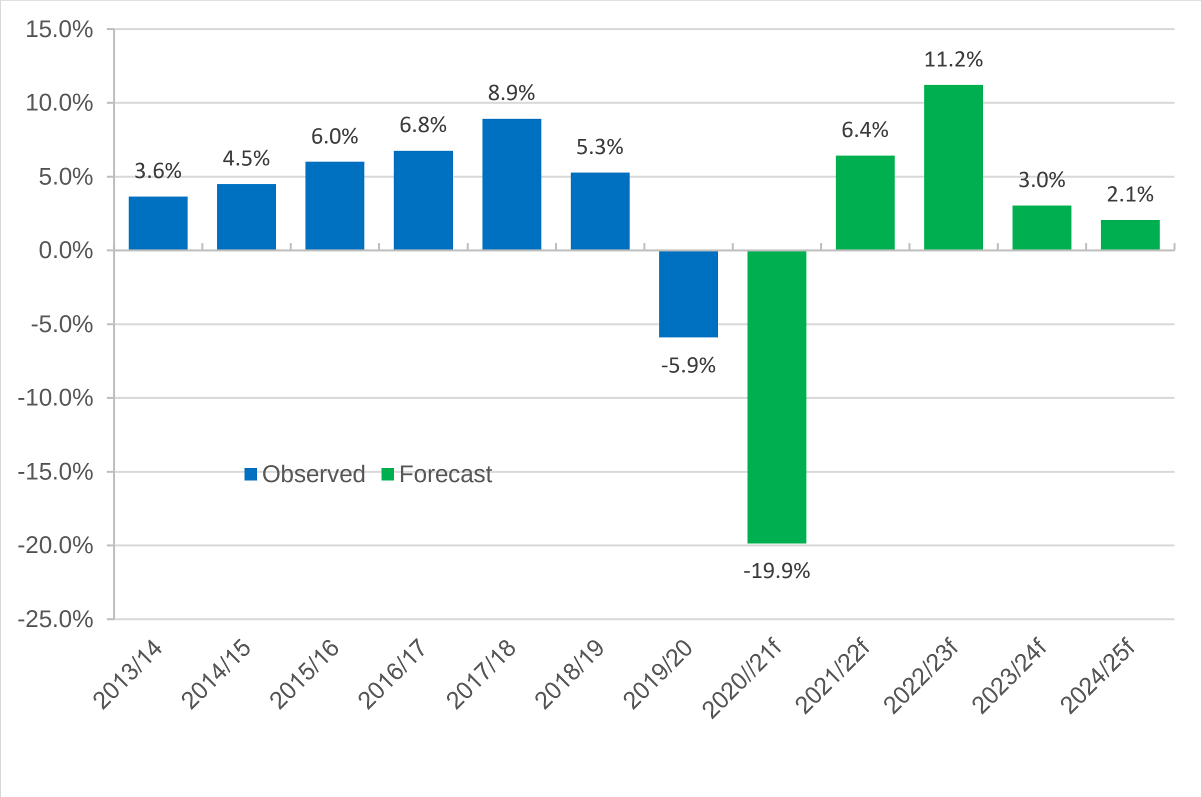
It is estimated that the pandemic will have its largest impact on the Cook Islands' economy during 2020/21, with a forecast decline of 19.9 per cent in real GDP. This follows an estimated decline of 5.9 per cent in 2019/20 when the pandemic first impacted the country, halting tourism and affecting both retail and accommodation oriented business.

It is estimated that the weakening in activity will have a small impact on the level of 'potential' or trend GDP[3], as the fundamentals of the Cook Island economy remain unchanged. This results in a negative output gap opening up briefly, as actual activity is below the potential of the economy. However, delays in the reopening of the border will affect this estimation, particularly given the length of time that businesses have no income, weakening the country's ability to rebound.

The economic recovery from the downturn is expected to take several years, with growth expected to commence in 2021/22 at 6.4 per cent from a reduced base, on the assumption that travel has resumed between the Cook Islands and New Zealand by the beginning of the fiscal year. This growth is expected to continue in 2022/23 at 11.2 per cent before moving towards longer-term growth rates of 3.0 per cent in 2023/24 and 2.1 per cent in 2024/25.

[3] Potential GDP is defined as the level of GDP above which supply constraints begin to bind and create inflationary pressures

Figure 3-2: Forecast real GDP growth



3.1.1.1 MTFS Expenditure Profile

The onset of the COVID-19 pandemic has required a shift in Government expenditure priorities over the medium-term to reduce the severity of the economic impact of COVID-19 to the Cook Islands' economy.

Government expenditure will continue to focus on investment in infrastructure and the ability of Government agencies to operate effectively and efficiently, however this will be managed within the context of the existing planned funding levels. To achieve this, Government will focus on the reprioritisation of existing funding with the likely result of transfers of funding between agencies, ultimately increasing the efficiency of Government expenditure.

Funding for new programs will be prioritised against the need for agencies to focus on the delivery of core services to the community, and the need for Government to provide economic support to households and businesses. This will result in the deferral of most new initiatives.

The Government-wide salary increases will remain on hold until the economic conditions improve and the resulting fiscal balances have stabilised. It is expected that a decision will be made during 2021 about the timeframes for reinstating the adjustment. This decision defers an approximate $6.0 million cumulative increase in Government expenditure in each forward year.

Capital expenditure is forecast to decrease over the outer years as major projects such as Te Mato Vai draw to an end, and the commencement of new large projects is deferred. Capital projects will continue to be assessed and monitored to ensure value for money and project timelines are achieved.

3.1.2 Fiscal Rules

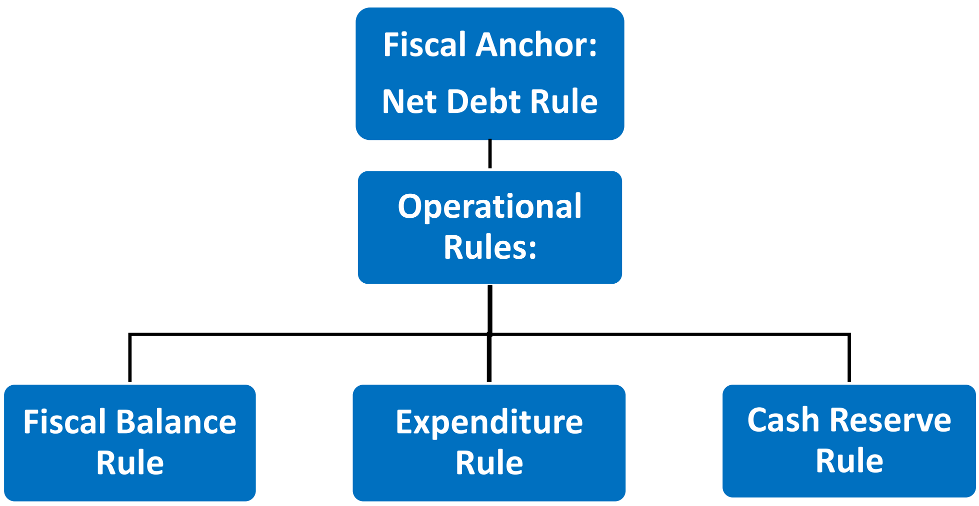
The Fiscal Rules have been developed as benchmarks for the Government in its aim of achieving fiscally sustainable budgets. In forming the rules, guidance on the criteria for rule development from the IMF has been considered as follows:

- Sustainability: compliance with the rule should ensure long-term debt sustainability.
- Stabilisation: following the rule should not increase (and may decrease) economic volatility. The principle of stabilisation ensures that automatic stabilisers are able to operate.
- Simplicity: The rule should be easily understood by decision makers and the public.
- Operational guidance: it should be possible to translate the rule into clear guidance in the annual budget process.
- Resilience: A rule should be in place for a sustained period in order to build credibility, and it should not be easily abandoned after a shock.
- Ease of monitoring and enforcement: compliance with the rule should be easy to verify, and there should be costs associated with deviations from the targets.

The Fiscal Rules are structured around the fiscal anchor which is linked to the objective of the fiscal strategy, fiscal sustainability. This rule is used to guide the development of three operational rules.

Too many rules can complicate fiscal policymaking and result in overlap and inconsistency of targets. As such, selected rules need to minimise the trade-off between the above criteria.[4] Based on these criteria, the rule structure set out in Figure 3-3 has been adopted.

Figure 3-3: MTFS rule structure



[4] IMF, 2018a. Fiscal Policy- How to select fiscal rules: a primer. Fiscal Affairs Department, International Monetary Fund, Washington. March 2018.

The Government has committed to four fiscal rules and expected performance against these fiscal rules is listed below:

> **Net Debt Rule (Fiscal Anchor)**: net debt should not exceed a soft cap of 30 per cent of GDP, and cannot exceed a hard cap of 35 per cent of GDP.
>
> **Fiscal Balance Rule**: the fiscal balance cannot exceed a deficit of 1.9 per cent of nominal GDP.
>
> **Expenditure Rule**: budgeted expenditure cannot grow by more than 4 per cent year-on-year.
>
> **Cash Reserves Rule**: the equivalent of 3 months of operating expenditure must be held in cash at any one time.

The fiscal rules have been developed using guidance from the IMF.[5] For an explanation on the development of the Fiscal Rules, including formulae, see the MTFS Technical Paper – *Fiscal Tool 2018: Explanatory note* (Technical Paper), which is available on the MFEM website.[6]

The MTFS has an exit clause that allows for a temporary departure from the fiscal rules, including during periods of severe economic shock, to enable a Government stimulus response to boost the economy. As noted earlier, the scale of the COVID-19 economic impact to the Cook Islands has triggered a temporary departure from the fiscal rules in order to enable a proportionate response. This is discussed further below.

Whilst permitted to temporarily depart from the fiscal rules, Government will continue to measure and publish performance against the rules in the Annual Budget releases.

Prudency

The Government's aim in the development of the Fiscal Rules is to ensure fiscal prudency. As such, in determining the rules, rounding has been applied to ensure that prudency is reinforced. For example, in the case of the expenditure ratio this has been rounded down from 4.3 to 4.0 per cent of GDP.

Exit clause

The Government agrees to abide by the fiscal anchor and operational rules at all times, with two exceptions. The Government may breach these rules only in the event of a natural disaster (and subsequent calling of a state of emergency), or a severe economic shock (defined as real economic growth of negative 2 per cent or less).

The economic shock resulting from COVID-19, with GDP falling by 5.9 per cent in 2019/20 and expected to fall by a further 19.9 per cent in 2020/21, has triggered the temporary departure from the fiscal rules outlined in the MTFS.

This departure enables Government to draw on its financial reserves, including the Stabilisation Account, to strengthen its response to the economic crisis and allows for an expenditure increase greater than 4 per cent, necessary for the implementation of the ERP.

While it is Government's strong preference to adhere to the fiscal anchor, this rule will be breached due to the contractual requirement to fully drawdown loans in 2020/21 and the ongoing negative impacts to GDP resulting from the delayed border reopening.

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[5] IMF, 2018b. Fiscal policy: How to calibrate fiscal rules – A Primer. Fiscal Affairs Department, International Monetary Fund, Washington D.C., March 2018.

[6] http://www.mfem.gov.ck/economic-planning

Adherence to the fiscal rules will be reinstated when the scope and scale of economic recovery allows, based on current economic and fiscal forecasts and the Government's expenditure profile in this MTFS, the Government is expected to return to adherence of the fiscal anchor by 2024/25.

Forecasts indicate that the fiscal deficit rule will be met by 2022/23 when the deficit is 1.3 per cent, while expenditure growth is expected to remain below the 4.0 per cent threshold over the medium term.

Net debt is forecast to fall within the hard cap in 2024/25, with the last rule, the cash reserves rule, not expected to be met over the medium-term, based on full expenditure of all budgetary appropriations. Fiscal surpluses are expected from 2023/24, after which Government's cash reserves are expected to begin accumulating again, with an estimated cash reserve of 1.9 months forecast in 2024/25, noting that this is likely to be greater when considering Government does not expend to the full appropriation limit.

These forecasts will continue to be updated as the economic situation continues to stabilise, and performance against the individual fiscal rules is discussed in further detail below.

3.1.2.1 MTFS Net Debt Rule

The Net Debt rule states that "net debt should not exceed a soft cap of 30 per cent of GDP, and cannot exceed a hard cap of 35 per cent of GDP". Net debt to GDP measures total debt relative to national income, and is intended to control the overall level of debt taken on by Government, including state-owned enterprises.

Revisions made to the GDP forecasts since the 2020/21 Budget have resulted in the hard cap on borrowings falling from $184.8 million (2019/20) to $150.2 million as at June 30 2021.

Government will draw on $60.4 million of debt in 2020/21 and forecasts a need to borrow an additional $71.2 million over the period 2021/22 to 2023/24 in order to cover shortfalls in cash reserves due to the ongoing fiscal deficits.

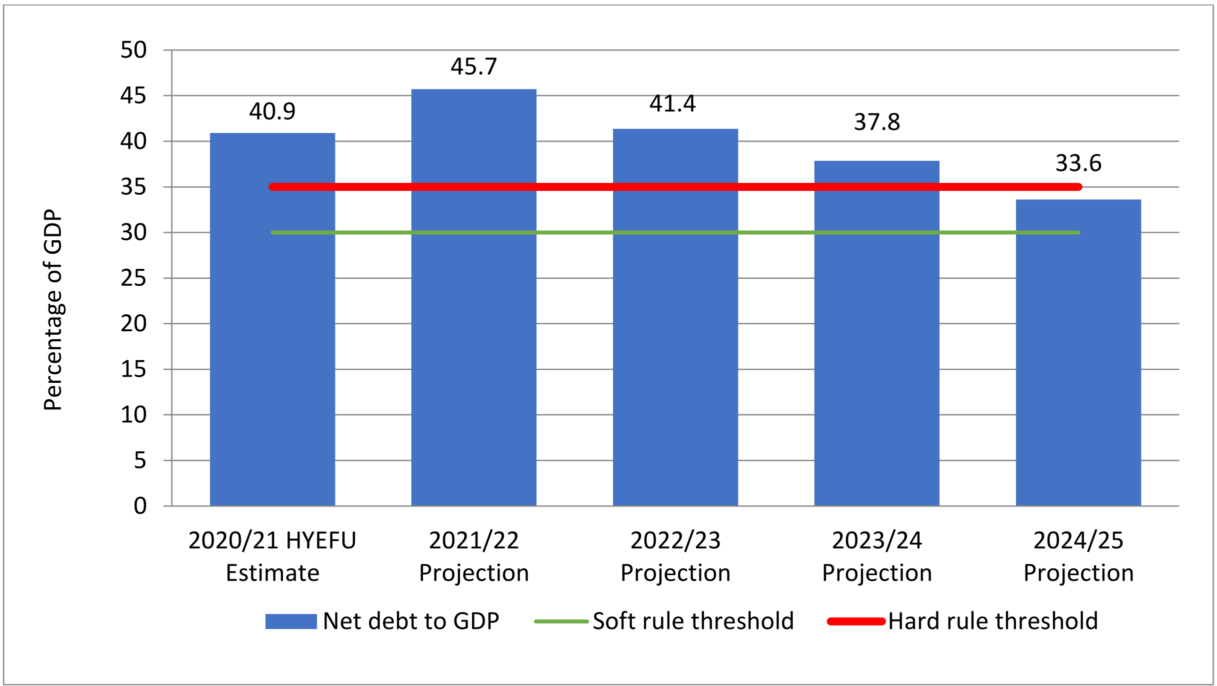
The drawdown on the loan from the Asia Infrastructure and Investment Bank (AIIB) contractually requires full-drawn down immediately, with the excess funds to be held in the Government's account until it is required. When considering only the portion of this loan that will be used immediately, the net debt ratio is forecast at 37.1 per cent in 2020/21, compared to the current forecast of 40.9 per cent.

Net debt to GDP is forecast at a maximum of 45.7 per cent of GDP in 2021/22 at $212.5 million. Increased debt numbers reflect both the Government's need to fill the financing gap that it currently faces in 20221/22 and the reduction in GDP. The value of debt increases to a maximum of $217.6 million in 2022/23, with a net debt ratio of 41.4 per cent of GDP in 2022/23, due to anticipated improved economic conditions (Figure 3-4).

The net debt ratio should not be considered in isolation. Any proposal to take on additional borrowing will 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. Proposals to take on new loans must be assessed under transparent processes as required by the MFEM Act 1995/96 and the Loan Repayment Fund Act 2014.

Refer to Chapter 7 for further discussion on the Government's debt position.

Figure 3-4: Net debt projections



3.1.2.2 MTFS Fiscal Balance Rule

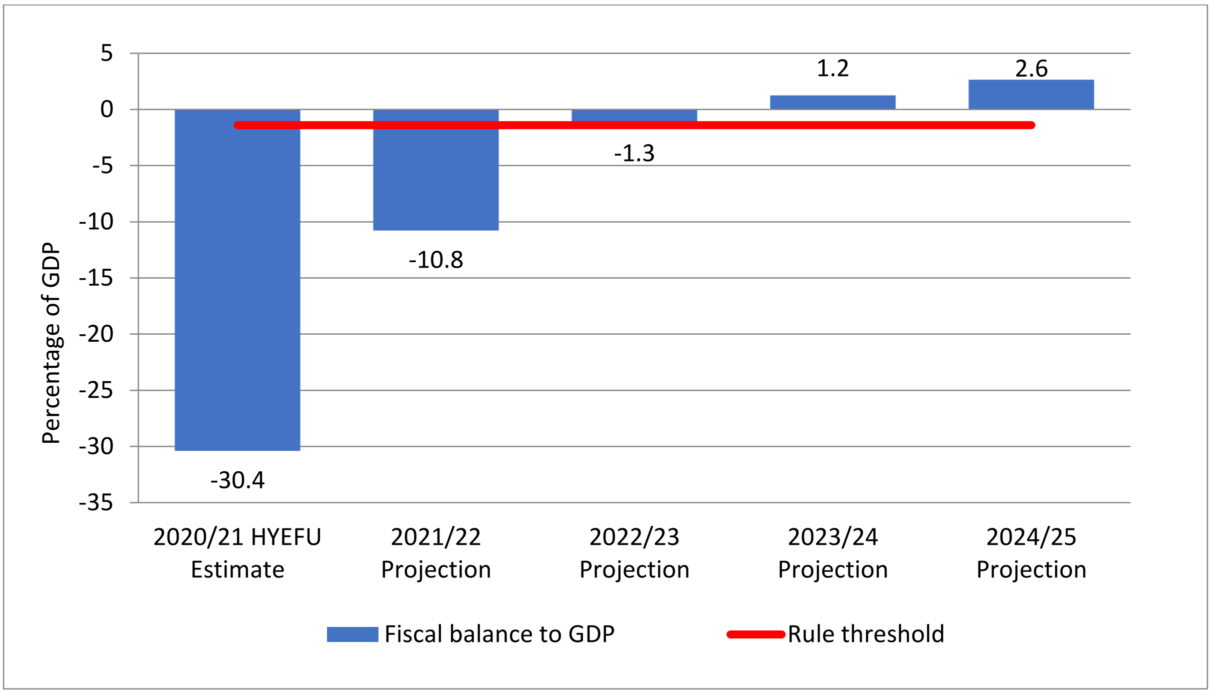
The fiscal balance rule states that "*the fiscal balance cannot exceed a deficit of 1.9 per cent of GDP in any one year*".

The fiscal balance is the net operating balance less net capital expenditure (i.e. capital expenditure less depreciation), in effect total expenditure against total revenue. Where the fiscal balance is in deficit, it must be serviced through debt or drawdown of reserve funds, as expenditure is exceeding revenue. This rule sets a limit on the fiscal balance by constraining overall expenditure in each year to maintain debt sustainability.

The funding of the ERP on top of Government operating and capital investment has resulted in a forecast fiscal deficit of 30.4 per cent in 2020/21. This will consume the balance of the Stabilisation Account, with debt funding filling the ongoing gap as discussed above.

The planned end to the ERP at the end of 2020/21, together with slow improvements to revenue as the economy recovers and GDP improves results in subsequent but decreasing deficits through to 2023/24, at which time a fiscal surplus of 1.2 per cent is forecast, as shown in Figure 3-5.

Figure 3-5: Fiscal balance projections



3.1.2.3 MTFS Expenditure Rule

The expenditure rule states that the *"growth of total Cook Islands Government expenditure cannot exceed four per cent year-on-year"*.

The expenditure rule controls Government expenditure (operating and capital) by limiting year-on-year growth to a maximum increase of four per cent. This rule operates on a counter-cyclical basis to limit increases in Government expenditure when revenues are growing rapidly. In conjunction with the cash reserves rule, any additional funding is transferred to reserve accounts such as the Stabilisation Account.

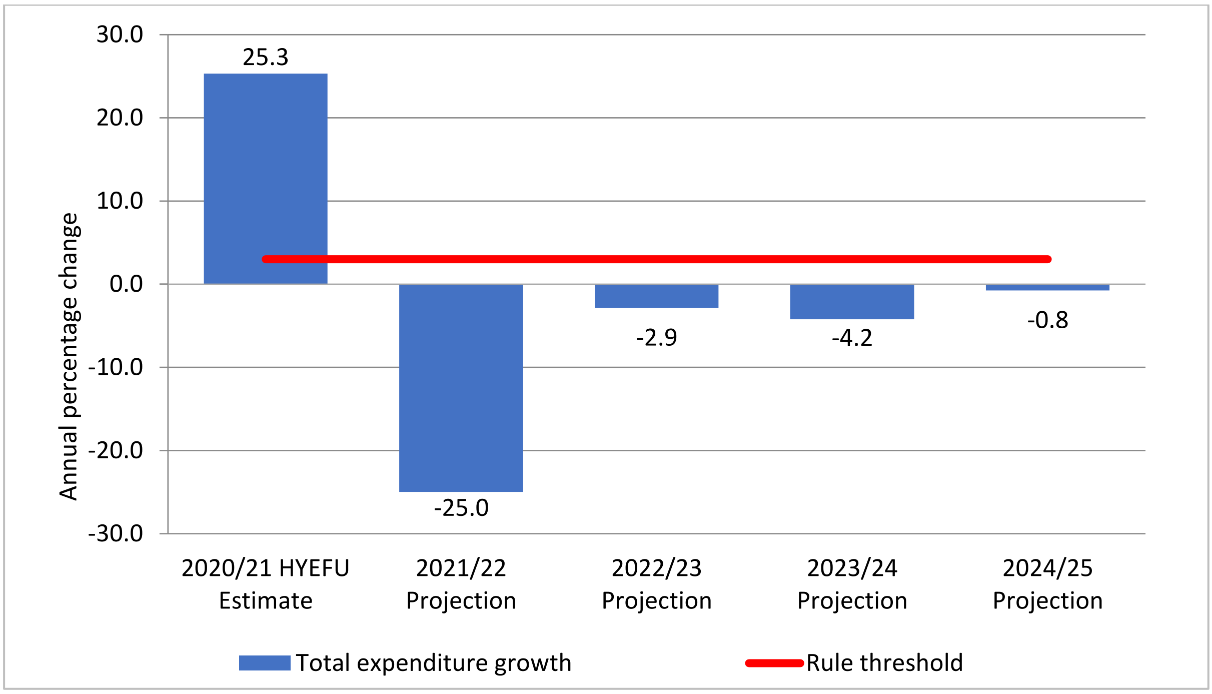
As shown in Figure 3-6, the expenditure planned for 2020/21 is expected to increase by a maximum of 25.3 per cent before falling below the limit from 2021/22 onwards. The increase in expenditure growth is directly related to the additional expenditure on Phase II of the ERP to provide economic stimulus.

Expenditure growth is forecast at negative 25.0 per cent in 2021/22 as a result of the cessation of the ERP, with Government expenditures returning towards normal levels.

Further negative expenditure growth is forecast between 2022/23 and 2024/25 due to a further scale back in capital expenditure as current major projects are completed and new major projects are deferred, along with the minor reductions to Government expenditure planned through the MTFS to ensure that Government meets its fiscal rules, in the context of decreased need for economic stimulus from Government.

It is also important to note that the expenditure rule assumes expenditure to the limit of the appropriation in each budget, whereas actual expenditure typically falls short of this level for various reasons.

Figure 3-6: Expenditure growth projections



3.1.2.4 MTFS Cash Reserves Rule

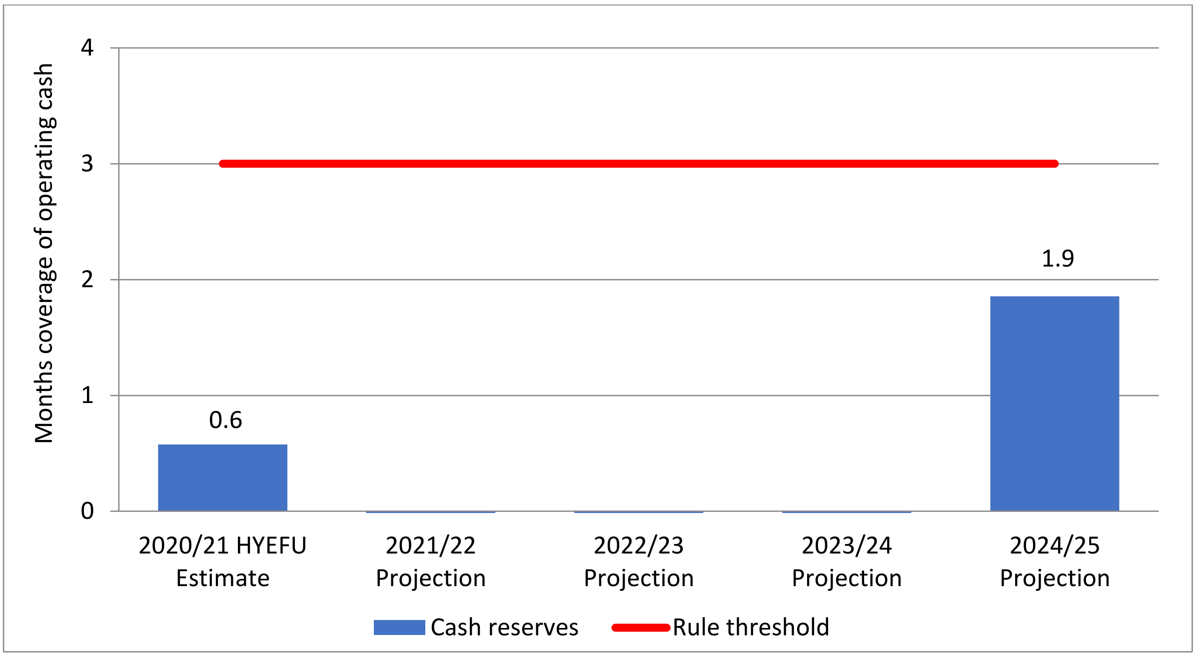
For prudential reasons, the Government requires a level of cash reserves to be on hand at all times, to act as a buffer in case of a liquidity shortage resulting from an economic shock or natural disaster. For example, if a large cyclone were to impact Rarotonga, and cause a halt to tax collections, the Government would require a level of cash to be held in reserve to cover operations.

A prudent level of cash reserves is considered to be three months of operating expenditure, either available as cash or liquid investments.

Figure 3-7 shows that the Government's cash reserve is expected to decrease to zero in 2021/22 once the funds in the Stabilisation Account and the early drawdown of the AIIB loan are consumed due to expenditure in 2020/21 on the ERP to provide economic stimulus and reduced revenues into 2021/22.

Debt drawdowns are expected over the Medium-term to supplement liquidity shortages until the economy recovers. This increases the debt drawn to the point at which the financing gap is filled and cash reserves are at zero. Debt drawn increases until fiscal surpluses overcome the need for further drawdowns, resulting in cash reserves recovering from 2024/25 with a year-end reserve of 1.9 months ($26.8 million) of operating expenditure.

Figure 3-7: Cash reserves projections



3.2 Medium-term National Priorities

To improve the alignment between fiscal planning and the achievement of national priorities, the MTFS incorporates the Medium-term National Priorities which are set through the National Sustainable Development Plan (NSDP). This provides further detail on the Government's intentions over the medium-term, and helps to guide the development of the Medium-term Expenditure Ceilings (MTEC) at Government department level.

While the NSDP is referenced in this 2021/22 MTFS, its use as an expenditure guide will be reduced. The overriding consideration in the present national priorities is Goal 2, Economic Opportunity, with the aim of reducing the size and severity of the economic impact of COVID-19 to the Cook Islands. This in turn will limit the economic scarring, or long-term negative impacts, to the Cook Islands economy.

In addition, as the NSDP 2016-2020 draws to an end in December 2020, research and policy work are now underway to develop the next Cook Islands National Sustainable Development Agenda and will build upon the successes of the previous plans and evolve to how we envision our future.

Falling within the NSDP structure, Government's Economic Development Strategy (EDS) is nearing completion. The EDS maps out the economic priorities for Government through to 2030 and will guide the expenditure priorities of Government agencies commencing in the 2021/22 Budget.

3.3 Assumptions underlying the economic and fiscal projections

Various assumptions have been made in the 2020/21 HYEFU to forecast the Cook Islands economic outlook and the Government's fiscal performance and position in the outer years.

3.3.1 Economic assumptions

3.3.1.1 Introduction

The Cook Islands Statistics Office publishes current price and real price (2016 base year) estimates of Gross Domestic Product (GDP) on a quarterly basis, using the production approach. GDP production estimates are disaggregated by major industry classifications, including institutional sectors. The latest data received from the Statistics Office relates to the June quarter 2020.

The Government has relied on an econometric time series model to forecast GDP with some adjustments to reflect the unprecedented nature of COVID-19, generating forecasts for the five-year period from 2020/21 to 2024/25.

3.3.1.2 Gross Domestic Product production model

A time series ARIMA modelling approach was used to forecast aggregate GDP production, in real terms.[7] A combination forecasting method has been adopted, utilising a simple average of five quarterly time series models, one multivariate and four univariate. Nominal forecasts are then derived by applying an implicit GDP price deflator, derived using time series forecasts over the forward period. For more detailed information on the time series model, see *Cook Islands time series economic forecasting model: Working Paper No. 18/1*, available on the MFEM website.[8]

These models have all been augmented by adjustments to reflect the reality of the ongoing COVID-19 pandemic.

3.3.1.3 Data

The key data sets used for the model are:

- Real and nominal GDP – quarterly data to June 2020;
- Trade, imports and exports – quarterly data to August 2020;
- Consumer Price Index (CPI) – quarterly index data to June 2020;
- International arrivals – Customs and Immigration monthly data to September 2020;
- Building approvals – quarterly data to September 2020;

3.3.1.4 Key economic indicator assumptions

Nominal GDP is expected to grow by:

- - 3.7 per cent in 2019/20
- - 18.7 per cent in 2020/21
- 8.3 per cent in 2021/22
- 13.2 per cent in 2022/23
- 5.0 per cent in 2023/24

Growth in prices, measured through the movements in the CPI, and forecast using an econometric time series approach, is expected as follows:

- 0.7 per cent in 2019/20
- 1.0 per cent in 2020/21
- 0.7 per cent in 2021/ 22
- 0.7 per cent in 2022/23
- 0.7 per cent in 2023/24

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[7] The autoregressive integrated moving average (ARIMA) procedure is a time series technique designed to model the lagged relationships in serially correlated data. The ARIMA procedure models a time series event as a linear function of its past values, past errors and current and past values and errors of other time series (in a multivariate ARIMA model).

[8] Available at: http://www.mfem.gov.ck/economic-planning/economics-team

Refer to Chapter 0 for more information on the economic forecasts and indicators.

3.3.2 Fiscal assumptions

The Government's expected fiscal performance over the forward period is based on the following assumptions:

- operating revenues are forecast on the basis of historical actuals, and one-off considerations, but assume no change to the tax revenue structure;
- operating expenditure movements reflect current Government policy commitments; and
- the level of Government borrowing is based on exchange rates derived using Consensus Economics forecasts.

3.4 Fiscal Risks

The IMF defines fiscal risks as 'deviations of fiscal outcomes from what was expected at the time of the budget'. The IMF lists a number of sources of fiscal risk, including:

- shocks to macroeconomic variables, such as economic growth, commodity prices, interest rates, or exchange rates; and
- calls on contingent liabilities, obligations triggered by an uncertain event, including explicit and implicit liabilities such as those created by public corporations and sub-national Governments.[9]

The risk matters facing the Cook Islands are discussed below and while these have not been directly considered in the economic forecasts above, they have helped to guide the development of the MTFS.

3.4.1 Risk Categories

There are a number of risks over the forward budget period that could affect the macroeconomic forecasts that underpin the Government's forward fiscal position. These are considered below, in no particular order.

3.4.1.1 Global Economic Risks

The effects of COVID-19 are expected to remain. Two factors which offset each other contain both upside and downside risks; infection rates are still rising in many parts of the world, increasing the chances of further outbreaks in the community of key trading partners, in particular New Zealand which in turn poses the risk of a longer than expected border closure.

Offsetting this is the recent commencement of the rollout of vaccinations in a number of countries. In the meantime, building a country's ability to respond effectively to the public health crisis is important for minimising risk and allowing an earlier resumption of economic activity. These risks are shared by many nations in the region and will be closely monitored as steps towards 'travel bubbles' are taken.

Exchange rate variations are a further source of risk due to the potential impact on the Cook Islands debt portfolio as a number of loans are denominated in US dollars and other international currencies. The IMF notes that the impact of exchange rate depreciations is immediate, and can be especially

9 IMF 2009, Fiscal risks: sources, disclosure, and management. IMF Fiscal Affairs Department. See: https://www.imf.org/external/pubs/ft/dp/2009/dp0901.pdf.

strong when a large share of the debt is in foreign currency. The potential impact of exchange rate movements on the Cook Islands debt position is assessed later in this chapter.

3.4.1.2 Natural disasters

The IMF cites evidence that direct economic losses from natural disasters have often exceeded 10 percentage points of GDP in developing countries and amounted to a few percentage points of GDP in some advanced countries.

The Cook Island has a high exposure to disaster risk due to its geographic location in the South Pacific cyclone belt, the remoteness and low-lying nature of many of the outer islands, and the proximity of many buildings and infrastructure services to the coast. In addition, the heavy reliance on revenues from the tourism sector makes the economy vulnerable to the impact of disasters.

To mitigate the economic risk posed by natural disasters, the Government has put in place a range of structures to reduce its financial exposure to disaster risk, including:

- establishing a disaster emergency trust fund in 2017;
- taking out insurance coverage under the Pacific Catastrophe Risk Assessment and Financing Initiative for cyclones, with a 1-in-10-year probability of occurrence with pay-out based on the assessed severity of a specific cyclone; and
- a Disaster Recovery Mechanism loan from the ADB of NZD $15.7 million, to be triggered and drawn down in the event of a catastrophe. This loan was drawn down in July 2020 to respond to the COVID-19 economic shock.

3.4.1.3 Contingent liabilities

The Government's contingent liabilities are summarised in Table 3-2. Adjustments have been made to some contingent liabilities since the publication of the 2020/21 budget in June 2020.

Table 3-2: Quantifiable contingent liabilities, as at 30 November 2020

Category	$'000
Guarantees and indemnities	50
Uncalled capital	2,500
Legal proceedings and disputes	8,800
Land Compensation	550
Vested interests	14,900
Total	**26,800**

3.4.1.4 Guarantees and indemnities

In 2011/12, Government entered into a program under the New Zealand Aid programme focused on Pearl Sector Support previously operated by the Cook Islands Pearl Authority and now under the Ministry of Marine Resources.

Through the program, Government agreed to guarantee up to $0.5 million as security for loans associated with the Pearl Production Credit Scheme. The full guarantee has been included as a contingent liability.

The loan program has since been discontinued however, there is outstanding debt on the loan scheme of approximately $50,000.

3.4.1.5 Uncalled capital

Through the Cook Islands Property Corporation, Government holds $1.9 million in uncalled shares with the Asian Development Bank (ADB). This takes the form of 88 uncalled shares with a par value of USD 13,500 each.

In addition, the Government is a member of the Asian Infrastructure Investment Bank (AIIB) since 1 June 2020 and holds $0.6 million in uncalled shares. This takes the form of four uncalled shares with a par value of USD 100,000 each.

3.4.1.6 Legal proceedings and disputes

This consists of various cases and is a realistic estimate of the potential liability (damages and costs) of the Crown known as at the time of publication.

3.4.1.7 Land Compensation

Compensation shall be set aside for Government projects that utilise private land used in Te Mato Vai – related water infrastructure projects; the compensation is contingent on agreement and legal resolution.

3.4.1.8 Vested interests

The International Companies Act 1981/82 states that all monies realised from the International Company assets vesting in the Registrar must be lodged to the Public Account. There remains a claimable period of six years, post the International Company de-registered, for owners of vested assets to place a claim on the funds due to them. The total contingent liability for vested interests consists of the following tranches:

Table 3-3: Vested Interest Contingent Liability Expiry Schedule

Tranche	Expiry Date	Value ($'000)
1	30/10/2021	103
2	20/12/2024	6,500
3	31/10/2026	8,264
4	31/10/2026	
Total		**14,867**

The above total has been rounded up for conservatism when including in the total of Contingent Liabilities.

3.4.1.9 Financial liabilities relating to Island Governments

The Ministry of Finance and Economic Management (MFEM) has not approved any contract or security from the Island Governments that could result in a potential liability.

There is no preferential treatment of public liability or other liability for the Island Governments and the risk of the Island Governments generating such liabilities is estimated to be low. No mitigation has been undertaken to minimise the risk any more than for other Government agencies based in Rarotonga.

Unpaid invoices are a potential risk that could be difficult to mitigate without tighter financial controls than those imposed on other Government agencies through the Cook Islands Financial Policies and Procedures Manual, the MFEM Act 1995/96 and the Public Expenditure Review Committee and Audit (PERA) Act 1995/96. MFEM is in the process of implementing a Financial Management and Information System (FMIS) which will improve invoice payment processing and recording keeping, however manual elements inherent to billing processes mean that this risk cannot be completely mitigated.

3.4.1.10 State-owned enterprises

The Cook Islands Government has a number of State-owned Enterprises (SOEs) under the management of the Cook Islands Investment Corporation (CIIC). They are:

- Airport Authority of the Cook Islands,
- Bank of the Cook Islands,
- the Cook Islands Ports Authority,
- Te Aponga Uira (electricity utility in Rarotonga),
- Te Mana Uira (electricity utility in Aitutaki),
- To Tatou Vai Limited (water and sanitation), and
- Avaroa Cable Limited (Manatua cable project).

The key risks associated with SOEs are poor financial performance, and/ or excessive borrowing that can result in Government having to guarantee or potentially restructure the SOEs debt, often at substantial budgetary cost. Poor performance can result from a range of factors including:

- exogenous shocks (unexpected or unpredictable events outside the country's control that can severely impact the economy) – for example, earthquake or tsunami;
- lack of incentive to be competitive compared to a private sector enterprise that would go bankrupt as result of protracted poor performance; and
- Government requirements to undertake community obligations.

The Cook Islands Government has put in place a range of measures to mitigate against SOE fiscal risk. These include:

- placing all SOEs under the CIIC umbrella, with one of its principal objectives being the efficient, profitable and professional management of SOEs;
- ensuring that SOE debt falls under the broader Government debt ceiling target and new debts undergo a Debt Sustainability Analysis prior to approval, as required by the Loan Repayment Fund (LRF) Act 2014; and
- providing for a portion of SOE debt repayments in the Loan Reserve Fund.

3.4.2 Assessing the impact of fiscal and macroeconomic shocks

3.4.2.1 Introduction

The Cook Islands Government utilises an analytical tool – the Cook Islands Fiscal Tool – to first calibrate, and then operationalise the revised set of fiscal rules that form the core of the MTFS.

The operational part of the fiscal tool – the Fiscal & Macro Impact Model – models the interactions between fiscal policy decisions and economic output, and the fiscal impact of economic shocks, within the framework of the revised set of fiscal rules. This is accomplished by running fiscal and macroeconomic shocks through a simple version of the Cook Islands Government accounting framework using fiscal multipliers and tax impact models.

The model provides for three types of shock:

- Fiscal – change in operating expenditure, capital expenditure and/ or revenue;
- GDP – models the impact of a direct change in GDP;
- Arrivals – models the impact of a change in the number of international visitors to the Cook Islands.

The Cook Islands Government also conducts sensitivity analysis on movements in the value of the New Zealand dollar against the Government's major trading currencies to assess the impact on gross debt and debt servicing requirements.

This section shows the potential impact of a selected range of fiscal and macroeconomic shocks on the 2020/21 Budget profile using the fiscal impact tool.

3.4.2.2 Fiscal Shocks

Fiscal shocks – or alternatively Government fiscal policy decisions – are evaluated in terms of their direct impact on fiscal indicators, these are the first order impacts, and their second order impacts via changes in GDP flowing through to tax revenues. The first order impacts are simply one-for-one changes in the baseline operating expenditure, capital expenditure or tax revenue as relevant. The second order impacts are estimated using fiscal multipliers and a simple tax impact model.

Revenue shock

Two revenue shocks are applied: low and high, increasing and decreasing the forecasts by a simultaneous amount. These shocks are applied to the base case as presented in Chapter 4, which has already factored in the expected impacts of COVID-19.

The low revenue case, with revenues falling by 10 to 20 per cent per year over the modelling period, beginning with an additional 10 per cent reduction in 2020/21 and increasing by 2.5 percentage points each year to 20 per cent in 2024/25, is presented in Table 3-4. The fiscal balance in the scenario breaches the -1.9 per cent of GDP rule in each year except 2024/25 and can be compared to a base case in which the rule is met in 2022/23.

Table 3-4: Low revenue shock

		2020/21	2021/22	2022/23	2023/24	2024/25
Change in opex ($m)		0	0	0	0	0
Change in capex ($m)		0	0	0	0	0
Change in tax revenue ($m)		-8.1	-13.6	-22.1	-28.5	-34.1
Fiscal balance (% of GDP)	Base	-30.4	-10.8	-1.3	0.8	2.0
	Shock	-32.2	-13.7	-5.5	-4.3	-3.9

The high revenue case, shows revenues above forecasts by 10 to 20 per cent per year over the modelling period, beginning with 10 per cent in 2020/21 and increasing by 2.5 percentage points each year to 20 per cent in 2024/25. As seen in Table 3-5, the key result is a strengthening of the fiscal balance, especially in the two outer years, with a much faster return to fiscal surplus from 2022/23.

Table 3-5: High revenue shock

		2020/21	2021/22	2022/23	2023/24	2024/25
Change in opex ($m)		0	0	0	0	0
Change in capex($m)		0	0	0	0	0
Change in tax revenue ($m)		8.1	13.6	22.1	28.5	34.1
Fiscal balance (% of GDP)	Base	-30.4	-10.8	-1.3	0.8	2.0
	Shock	-28.6	-7.9	2.9	6.0	7.9

Operating shock

A higher than expected operating expenditure shock is applied, assuming a 10 per cent increase above the estimates over the forward period. The impact of the additional expenditure over the modelling period is presented in Table 3-6. The fiscal balance deteriorates by between 2.0 and 2.5 per cent in all four years. However, there is a positive impact on GDP of around three per cent in each year.

Table 3-6: High Operating Expenditure Shock

		2020/21	2021/22	2022/23	2023/24	2024/25
Change in opex ($m)		23	17	17	17	17
Change in capex ($m)		0	0	0	0	0
Change in tax revenue ($m)		1.2	3.2	4.3	5.2	5.8
Fiscal balance (% of GDP)	Base	-30.4	-10.8	-1.3	0.8	2.0
	Shock	-34.3	-13.3	-3.6	-1.3	0.0
Impact on nominal GDP (%)	%	3.5	4.1	3.4	3.0	2.8
	$m	15.1	19.0	17.6	16.4	16.4

Capital Shock

A lower than expected capital expenditure shock is applied, assuming a 20 per cent reduction in the estimates over the forward period.

The impact of the reduced expenditure over the modelling period is presented in Table 3-7. The negative impact on GDP is $18.9 million per year in 2021/22 has a flow-on effect to revenue of $4.1 million. The net effect on the fiscal balance is slightly positive, with the capital expenditure reduction outweighing the fall in revenue in the short term.

Table 3-7: Low Capital Shock

		2020/21	2021/22	2022/23	2023/24	2024/25
Change in opex ($m)		0	0	0	0	0
Change in capex ($m)		-9	-7	-6	-4	-4
Change in tax revenue ($m)		-1.2	-3.0	-4.1	-4.5	-4.5
Fiscal balance (% of GDP)	Base	-30.4	-10.8	-1.3	0.8	2.0
	Shock	-29.7	-10.4	-1.0	0.8	2.0
Impact on nominal GDP (%)	%	-3.5	-4.1	-3.6	-2.9	-1.7
	$m	-14.9	-18.9	-18.8	-15.8	-9.8

GDP Shock

A low GDP shock is applied, assuming a 5 per cent decrease on the forecast for each year of the forward period. The impact of a drop in GDP is presented in

Table 3-8. Tax revenue falls by around $6 million per year initially, causing the fiscal balance to widen to -13.2 per cent of GDP in 2021/22. In 2022/23 this impact increases to $8.1 million, pushing the fiscal balance to -3.1 per cent of GDP, again outside of the fiscal rule. The GDP impact in 2023/24 and 2024/25 is -7.2 per cent and -7.4 per cent respectively, or a reduction of $42.8 million in 2024/25.

Table 3-8: Low GDP Shock

		2020/21	2021/22	2022/23	2023/24	2024/25
Change in opex ($m)		0	0	0	0	0
Change in capex ($m)		0	0	0	0	0
Change in tax revenue ($m)		-3.1	-6.2	-8.1	-9.6	-11.0
Fiscal balance (% of GDP)	Base	-31.0	-10.8	-1.3	0.8	2.0
	Shock	-34.7	-13.2	-3.1	-1.0	0.1
Impact on nominal GDP (%)	%	-8.6	-8.0	-7.1	-7.2	-7.4
	$m	-37.0	-37.3	-37.1	-39.9	-42.8

Arrivals shock

A low international visitor arrivals shock is applied, assuming a 5 per cent decrease on the forecast for each year of the forward period. The impact of the reduction in arrivals is presented in Table 3-9. Tax revenue falls by about $5.5 million per year by 2024/25, which reduces the fiscal balance by close to 1 percentage point in each year toward the end of the forecast period. The impact on GDP is more muted than it would normally be, due to the already reduced visitor numbers as a result of the pandemic.

Table 3-9: Low Arrivals Shock

		2020/21	2021/22	2022/23	2023/24	2024/25
Change in opex ($m)		0	0	0	0	0
Change in capex ($m)		0	0	0	0	0
Change in tax revenue ($m)		-0.3	-1.9	-3.5	-4.9	-5.5
Fiscal balance (% of GDP)	Base	-31.0	-10.8	-1.3	0.8	2.0
	Shock	-31.4	-11.6	-2.0	-0.1	1.1
Impact on nominal GDP (%)	%	-0.9	-3.0	-4.0	-4.7	-4.9
	$m	-3.7	-14.0	-20.8	-26.0	-28.2

Exchange rate shock

Chapter 7 sets out the Cook Islands Government current and future debt position. A key ongoing risk to the Crown's debt liability is movement in the value of the New Zealand Dollar (NZD) against the currencies in which the Crown's loans are denominated.

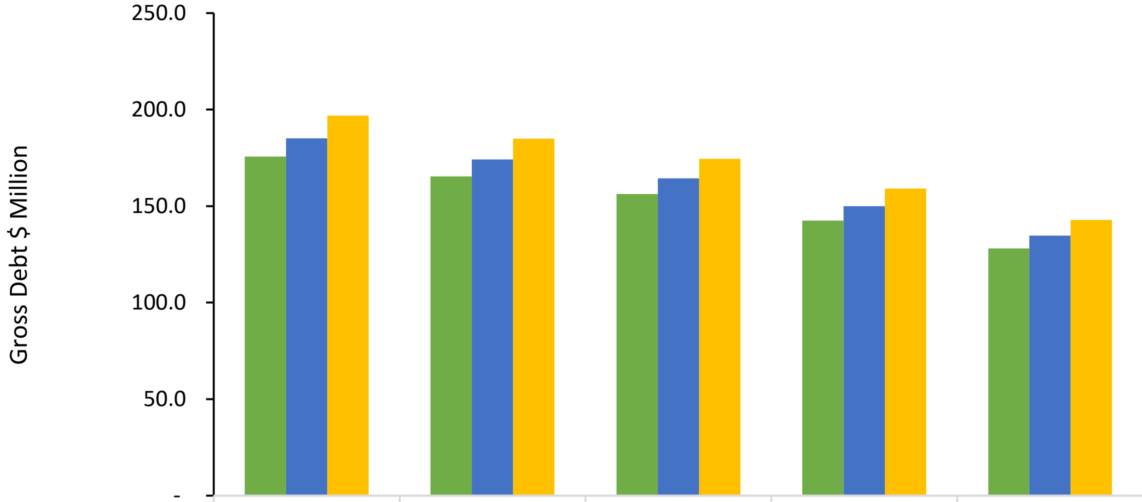
The following sensitivity analysis considers the impact of a 10 per cent appreciation and depreciation of the NZD against key currencies to determine the impact on the gross borrowings and the debt servicing cost.

Table 3-10: Exchange rates assumptions used in 2020/21 HYEFU, +/- 10 per cent

Foreign Exchange Currency	-10%	Budget Base rate	+10%
EUR	0.5098	0.5664	0.6230
USD	0.6012	0.6680	0.7348
RMB	4.0247	4.4719	4.9191
SDR	0.4171	0.4634	0.5097

If the relevant NZD exchange rates were to depreciate by 10 per cent against foreign currencies, Crown debt as at December 2020 would increase by an estimated $11.7 million compared to a decrease of $9.6 million if the NZD were to appreciate by 10 per cent. This illustrates that the Crown's gross debt level is more adversely sensitive to depreciation of the NZD.

Figure 3-8: Sensitivity of direct Crown gross debt to NZD movements



	2020/21	2021/22	2022/23	2023/24	2024/25
Increase by 10%	175.62	165.34	156.22	142.55	128.03
Base Rate	185.19	174.19	164.46	150.03	134.67
Decrease by 10%	196.89	185.00	174.53	159.17	142.78

A 10 per cent decrease in the foreign currency value of the NZD would increase debt servicing costs by $0.8 million in the 2020/21 year.

4 Fiscal Update

This chapter provides an update on the current fiscal estimates, including the revisions and movements in revenue and expenditure since the publication of the 2020/21 Budget in June 2020. It does not include the projected changes that are outlined in the Medium-term Fiscal Strategy, nor does it consider the use of debt to fund the financing gap. As such, this chapter should be read in conjunction with the Medium-term Fiscal Strategy when considering the forecasts.

The fiscal balance for 2019/20 was greater than estimated due to higher than anticipated revenue collections. This was larger due to taxation revenue, which exceeded forecasts by $6.0 million.

Actual expenditure for 2019/20 was $8.4 million lower than estimated, resulting in an operating surplus of $15.3 million compared to the $0.8 million estimated in the 2020/21 Budget. The fiscal deficit for 2019/20 improved from an estimated fiscal deficit $25.0 million to a fiscal deficit of $14.6 million.

Revised estimates are that the fiscal deficit will be $5.7 million better than forecast at Budget in 2020/21, from $136.1 million at Budget to $130.4 million as at the HYEFU. This is a result of increased revenue of $6.6 million against a relatively small increase in operating expenditure of $0.5 million and capital expenditure of $0.4 million.

The fiscal balance is forecast to improve over the forward years with improving GDP and Government revenues, and a decrease in Government expenditure with the planned end of the ERP.

4.1 Fiscal Indicators and Projections

Table 4-1 provides a summary of Government's fiscal position and revisions made to the fiscal projections reported in the 2020/21 Budget. The additional revenues received in 2019/20 and 2020/21 reduce the fiscal deficits, however debt funding is still required to support the increased levels of Government expenditure in 2020/21.

Government has committed to two new loans in the 2020/21 Budget to fund the ERP and provide liquidity for operating expenditures. The net debt ratio (including commercial debt with State-Owned Enterprises) is expected to peak at $175.6 million (40.9 per cent of GDP) in 2020/21, before decreasing to $139.9 million (25.3 per cent of GDP) by 2023/24.

As noted in Chapters 3 and 7, in 2020/21 net debt to GDP reaches 40.9 per cent due to the full drawdown (approx. NZD $29.9 million) of the AIIB loan. Of this drawdown, Government expects to use $16.5 million in 2020/21, with the remaining balance to be utilised in 2021/22. Downward revisions in nominal GDP for 2020/21 also contribute to the breach in net debt to GDP ratio.

In 2021/22, the utilisation of the funding from the AIIB loan in conjunction with lower GDP results in a net debt ratio of 35.4 per cent, which exceeds the hard cap of 35 per cent.

Table 4-1: Fiscal Indicators Summary

	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Statement of Financial Performance						
Taxation Revenue ($m)	148.3	93.8	81.3	110.5	149.6	165.6
Social Contributions ($m)	0.0	0.1	0.1	0.1	0.1	0.1
Other Revenue ($m)	47.5	31.3	50.4	32.9	31.2	20.4
Total Operating Revenue ($m)	**195.8**	**125.2**	**131.8**	**143.4**	**180.8**	**186.1**
Total Operating Revenue Percentage of GDP	37.1	26.5	30.7	30.9	34.4	33.7
Tax Revenue Percentage of GDP	28.1	19.9	18.9	23.8	28.4	30.0
Total Cyclical Revenue ($m)	14.8	15.5	12.6	16.4	13.0	10.6
Total Cyclical Revenue Percentage of GDP	2.8	3.3	2.9	3.5	2.5	1.9
Total Structural Revenue ($m)	181.1	109.7	119.2	127.0	167.8	175.4
Total Structural Revenue Percentage of GDP	34.3	23.2	27.8	27.3	31.9	31.8
Personnel ($m)	**66.2**	**71.5**	**71.6**	**72.5**	**73.1**	**73.4**
Percentage of Total Revenue	33.8	57.1	54.4	50.5	40.4	39.5
Percentage of Structural Revenue	36.6	65.2	60.1	57.1	43.6	41.9
Total Operating Expenditure ($m)	**180.6**	**232.0**	**232.5**	**173.6**	**173.0**	**173.1**
Percentage of GDP	34.2	49.1	54.2	37.4	32.9	31.4
Percentage of Operating Revenue	92.2	185.4	176.4	121.0	95.7	93.0
Cash Operating Expenditure*	171.0	218.5	218.8	160.7	160.4	159.8
Operating Balance ($m)	**15.3**	**-106.8**	**-100.7**	**-30.1**	**7.8**	**13.0**
Percentage of GDP	2.9	-22.6	-23.5	-6.5	1.5	2.3
Capital Expenditure	39.1	42.4	42.8	33.0	27.6	21.6
Depreciation	9.2	13.1	13.1	13.1	13.1	13.1
Non-Operating Balance ($m)	-115.2	-11.1	-24.8	-42.2	-35.9	-34.3
Fiscal Balance surplus/deficit ($m) *	**-14.6**	**-136.1**	**-130.4**	**-50.0**	**-6.7**	**4.5**
Percentage of GDP	-2.8	-28.8	-30.4	-10.8	-1.3	0.8
Statement of Financial Position ($m)						
Assets ($m)	492.2	514.5	489.4	451.7	450.6	450.1
Liabilities ($m)	183.4	238.6	247.1	236.3	226.8	212.6
Crown Balance ($m)	308.7	275.8	242.3	215.4	223.7	237.4
Percentage of GDP	58.5	58.4	56.5	46.3	42.5	43.0
Working Capital ($m)	9.3	0.1	11.2	-48.3	-63.5	-71.8
Working Capital (months coverage)	0.7	0.0	0.6	-3.6	-4.7	-5.4
Stabilisation Account	*56.7*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
General Cash Reserves	66.0	0.1	11.2	-48.3	-63.5	-71.8
Statement of Borrowings ($m)						
Gross Debt end of FY ($m)	106.7	173.9	185.2	174.2	164.5	150.0
Percentage of GDP	20.2	36.8	43.1	37.5	31.3	27.2
Net Crown Debt, end of FY ($m)	86.3	164.6	175.6	164.5	154.5	139.9
Percentage of GDP	16.3	34.8	40.9	35.4	29.4	25.3
Loan Repayment Reserves Held ($m)	20.5	9.4	9.5	9.7	9.9	10.1
Net Debt Servicing ($m)	10.1	11.5	11.3	12.8	12.6	17.1
Percentage of Total Revenue	5.1	9.2	8.6	8.9	6.9	9.2
Percentage of Structural Revenue	5.6	10.5	9.5	10.1	7.5	9.8
Development Partner Support ($m)						
Grants ($m)	19.6	61.6	61.6	6.2	3.2	1.1
Percentage of GDP	3.7	13.0	14.3	1.3	0.6	0.2
Memo item: Nominal GDP ($m)	*528.1*	*472.5*	*429.2*	*464.8*	*526.0*	*552.1*

4.2 Fiscal Rules

This section provides an update to the Fiscal Rules reflecting the current financial statements. It includes the following revisions to the 2020/21 Budget; revisions for final adjustments made to the 2019/20 actuals, and expenditure changes during the 2020/21 fiscal year. It does not include proposed funding adjustments outlined in the MTFS, nor the filling of the financing gap, both of these are addressed in the rules presented in Chapter 3.

4.2.1 Net Debt Rule

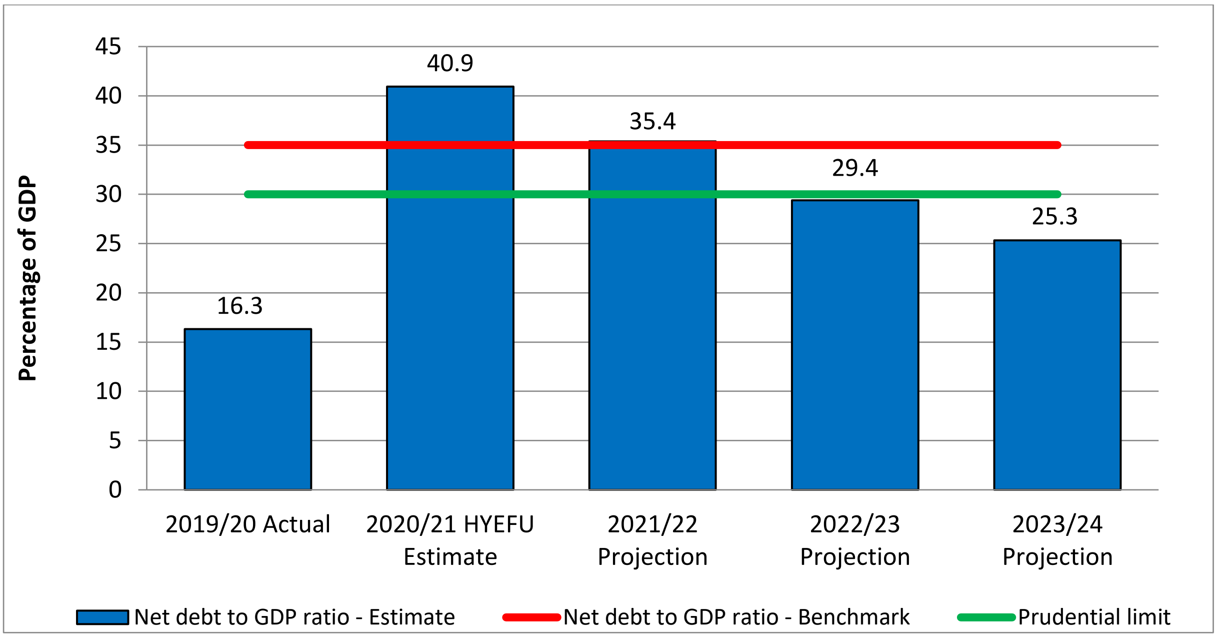
"Net debt should not exceed a soft cap of 30 per cent of GDP, and cannot exceed a hard cap of 35 per cent of GDP".

In 2019/20, net debt to GDP was 16.3 per cent of GDP – with total net debt of $86.3 million. The strong economic and fiscal position entering the fourth quarter enabled the Government to respond to the impacts of COVID-19 without resorting to debt funding immediately.

The continuing impact of COVID-19 on the Cook Islands economy has required the Government to draw on the Stabilisation Account and debt in 2020/21 to fund the Economic Response Plan. Government expects the net debt level to reach 40.9 per cent in 2020/21, exceeding the net debt benchmark of 35.0 per cent. As noted earlier, this is attributable to a contractual requirement for full draw-down on one loan[10] during 2020/21, the funding from which will be set aside until required by Government.

The change in the net debt ratio since the 2020/21 budget is also a result of a reduction in GDP estimates which lowers the value of the hard cap on borrowings from approximately $184.8 million to $150.2 million for 30 June 2021. The net debt to GDP ratio is expected to fall gradually as the economic situation improves and GDP recovers, as shown in Figure 4-1.

Figure 4-1: Net debt to GDP ratio



4.2.2 Fiscal balance to GDP

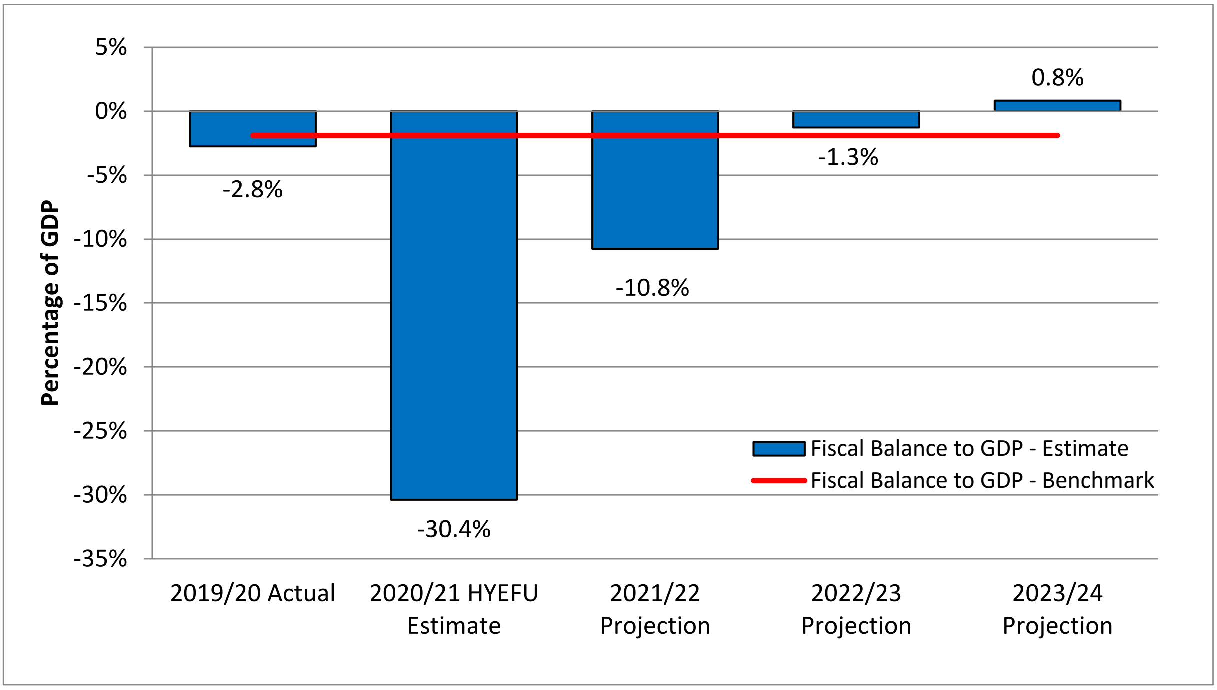
"The fiscal balance cannot exceed a deficit of 1.9 per cent of GDP in any one year."

The updated fiscal balances are displayed in Figure 4-2. The final fiscal balance for 2019/20 was a deficit of 2.8 per cent compared to the estimated deficit of 5.0 per cent reported in the 2020/21

Budget. Stronger than anticipated taxation revenue and expenditure savings positively contributed to reducing the impact of increased Government expenditure for the 2019/20 fiscal year.

In 2020/21, the fiscal balance to GDP ratio has been revised from negative 28.8 per cent to negative 30.4 per cent despite an improvement in the dollar value of the fiscal balance, due to the reduction in nominal GDP. The fiscal balance is expected to improve year-on-year to a surplus of 0.8 per cent of GDP in 2023/24 as GDP forecasts improve and Government revenues recover.

Figure 4-2: Fiscal balance to GDP



4.2.3 Expenditure rule

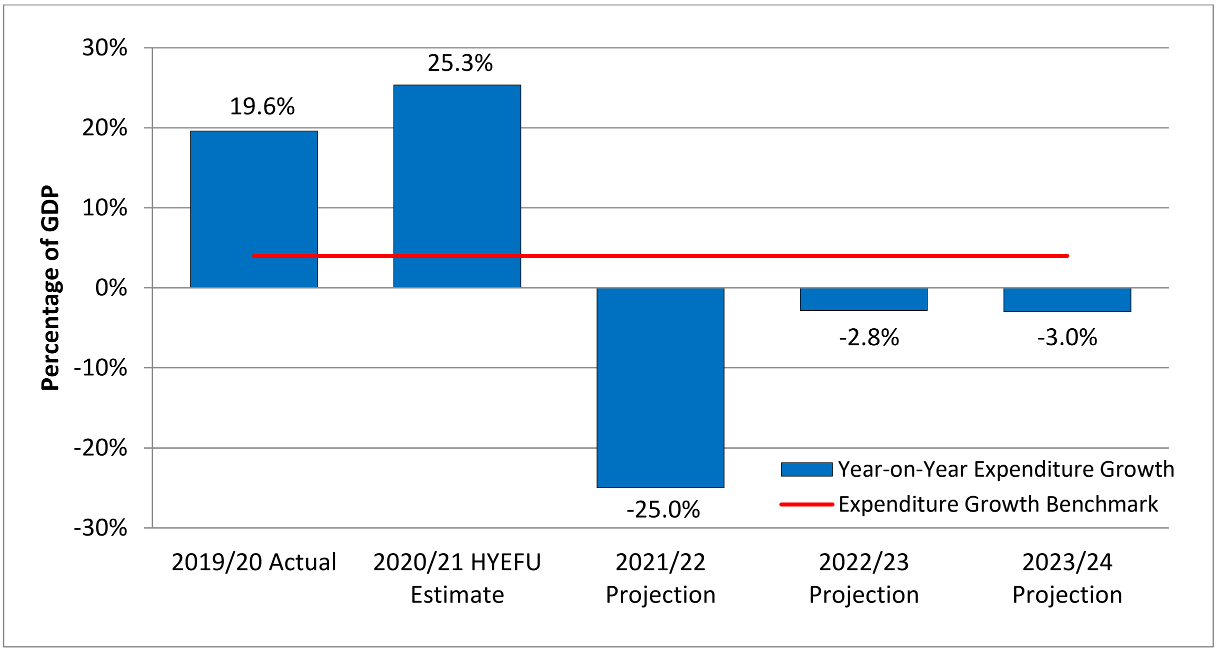
"Growth of total Cook Islands Government expenditure cannot exceed 4 per cent year-on-year."

Actual expenditure growth for 2019/20 was 19.6 per cent as a result of the increased expenditure to respond to the impacts of COVID-19 through the COVID-19 Medical Response Fund and the Economic Response Plan Phase I.

Expenditure growth peaks in 2020/21 at 25.3 per cent due to the financing of Phase II of the ERP, as well as limited movements in total expenditure due to carry-forward of 2019/20 appropriations and executive order funding since the 2020/21 Budget.

As shown in Figure 4-3, in 2021/22 expenditure is expected to fall by 25.0 per cent as the ERP ceases and Government expenditure returns towards normal levels. Capital investment is planned to decrease to $33.0 million in 2021/22, $27.6 million in 2022/23 and $21.6 million in 2023/24 due to the completion of projects and the deferral of significant new capital investments.

Figure 4-3: Expenditure Rule



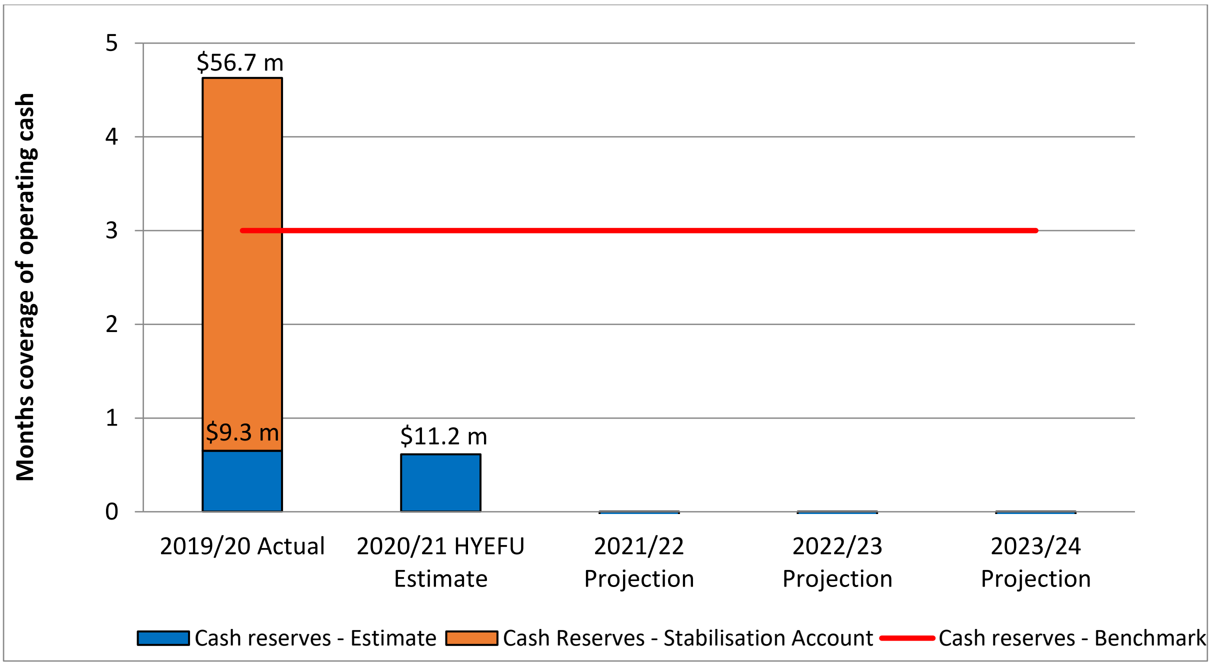
4.2.4 Cash Reserves Rule

"The equivalent of 3 months of operating expenditure must be held in cash at any one time."

In 2019/20, excess operating cash of $56.7 million was transferred to the Stabilisation Account. This funding has been drawn upon during 2020/21 to supplement Government's cash reserves and reduce the amount of debt funding required.

With the revenues estimated in 2020/21 a cash reserve of $11.2 million (0.6 Months) is forecast. This reserve will be consumed in 2021/22 requiring the drawdown of further debt funding to support Government expenditure in the medium-term.

Figure 4-4: Cash reserves to operating expenditure



4.3 Updates to Previously Reported Budget Data

4.3.1 Finalisation of 2019/20 Actuals

During the preparation of the 2020/21 Budget, the 2019/20 estimates were developed based on known expenditure and revenue data as at publication. These figures have been updated to reflect the 2019/20 performance as at year-end 30 June 2020 and published in the Governments' Quarterly Financial Report.

Operating revenue in 2019/20 has been revised upwards by $8.0 million primarily due to higher than anticipated tax revenue of $148.3 million, compared to the estimate of $140.3 million.

Operating expenditure in 2019/20 was lower than the budget estimates by approximately $8.4 million. These savings are largely attributed to unfilled vacancies in personnel and underspends in administered payments such as the COVID-19 Economic Response Plan and the Airline Underwrite.

The increased operating revenue and lower operating expenditure resulted in an operating surplus of $15.3 million compared to the estimate of $0.8 million.

Net capital expenditure (capital expenditure less depreciation) of $29.7 million resulted in a fiscal deficit of $14.6 million for 2019/20 compared to the estimate of $25.0 million reported at the time of the 2020/21 Budget.

4.3.1.1 Executive Orders since the 2020/21 Budget

Article 70(3)(b) of the Cook Islands Constitution Act 1964 allows for the approval of expenditure beyond the Appropriation Bill provided that the total amount of all sums issued and paid do not exceed one and a half percent (1.5%) of the overall expenditure appropriation for the fiscal year. Approved expenditure outside the scope of the Appropriation Bill are known as 'Executive Orders'.

Executive orders may be approved between the publishing of the Budget Estimates and the closure of the fiscal period, and are included in the finalised actual expenditure data.

A total of **$578,529** was approved through Executive Order in 2019/20 that was not reported in the 2020/21 Budget Estimates. These approved Executive orders consist of:

- **$568,420** for litigation costs for which details have been withheld on the grounds identified in section 18(a) and 8(2)(i) of the Official Information Act (OIA) 2008.
- **$10,109** for a top-up of the Parliamentary Select Committee funding to cover consultation costs relating to pending bills in the Pa Enua during June 2020.

4.4 Movements from the 2020/21 Budget

The 2020/21 Budget classifies expenditure and revenue adjustments according to the following categories:

- Policy decisions leading to new initiatives undertaken by Government;
- Technical adjustments – revisions from estimated to final actual expenditure, retentions of excess trading revenue;
- Reclassification of expenses, which includes intra-agency adjustments for example transfers of operating into personnel; and
- Parameter changes – movements that occur due to economic changes that are outside of a decision by the Government, including depreciation, movements in welfare beneficiary numbers and the impact of changes in fuel costs on the underwrite.

Table 4-2 shows the movements to revenue and expenditures in 2019/20 to 2023/24 since the time of the 2020/21 Budget.

Changes in total revenue for 2020/21 reflect the $15.0 million of additional financial support received from the New Zealand Government (reflected as 'Core Sector Support' in this table) offsetting a $12.5 million reduction in expected taxation revenue, resulting in a net increase in estimated revenue of $6.6 million in 2020/21. Taxation revenues have been revised downward in all categories with the exception of withholding tax.

Taxation revenue forecasts have been revised down over the forward years, totalling $15.9 million in 2021/22, reflecting a slower recovery than anticipated at the time of the 2020/21 Budget. This is principally attributable to the additional delays in reopening the border, and ensuing impacts to GDP and Government revenue.

Company tax collections are forecast to remain reduced over the medium-term due to the residual effects of the economic shock and Government's policy decision through the ERP to incentivise business activity through accelerated depreciation. VAT tax collections are forecast to improve by 2022/23, noting that VAT is highly dependent on the recovery of the tourism industry.

Operating Expenditure is estimated to increase by $0.5 million in 2020/21 as a result of carry-forwards and Executive Orders. Movements in expenditure in the outer years are mainly due to increased adjustments to debt servicing. Total capital expenditure in 2020/21 is anticipated to increase by $0.4 million to $42.8 million due to carry forwards from the 2019/20 Budget.

Table 4-2: Reconciliation of Operating Statement ($'000)

Statement of Government Operations	2019/20	2020/21	2021/22	2022/23	2023/24
Operating balance as at 2020/21 Budget	840	(106,837)	(12,900)	12,330	13,436
Revenue					
Revenue Parameter Changes	**7,932**	**(12,538)**	**(15,932)**	**(3,522)**	**(864)**
Adjustments to:					
Value Added Tax (VAT)	5,921	(3,806)	(7,279)	2,285	4,937
Income tax	2,451	(2,180)	(2,541)	(881)	(397)
Import levies	493	(234)	224	290	456
Company tax	(1,002)	(2,124)	(4,161)	(4,813)	(5,671)
Departure tax	29	(4,207)	(2,118)	(348)	(144)
Withholding tax	41	13	(57)	(56)	(45)
Other Revenue Changes	**(1,907)**	**19,150**	**(156)**	**164**	**(91)**
Other revenue	(190)	3,873	(250)	70	(91)
Trading Revenue	(1,812)	0	0	0	0
Dividend	0	0	0	0	0
Core Sector support	95	15,277	95	95	0
Total Revenue Changes to 2020/21 HYEFU	**6,025**	**6,612**	**(16,088)**	**(3,358)**	**(955)**
Expenditure					
Expenditure Decisions by Government	578	486	0	0	0
Technical adjustments	0	0	0	0	0
Reclassifications of expenditure	0	0	0	0	0
Parameter changes	(8,986)	0	1,158	1,213	(474)
Total Expenditure Changes to 2020/21 HYEFU	**(8,408)**	**486**	**1,158**	**1,213**	**(474)**
OPERATING BALANCE as at 2020/21 HYEFU	**15,272**	**(100,711)**	**(30,146)**	**7,760**	**12,955**
Capital Expenditure	39,073	42,804	32,954	27,644	21,556
Depreciation	9,204	13,136	13,136	13,136	13,136
FISCAL BALANCE - as at 2020/21 HYEFU	**(14,596)**	**(130,379)**	**(49,964)**	**(6,748)**	**4,535**

4.4.1 Revenue

Revenue estimates for 2020/21 have been revised upwards due to the additional budget support funding received from New Zealand and vested assets offsetting the reductions in taxation revenue because of COVID-19.

Key contributors to the movement in revenue are as follows:

Taxation Revenue

- $3.8 million reduction in Value Added tax
- $2.2 million reduction in Income tax
- $0.2 million reduction in Import levies
- $2.1 million reduction in Company tax
- $4.2 million reduction in Departure tax

Other revenue

- $8.3 million received from FSC Vested Assets
- $15.0 million in General Budget Support from New Zealand
- $5.1 million reduction in Fishing Licences
- $2.1 million increase in Fisheries – US Treaties (purse seining)
- $1.0 million reduction in Dividends from Vodafone Cook Islands
- $0.3 million reduction in Interest on Balances from Government term deposits
- $0.3 million reduction in circulating currency – coins
- $0.1 million reduction in Drivers Licences

In the outer years, revenue estimates have been revised downwards due to a reduction in VAT and company tax and further reductions in other revenue as a result of COVID-19.

4.4.2 Expenditure

4.4.2.1 Carry Forwards from 2019/20 Budget

Since the passing of the 2020/21 Budget, carry forward requests totalling **$801,787** from the 2019/20 Budget were approved for expenditure in the 2020/21 fiscal year to continue ongoing work programs and capital projects.

Of this total, **$385,549** has been approved for carry forward for the following capital projects:

- **$200,000** to proceed with the upgrades of the FM radio and television equipment in the Pa Enua (CIIC).
- **$65,000** to extend the University of the South Pacific Cook Islands' Campus to accommodate a Centre of Excellence in Information Technology (MFEM).
- **$98,950** for the COVID-19 Medical Response Fund – Capital Needs to cover outstanding milestone payments for the instalment of an Oxygen plant (MFEM).
- **$21,497** to continue the implementation of the Government IT network project (OPM).

A total of **$416,238** was approved for the following operating expenditure and administered payments to be carried forward from the 2019/20 Budget:

Operating - $133,342

- **$25,000** for legal advice costs incurred by the Financial Services Development Authority to be paid in the 2020/21 fiscal year.
- **$29,958** for contract costs for work scheduled by the Ministry of Marine Resources in 2019/20 with works to be completed in the 2020/21 fiscal year.

- **$78,384** to continue ongoing development work of the Seabed Minerals Development Authority for the Seabed Licensing Exploration Tender.

Administered Payments - $282,896

- **$67,500** for the Seabed Minerals Sector Development for ongoing development work (SBMA).
- **$31,030** for the Management of Suwarrow Park to assist in the replacement of the ranger's accommodation (NES).
- **$184,366** for the ICT Support Team to cover contractual obligations and the engagement of a Project Coordinator (OPM).

4.4.2.2 Executive Orders since the 2020/21 Budget

The following Executive orders have been approved since the passing of the 2020/21 Budget and 1st December 2020 totalling **$69,373**:

- **$69,373** top-up of the Parliamentary Select Committee to conduct consultations in the Pa Enua.

4.4.3 Fiscal Forecast

The high degree of uncertainty in the economic forecasts due to the external shock of COVID-19 has resulted in Government taking a conservative approach to forecasting future economic performance and revenues.

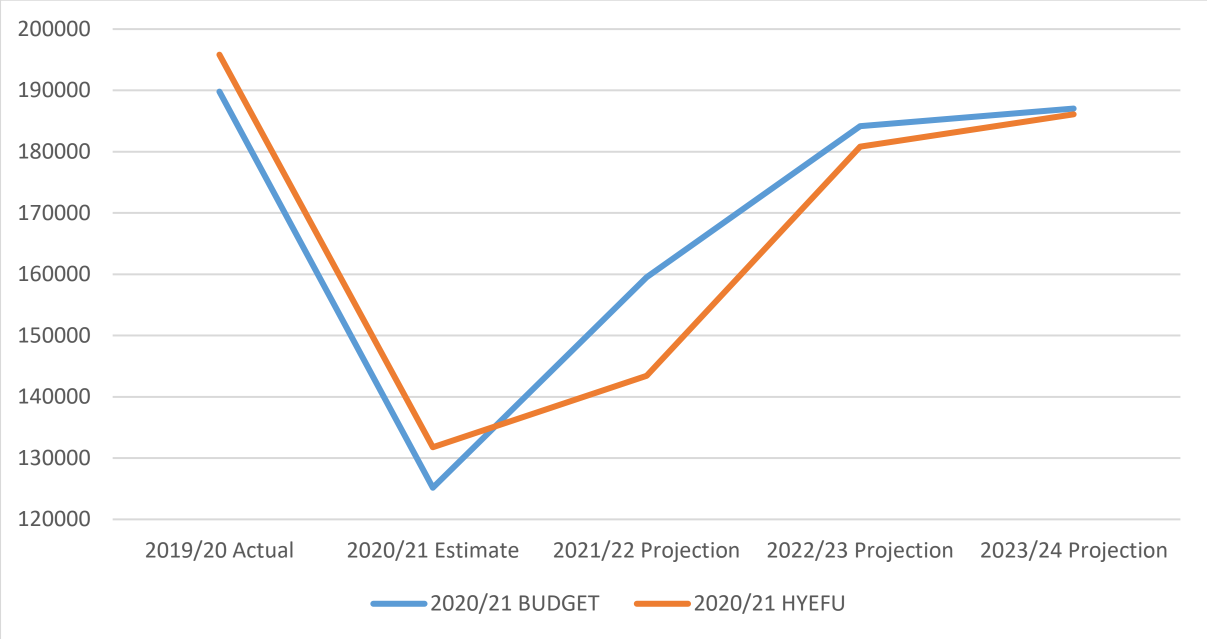
In 2020/21, upward revisions have been made to the revenue forecasts due to additional funding received to assist in the Cook Islands' response to COVID-19 and the receipt of vested assets. This increase offsets the decrease in taxation and fisheries revenue resulting from border restrictions. The revised forecasts are compared in Table 4-3.

The delay in the opening of the Cook Islands border with New Zealand is expected to slow the economic recovery, with impacts to Government revenues from 2021/22 through to 2023/24 when the gap reduces to $1.0 million. Cumulatively this results in a $20.4 million further reduction in Government revenues through this period.

Table 4-3: Updated Government Revenue Forecasts

Revenue Projections	2019/20 Actual	2020/21 Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
2020/21 BUDGET	189,799	125,162	159,533	184,161	187,041
2020/21 HYEFU	195,824	131,774	143,445	180,803	186,087
Difference	6,025	6,612	-16,088	-3,358	-954

Figure 4-5: Government Revenue Forecast Comparison



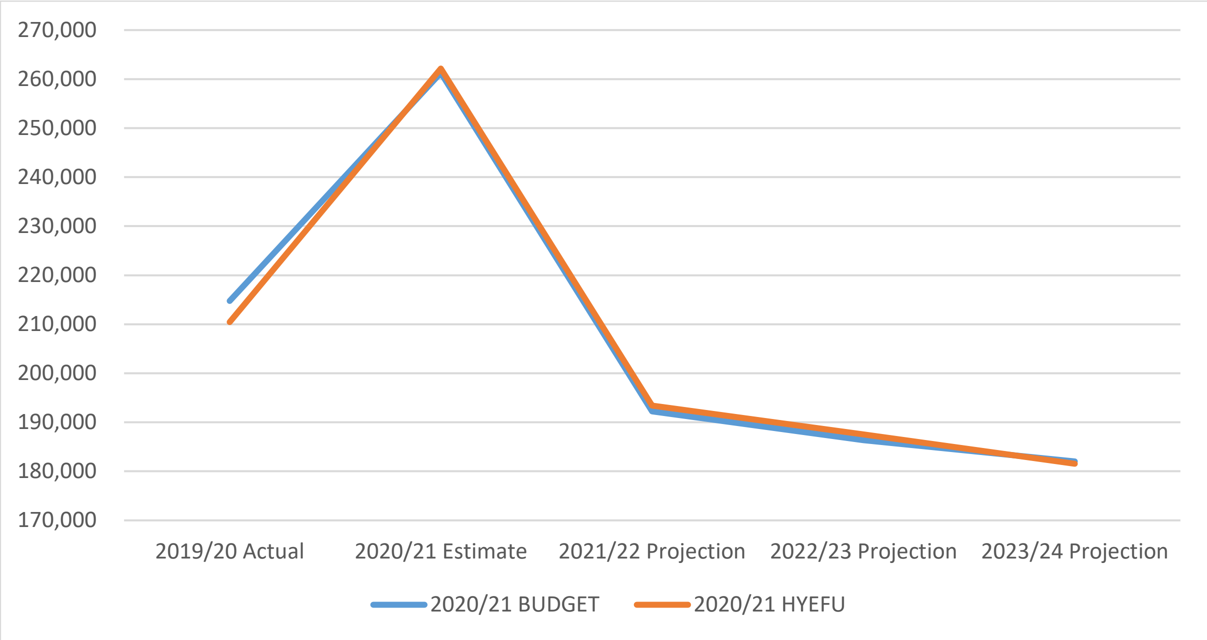
Expenditure forecasts for the same period are shown in Table 4-4. The variation in 2020/21 corresponds to carry-forward and executive order funding requests, whereas the adjustments in the outer year generally relate to interest charges.

Table 4-4: Updated Government Expenditure Forecasts[11]

Expenditure Projections	2019/20 Actual	2020/21 Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
2020/21 BUDGET	214,772	261,282	192,250	186,339	182,025
2020/21 HYEFU	210,420	262,153	193,409	187,552	181,551
Difference	-4,352	871	1,159	1,213	-474

[11] The data Table 4-4 is presented without the adjustment planned through the Medium-term Fiscal Strategy of negative $2.5 million in 2023/24. Data includes operating and capital expenditures reported through Table 4-1 and does not consider certain non-operating expenditures.

Figure 4-6: Government Expenditure Forecast Comparison



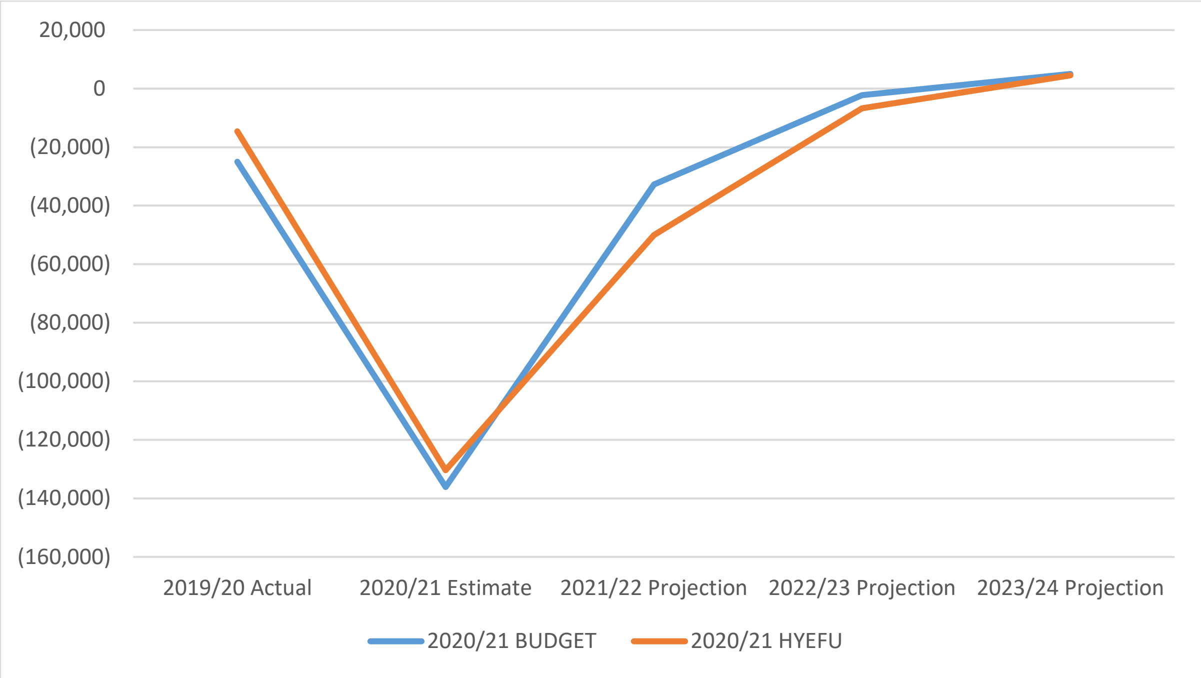
The estimated fiscal balance has worsened in 2020/21 to a deficit of 30.4 per cent, compared to the budget forecast of 28.8 per cent. As the dollar value of the fiscal deficit has improved, this is a result of the downward revision in nominal GDP in 2020/21.

Fiscal deficits are substantially increased on Budget Estimates for 2021/22 and 2022/23, with a flow-on effect to a reduced fiscal surplus in 2023/24, as shown in Table 4-5. The impacts to the outer years are attributed to the further delay in reopening borders, and the subsequent ongoing impact on GDP.

Table 4-5: Fiscal Balance

Fiscal Balance	2019/20 Actual	2020/21 Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
2020/21 BUDGET	-24,973	-136,119	-32,717	-2,178	5,016
2020/21 HYEFU	-14,596	-130,379	-49,964	-6,748	4,535
Difference	10,377	5,741	-17,246	-4,571	-481

Figure 4-7: Government Fiscal Balance



Government plans to utilise debt financing to fund the fiscal deficits forecast from 2020/21 to 2022/23, exchanging debt for liquidity to fund Government operations.

5 Government Financial Statistics 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 Reserve Fund and Official Development Assistance funds.

Table 5-1: GFS Statement

Statement of Government Operations	2019/20 Actual	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
REVENUE	**226,377**	**193,327**	**149,629**	**183,970**	**187,139**
Taxes	148,281	81,276	110,494	149,575	165,610
Social contributions	0	75	75	75	75
Grants	30,553	61,553	6,184	3,167	1,052
Current	5,671	23,771	4,531	2,940	825
Capital	24,882	37,782	1,654	227	227
Other revenue	47,542	50,423	32,876	31,153	20,402
EXPENSE	**186,222**	**256,256**	**178,122**	**175,983**	**173,956**
Compensation of employees	66,014	71,418	72,270	72,831	73,189
Use of goods and services	65,169	126,496	40,478	39,192	36,729
Depreciation	9,204	13,136	13,136	13,136	13,136
Interest	1,785	0	3,607	3,387	3,466
Subsidies	12,761	12,102	15,467	15,947	15,947
Grants	0	0	0	0	0
Social benefits	22,488	23,369	23,637	23,748	23,865
Other expense	8,800	9,735	9,526	7,744	7,625
NET OPERATING BALANCE	**40,155**	**-62,928**	**-28,492**	**7,987**	**13,182**
Plus NON CASH APPROPRIATIONS					
Depreciation	9,204	13,136	13,136	13,136	13,136
CASH SURPLUS/(DEFICIT) FROM OPERATING TRANSACTIONS	**49,359**	**-49,792**	**-15,356**	**21,123**	**26,319**
CASH TRANSACTIONS IN NONFINANCIAL ASSETS					
Net Cash Applied to the Acquisition of Fixed Assets	81,237	88,071	34,608	27,871	21,783
Gross transactions in Non-Financial Assets	90,442	101,208	47,744	41,008	34,920
Less Non Cash Transactions in Non-Financial Assets (Depreciation)	-9,204	-13,136	-13,136	-13,136	-13,136
NET (BORROWING)/LENDING	**-31,878**	**-137,864**	**-49,964**	**-6,748**	**4,535**
CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS	**-21,980**	**-54,812**	**-59,413**	**-15,201**	**-8,367**
Domestic Transactions	-21,980	-54,812	-59,413	-15,201	-8,367
Foreign Transactions	0	0	0	0	0
CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES	**-9,907**	**-83,101**	**9,400**	**8,402**	**12,860**
Domestic Transactions	0	0	0	0	0
Foreign Transactions	-9,907	-83,101	9,400	8,402	12,860
NET CASH FINANCING TRANSACTIONS	**-31,887**	**-137,913**	**-50,013**	**-6,798**	**4,493**
Statistical discrepancy	-9	-50	-49	-50	-43

5.1 GFS Net Operating Balance

The GFS net operating balance is operating revenue less operating expenditure. In the 2020/21 HYEFU, the net operating balance improved by $6.2 million from a deficit of $69.1 million at the time of the Budget to a deficit of $62.9 million.

This is a result of increases in revenue of $6.6 million from $186.7 million at the time of Budget to $193.3 million, a 3.5 per cent increase in revenue since the 2020/21 Budget. This is principally due to an increase in Official Development Assistance in the form of General Budget Support of $15.1 million, and an increase in other revenue due to the receipt of $8.3 million of vested interests from the Financial Services Commission. Offsetting these increases are the downward revisions made to fishery and taxation revenues.

Forecast operating expenditures have increased by $0.5 million from $255.8 million to $256.3 million, largely attributable to carry-forward and Executive orders requests outlined in Chapter 4.

5.1.1 GFS operating revenue

Table 5-2: Total GFS revenue ($'000)

	2019/20 Actual	2020/21 Budget	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Taxes	148,281	93,814	81,276	110,494	149,575	165,610
Social contributions	0	75	75	75	75	75
Grants	30,553	61,553	61,553	6,184	3,167	1,052
Current	5,671	23,771	23,771	4,531	2,940	825
Capital	24,882	37,782	37,782	1,654	227	227
Other revenue	47,542	31,273	50,423	32,876	31,153	20,402
Total GFS Revenue	**226,377**	**186,715**	**193,327**	**149,629**	**183,970**	**187,139**

Changes in Government revenue forecasts are detailed in Chapter 4, and no changes to total Official Development Assistance funding[12] have been recorded as at the time of publication.

As shown in Figure 5-1, operating revenue consists primarily of taxation receipts (42.0 per cent of total revenue in 2020/21 versus 65.5 per cent in 2019/20), grants from other Governments (31.8 per cent versus 13.5 per cent in 2019/20) and other revenues, which include agency trading revenues, interest and dividend receipts (26.1 per cent versus 21.0 per cent in 2019/20).

GFS Operating revenues in 2019/20 totalled $226.4 million, of which $148.3 million was taxation revenue. This included higher than anticipated tax receipts of $8.0 million compared to the estimate reported in the 2020/21 Budget, offsetting decreases in other revenue lines of $1.8 million.

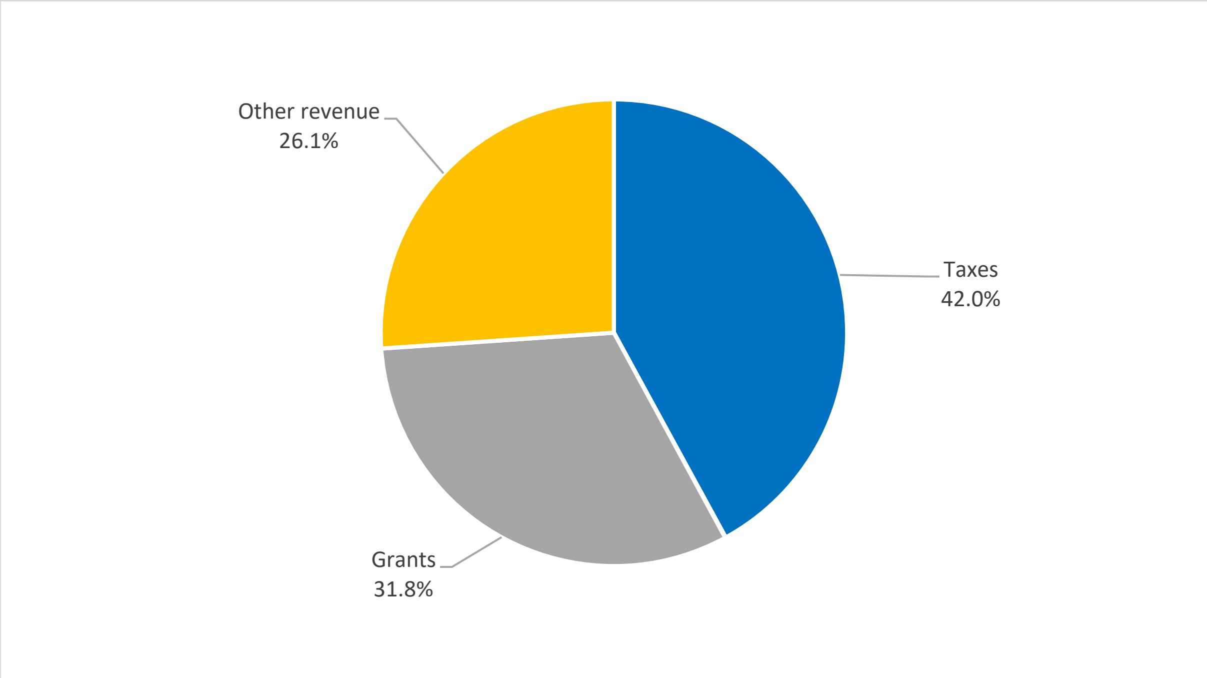
Shifts in the composition of Government revenues are primarily due to the impact of COVID-19 on taxation revenues, and the receipt of increased Official Development Assistance as general budget support.

ODA grant funding values are typically overstated within the Budget Estimates as these include projects which may not achieve indicated expenditure due to approval processes or other requirements, but are subject to provisional approval at the time of the budget.

[12] Aid support in the form of 'General Budget Support', or cash funding to supplement Government's fiscal resources, are not classified under Official Development Assistance but instead are classified as 'Other Revenue'.

In addition to the special COVID-19 assistance, in 2020/21 grant funding expenditure is forecast to be above long-run averages due to the release of several large grants including the Manatua Polynesian Cable Project and the drawdown of the Cook Islands Infrastructure Trust Fund for the slab replacement work at Rarotonga International Airport. Further detail is provided in Chapter 8.

Figure 5-1: GFS operating revenue, 2020/21 HYEFU (percentage)



5.1.2 GFS Operating Expenditure

Table 5-3 highlights the increased expenditure in 2020/21 which is principally in the 'Use of goods and services' category, capturing the additional expenditure on Phase II of the ERP and capital expenditure.

Table 5-3: Total GFS expenditure ($'000)

GFS Statement Classifications	2019/20 Actual	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Compensation of employees	66,014	71,418	72,270	72,831	73,189
Use of goods and services	65,169	126,496	40,478	39,192	36,729
Depreciation	9,204	13,136	13,136	13,136	13,136
Interest	1,785	0	3,607	3,387	3,466
Subsidies	12,761	12,102	15,467	15,947	15,947
Grants	0	0	0	0	0
Social benefits	22,488	23,369	23,637	23,748	23,865
Other expense	8,800	9,735	9,526	7,744	7,625
Gross Expenditure	**186,222**	**256,256**	**178,122**	**175,983**	**173,956**
Less Current ODA	5,671	23,771	4,531	2,940	825
Underlying Expenditure	**180,551**	**232,485**	**173,591**	**173,044**	**173,132**

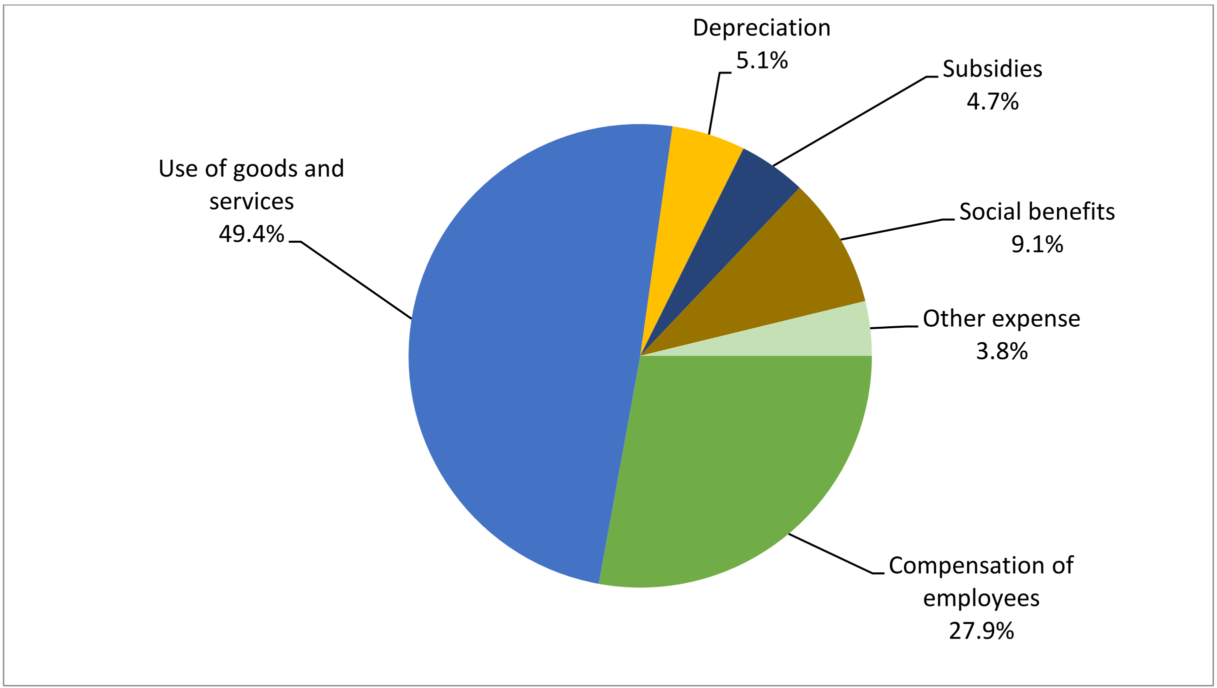
Total gross operating expenditure is estimated at $256.3 million in 2020/21, reducing to $178.1 million in 2021/22 and stabilising at similar levels over the medium-term. This is the result of short-term funding coming to an end including the COVID-19 Economic Response Fund and COVID-19 Medical Response Fund.

Excluding Official Development Assistance funding the Government expenditure in response to the pandemic is approximately $60 million greater than average expenditure levels.

As shown in

Figure 5-2, operating expenditure consists of compensation of employees at 27.9 per cent (35.4 per cent in 2019/20), use of goods and services at 49.4 per cent (35.0 per cent in 2019/20). In comparison to 2019/20 expenditure the proportion of all categories other than use of goods and services has decreased due to the expenditure associated with the pandemic. These proportions are expected to return to normal allocations as the additional expenditure for the Economic Response Plan ceases.

Figure 5-2: GFS Operating Expenditure, 2020/21 HYEFU (percentage)



Compensation of Employees

Expenditure on compensation of employees is estimated to be $71.5 million in 2020/21, $0.1 million higher compared to the estimates reported in the 2020/21 Budget. This is due to the approval of funding increase to the ICT Support Team Administered Payment via Executive Order.

Use of Goods and Services

$126.5 million is expected to be spent on use of goods and services in 2020/21. This is primarily due to the appropriation of the COVID-19 Economic Response Plan Fund in 2020/21 of $64.0 million.

Expenditure through the use of goods and services will decrease significantly to $40.5 million in 2021/22, with expenditure projections over the forward years decreasing towards long-term average levels. These ongoing decreases are primarily due to the cessation of a number of Administered Payments across the outer years resulting in reduced expenditure.

Consumption of Fixed Capital

Total depreciation over the medium-term is estimated to be $13.1 million. This is primarily driven by technical adjustments made to Agency depreciation baselines.

Debt Servicing Payments

The debt interest contributions to the Loan Repayment Fund (LRF) was revised to zero in the 2020/21 Budget due to the diversion of funds into the general cash reserves for one year to finance Phase II of the Economic Response Plan. Debt interest contributions to the LRF will resume from 2021/22 onwards.

Interest expense will increase going forward due to the increased debt taken on to support the ERP Phase II. Readers should refer to Chapter 7 for further information on debt and repayments.

5.2 GFS Non-Operating Items

Cash transactions in non-financial assets are transactions relating to capital. This spending includes public works, the purchase of plant and equipment, and investments in ICT by both the Crown and development partners. Total purchases of non-financial assets (excluding depreciation) are estimated to rise from $90.4 million in 2019/20 to $101.2 million in 2020/21.

This value includes Official Development Assistance capital funds that are subject to finalization and may not be expended in 2020/21.

Cash transaction in non-financial assets are forecast to reduce in the forward years due to the completion of capital projects and forward funding allocations for new projects not yet determined.

5.2.1 Net Borrowing / Lending and Cash Financing Transactions

The Net Borrowing/Lending Requirement outlines the amount of financing required to fund both operating and capital balances, with these funds being sourced from either assets (predominantly accumulated cash reserves) or liabilities (predominantly loan finance).

The net financing requirement is $137.9 million in 2020/21, and will be funded by a mixture of cash reserves, including the Stabilisation Fund, and the draw-down of new loans.

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. Most of the statistical discrepancy shown in the GFS Operating Statement relates to timing issues between when projects are executed and when their funding is received into the Crown account. The sum of the statistical discrepancy across the years shown is not considered to be significant.

5.3 Classification of Functions of Government

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 5-4: classifies the Budget to the sub-functional level for both Cook Islands Government spending and ODA, excluding categories without expenditure.

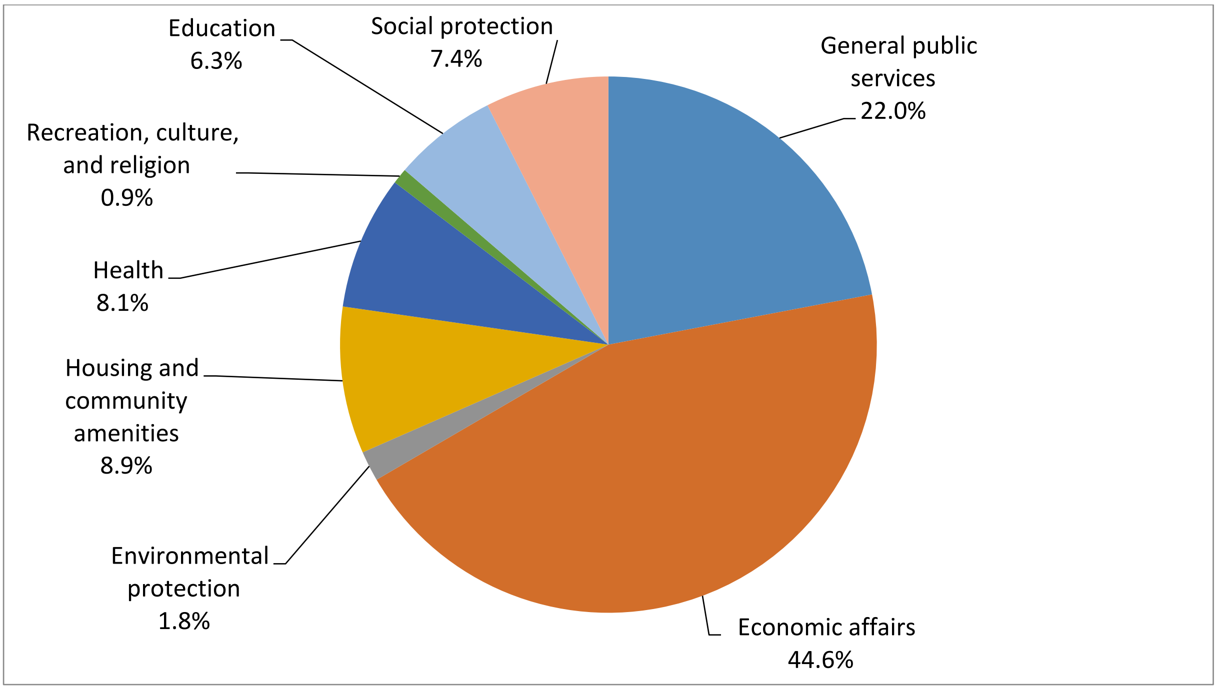
Table 5-4: Classification of Functions of Cook Island Government 2020/21 HYEFU ($000's)

Function of Government	2019/20 Actual	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Cook Islands Government (CIG) Expenditure					
General public services	***50,028***	***44,433***	***39,913***	***40,051***	***39,929***
Executive and legislative organs, financial and fiscal affairs, external affairs	39,848	36,792	27,987	28,659	28,772
General services	7,644	6,866	7,564	7,231	6,918
R&D General public services	24	26	26	26	26
General public services	726	748	728	747	747
Public debt transactions	1,785	0	3,607	3,387	3,466
Public order and safety	***10,866***	***10,585***	***10,328***	***10,517***	***10,642***
Police services	6,365	5,806	5,656	5,806	5,704
Law courts	3,705	4,094	3,970	4,006	4,183
Prisons	796	685	702	705	755
Economic affairs	***65,527***	***118,325***	***59,696***	***60,325***	***54,233***
General economic, commercial, and labour affairs	21,404	73,311	9,386	9,482	9,482
Agriculture, forestry, fishing, and hunting	3,600	4,029	4,152	4,193	4,343
Fuel and energy	3,444	2,262	1,421	1,801	1,801
Mining, manufacturing, and construction	3,075	4,485	4,439	3,239	1,489
Transport	23,310	24,242	30,086	31,397	26,905
Communication	659	883	308	308	308
Tourism	9,288	8,534	9,326	9,326	9,326
R&D Economic affairs n.e.c.	694	450	450	450	450
Economic affairs n.e.c.	54	128	128	128	128
Environmental protection	***2,973***	***3,298***	***3,062***	***3,002***	***3,002***
Waste management	873	1,026	1,026	1,026	1,026
Environmental protection n.e.c.	1,795	1,969	1,763	1,703	1,703
Housing and community amenities	***21,503***	***28,084***	***27,592***	***20,617***	***21,209***
Housing development	624	200	0	0	0
Community development	774	1,750	600	600	600
Water supply	12,012	18,351	19,505	12,430	13,022
Housing and community amenities n.e.c.	8,093	7,783	7,487	7,587	7,587
Health	***24,383***	***24,734***	***18,685***	***18,585***	***18,585***
Medical products, appliances, and equipment	5,507	6,345	595	495	495
Outpatient services	1,990	2,641	2,641	2,641	2,641
Hospital services	2,140	1,189	989	989	989
Health n.e.c.	14,746	14,559	14,460	14,460	14,460
Recreation, culture, and religion	***1,996***	***2,074***	***2,997***	***2,998***	***2,378***
Recreational and sporting services	94	324	319	320	320
Cultural services	1,901	1,750	2,678	2,678	2,057
Education	***19,842***	***20,442***	***20,555***	***20,765***	***20,765***
Pre-primary and primary education	2,509	2,511	2,511	2,511	2,511
Secondary education	0	0	0	0	0
Postsecondary non-tertiary education	0	0	0	0	0
Tertiary education	1,997	2,389	2,389	2,389	2,389
Education not definable by level	0	0	0	0	0
Education n.e.c.	15,336	15,542	15,655	15,865	15,865
Social protection	***22,506***	***23,315***	***23,718***	***23,828***	***23,946***
Sickness and disability	396	430	430	430	430
Old age	12,812	12,914	13,069	13,225	13,378
Survivors	0	0	0	0	0
Family and children	6,614	7,245	7,359	7,313	7,278
Unemployment	0	0	0	0	0
Housing	77	84	84	84	84
Social exclusion n.e.c.	99	64	71	71	71
R&D Social protection	0	0	0	0	0
Social protection n.e.c.	2,510	2,577	2,704	2,704	2,704
Total CIG Expenditure	**219,624**	**275,289**	**206,545**	**200,688**	**194,688**

Function of Government	2019/20 Actual	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Official Development Assistance (ODA) Expenditure*					
General public services	7,996	27,354	3,157	2,715	600
Economic affairs	18,712	27,166	2,380	227	227
Environmental protection	3,394	2,645	83	0	0
Housing and community amenities	238	807	90	0	0
Health	0	1,596	0	0	0
Education	0	25	25	25	25
Social protection	213	962	200	200	200
Total ODA Expenditure	**30,553**	**61,553**	**6,184**	**3,167**	**1,052**
TOTAL PUBLIC EXPENDITURE	**250,178**	**336,842**	**212,729**	**203,855**	**195,740**

Figure 5-3 classifies the combined Cook Islands Government and ODA spending in the 2020/21 HYEFU at the 10 main functional levels.

Figure 5-3: Classification of Functions of Cook Island Government 2020/21 HYEFU



Economic affairs make up 44.6 per cent of public expenditure, with general economic, commercial and labour affairs at just over $73.3 million. This mainly consist of payments from the Economic Response Plan, followed by Transport at $24.2 million and Tourism at $8.5 million.

General public services is the second largest area of public spending, comprising of expenditure relating to the executive and legislative functions of Government, financial and fiscal affairs, and external affairs which totals $36.8 million.

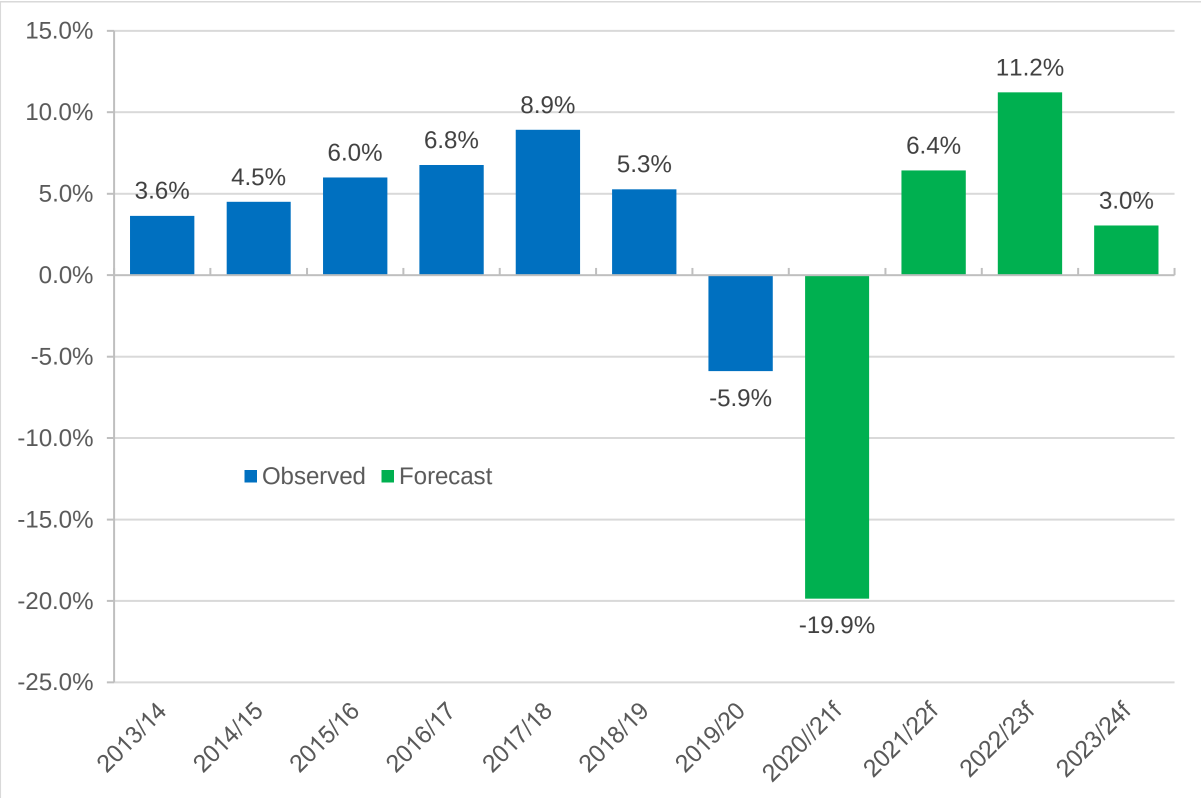
6 Economic Update

6.1 Overview

6.1.1 Performance

The Cook Islands' economy has been severely impacted by the COVID-19 pandemic and the associated restrictions on travel. Given the role played by tourism in the economy (responsible for around 65 per cent of economic activity), this impact is to be expected, though this does not mean the challenge is any less severe. The pandemic has seen an end to six years of continued economic growth for the Cook Islands, which has seen average incomes rise by over eight per cent over that time. This prosperity allowed the preservation of financial resources which enabled a strong response to the downturn in the form of the Economic Response Plan.

Figure 6-1: Annual percentage change in Real GDP



This recent strong performance can be seen in Figure 6-1 with economic growth achieving highs of 8.9 per cent in 2017/18 up from a low of 3.6 per cent in 2013/14. This has been driven by record visitor arrivals, with 2009/10 being the first-time total visitor arrivals crossed the 100,000 barrier, and 2016/17 breaking the 150,000 barrier. This growth has primarily come from the New Zealand and Australian markets, which have increased by 40 per cent and 26 per cent respectively over the five years to 2017/18.

Construction has also contributed strongly to economic growth, with both public and private sector building projects driving demand in the economy through a boom in housing and key infrastructure projects in both Rarotonga and the Pa Enua. The construction industry more than doubled over the six-year period to 2019/20 to a value of $22.2 million, with a particularly strong spike in the June 2020 quarter.

This strong economic performance resulted in the graduation of the Cook Islands from the Organisation for Economic Cooperation and Development's (OECD) Official Development Assistance (ODA) eligibility list in January 2020. Graduation has resulted in an inability for a number of donor countries to provide support to the Cook Islands during the pandemic. Pre-pandemic estimates by MFEM suggested that the impact of graduation on economic growth would be approximately 0.4 per cent of GDP, these impacts are likely higher given the need for strong economic stimulus in response to the pandemic.

Table 6-1 provides a summary of the key indicators for the budget appropriation year and the three forward years of the 2020-21 budget cycle.

Table 6-1: Summary of Economic Indicators

	2018/2019 Act.	2019/2020 Act.	2020/2021 Est.	2021/2022 Proj.	2022/2023 Proj.	2023/2024 Proj.
Economic Activity						
Nominal GDP ($'000)	548,693	528,123	429,201	464,751	525,980	552,093
Percentage change (YOY)	8.8	-3.7	-18.7	8.3	13.2	5.0
Real GDP (2016 prices, $'000)	531,192	499,856	400,600	426,359	474,203	488,627
Percentage change (YOY)	5.3	-5.9	-19.9	6.4	11.2	3.0
Inflation (CPI)						
Percentage change (YOY)	0.0	0.7	1.0	0.7	0.7	0.7
Construction/Capital Investment						
Commercial[13] Building Approvals ($'000)	6,772	7,147	9,500	6,015	6,015	6,015
Residential Building Approvals ($'000)	15,351	15,654	9,773	14,362	15,207	16,052
Productive Sector Indicators						
Visitor Arrivals	166,818	123,786	7,133	116,935	163,876	173,832
Percentage change (YOY)	1.2	-25.8	-94.2	1,539.4	40.1	6.1
Estimated Visitor Expenditures ($'000)	368,229	265,824	15,014	250,527	363,419	390,198
Agriculture value-added ($'000)	11,378	10,588	9,582	9,582	9,582	9,582
Fisheries value-added ($'000)	1,886	1,467	1,467	1,467	1,467	1,467
External Sector						
Merchandise Trade Balance ($'000)	-179,558	-189,480	-154,825	-181,005	-196,157	-199,552
Services Trade Balance ($'000)	368,229	265,824	15,014	250,527	363,419	390,198
Exchange Rate (USD/NZD Average)	0.67	0.65	0.66	0.67	0.68	0.68

6.1.2 Outlook

The immediate economic outlook for the Cook Islands is negative due to the pandemic and associated travel restrictions, however the economy has proven more resilient than anticipated considering that by the end of March the country will have had one year of no tourists. The June quarter 2020 data shows that real (inflation-adjusted) GDP in 2019-20 was six per cent below 2018/19 levels as a consequence of the final quarter of the year, after 3 quarters of strong growth.

It is expected that growth in 2020/21 will fall by 19.9 per cent, prior to the recovery from autumn 2021 with border openings beginning with New Zealand from April, and expanded when health assessments

[13] Including Tourism

permit. This recovery leads to growth of 6.4 per cent in 2021/22, and 11.2 per cent in 2022/23. It is important to note that real GDP is not expected to return to previous levels over the forecasting period.

The Government's fiscal stance is strongly expansionary in 2020/21 and relatively neutral in 2021/22, before moving toward a more contractionary stance as the economy recovers from 2023/24. The inflation outlook is low to moderate across the forward years, with price growth of 1.0 per cent in 2020/21, before slowing to 0.7 per cent thereafter.

6.2 The Global Economy

The Cook Islands is a small, open economy whose growth is heavily reliant on the export of goods and services to a few key partner countries, New Zealand, Australia and the United States of America in particular. This has been shown starkly through the impacts of the COVID-19 pandemic on the movement of people and trade. As such, it is necessary to examine the economic conditions and outlook for our key partners, as well as the regional and global economy.

New Zealand

In November 2020, the Reserve Bank of New Zealand (RBNZ) announced further monetary stimulus through a Funding for Lending Program (FLP), on top of holding the official cash rate (OCR) at historically low levels (0.25 per cent) and undertaking $100 billion in Large Scale Asset Purchases (LSAP). In an effort to signal potential moves should they be necessary, the RBNZ also mentioned the possibility for a negative OCR in the future.

This drastic action is in response to the ongoing pandemic, and while news of developments on the vaccine are positive, the RBNZ expects inflation and employment levels to remain below their targets for a "prolonged period". The necessary constraints on international borders will continue to have a negative impact on international trade and migration, forcing monetary policy to remain stimulatory for a long time to meet inflation and employment remits.

The RBNZ Monetary Policy Statement November 2020 reports annual GDP declining by 4.2 per cent in 2020-21, due to across-the-board contractions in the economy – including the historic 12.2 per cent fall in the June quarter of 2020. This is expected to rebound relatively quickly in the following year. Inflation is expected to remain weak, with price growth below 1 per cent until 2022/23.

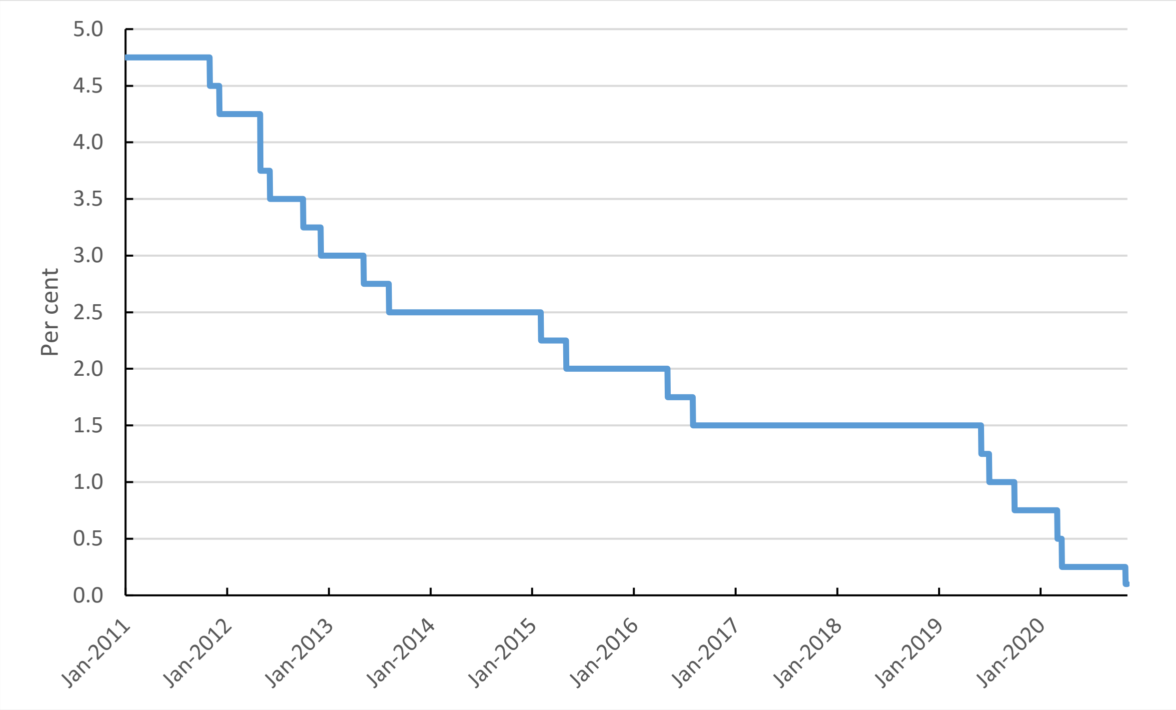
The New Zealand Dollar has strengthened against the US Dollar in recent months, reflecting strength in the New Zealand economy (Figure 6.16).

Australia

In November 2020, the Reserve Bank of Australia (RBA) lowered its cash rate to a historic low of 0.1 per cent and announced a program of unconventional monetary policy aimed at stimulating the Australian economy. This marked a decade since the last time the Australian cash rate was raised (Chart 1).

In its Statement on Monetary Policy November 2020, the RBA reported GDP growth expectations of negative 4 per cent in 2020, rising by around 5 per cent by 2021, and 4 per cent in 2022. The 2019 level of GDP is expected to be reached by 2021, however this is considerably lower than the pre-pandemic expectation.

Figure 6-2: Australia cash rate



Source: RBA, 2020.

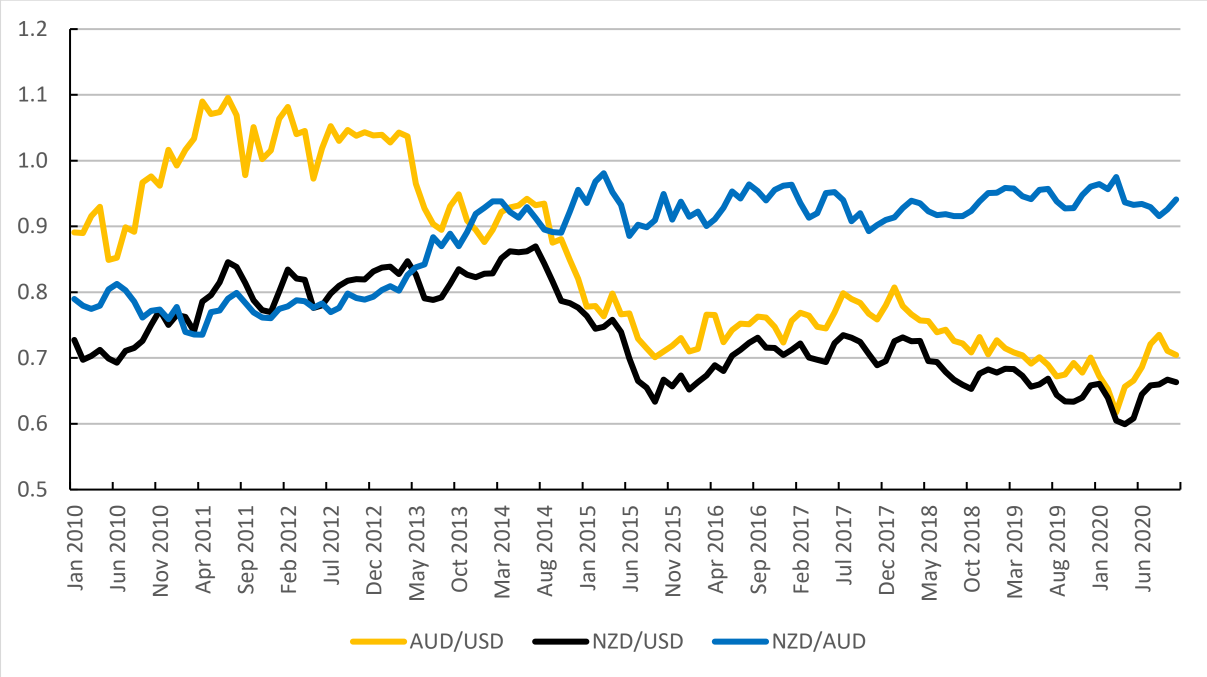
United States

The International Monetary Fund's (IMF) World Economic Outlook (WEO) October 2020 expects United States' GDP to decline by 4.3 per cent in 2020, before partially recovering with 3.1 per cent growth in 2021. The changes to the outlook from the April 2020 report reflect a greater understanding of the impacts of COVID-19, with the initial downturn being somewhat less than expected (although still severe), but medium-term forecasts being negatively impacted through supply chain effects.

The US Federal Reserve cut target rates in early 2020 to the zero bound, and took unprecedented measures to 'restore smooth market functioning and to support the flow of credit in the economy, including the creation of a number of emergency credit and liquidity facilities.

The growing numbers of COVID-19 cases in the United States pose a considerable concern from both a human and economic perspective, as they will likely lead to the requirement for the implementation of further restrictions. The commencement of the roll-out of the vaccine in the United States may improve this outlook over the coming year.

Figure 6-3: US dollar exchange rate, New Zealand and Australia



Asia Pacific – economic prospects worsen due to the COVID-19 pandemic

The Asian Development Bank's (ADB) September 2020 *Asian Development Outlook 2020 Update* notes that economic prospects in the broader Asia-Pacific region have worsened over the past six months, with a 0.7 per cent decline in regional GDP – the first region-wide recession in six decades. A rebound of 6.8 per cent in 2021 is expected to bring activity back into positive growth, however at a lower-level than expected pre-pandemic.

As the virus began to take hold, and restrictions to movement were imposed to contain the spread, economic activity in the second quarter of 2020was impacted. In most Asian markets these restrictions have been eased to a degree, and recovery is commencing.

In addition to depressed consumption due to lockdowns, global trade fell through the year – though Asia experienced a smaller decline in global trade. Inflation is also expected to remain modest with lower demand as a result of the pandemic, combined with lower oil prices to counteract the inflationary impact of supply-side constraints. The ADB notes that there remain considerable risks to the downside related to the pandemic, as additional waves of infections may have further impacts on the economy, as well as any potential downside risks to geopolitical tensions between the United States and China with regards to trade.

The ADB describes the impact of COVID-19 on the Pacific as a "crippling economic contraction" with a regional contraction of 6.1 per cent. This is headlined by a decline of one-fifth of GDP for Fiji as the hardest hit, followed by the Cook Islands and Palau as the most tourism-dependent economies. Recovery is not expected immediately, with Fiji forecast to see marginally positive growth of 1 per cent in 2021, while the Cook Islands and Palau are expected to continue to see declines in 2021[14] before rebounding thereafter.

[14] For the Cook Islands, this refers to the 2020/21 Fiscal year

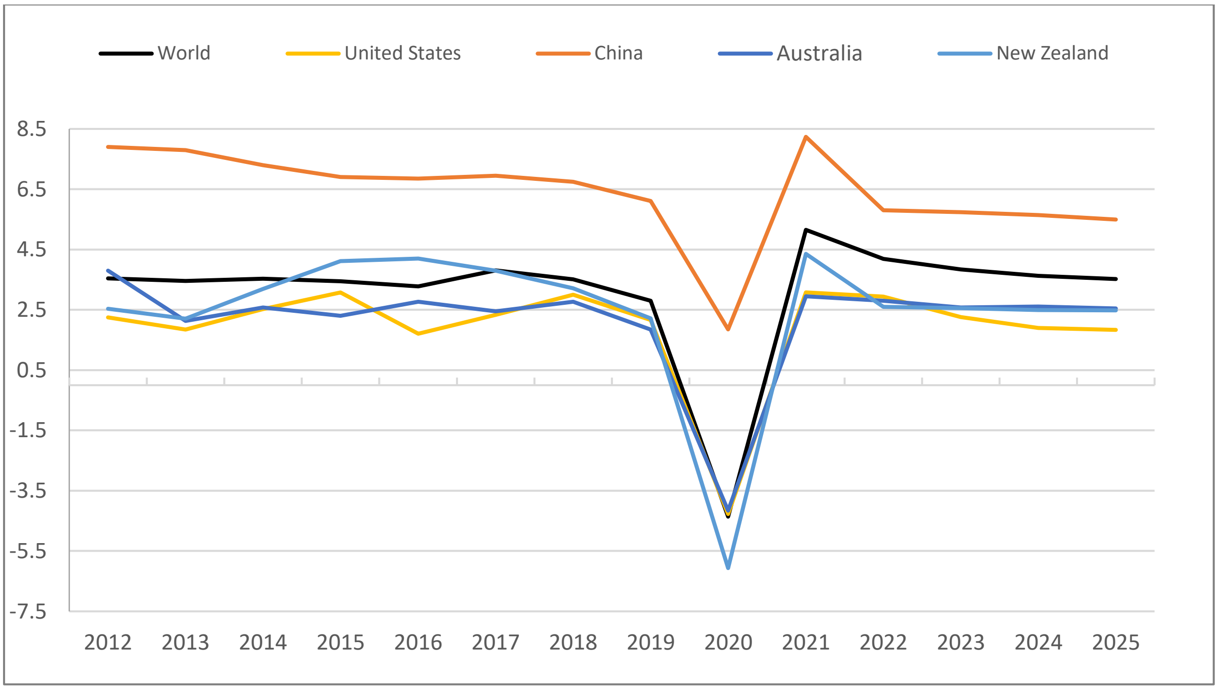
Global — IMF downgrades global growth forecasts

The International Monetary Fund (IMF) in its October 2020 W*orld Economic Outlook* presents a subdued view of global growth prospects as the world economy climbs 'out from the depths to which it has plummeted during the Great Lockdown in April'. The IMF forecasts that global output will fall by 4.4 per cent in 2020, which is a less severe contraction than forecast earlier in the year. However, the report cautions that the recovery is prone to setback and the road back to pre-pandemic levels of activity is long.

The IMF expects global growth in 2021 projected to bounce back to 5.2 percent, a downward revision from their April projections, largely because of the smaller than expected downturn in 2020. Despite this headline growth rate, the IMF notes that at the end of 2021, global GDP will be only 0.6 per cent above that of 2019. This is said to represent a 'severe setback to the projected improvement in average living standards' across the world.

Beyond 2021, the IMF expects growth to stabilise at around 3.5 percent over the medium-term, however it sees the pandemic as a key threat to gains made in reducing poverty over the past two decades (see Figure 6-4).

Figure 6-4: IMF GDP growth estimates, selected countries

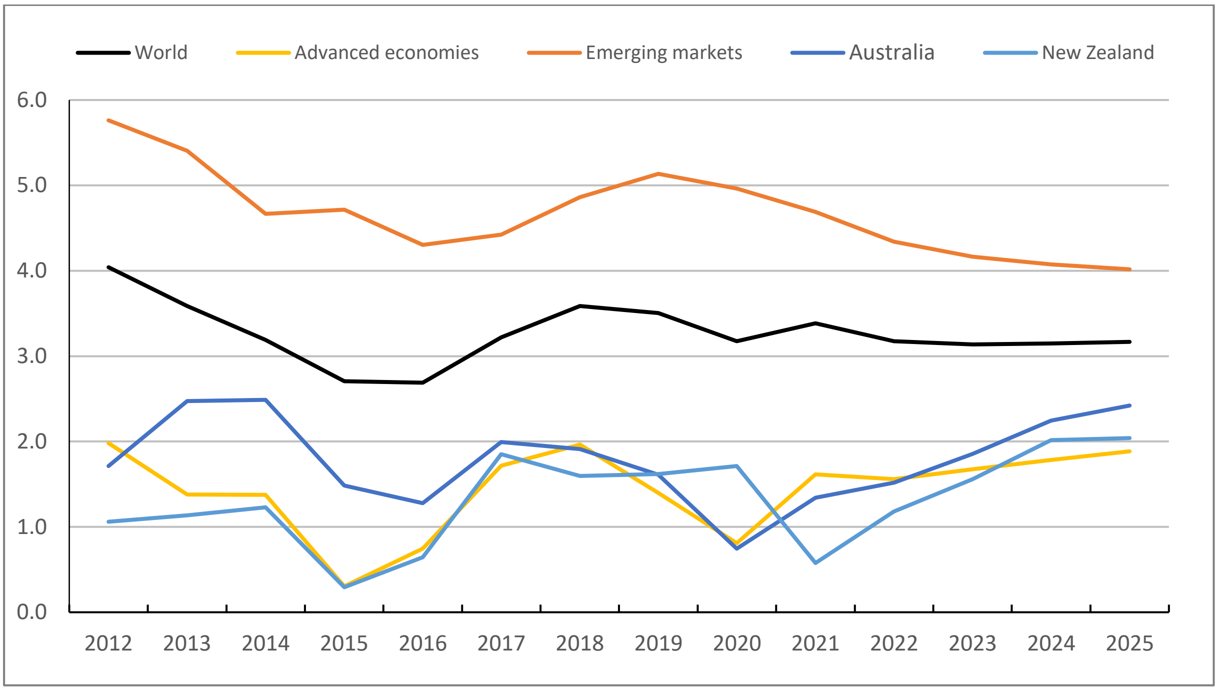


The IMF notes that the subdued medium-term forecast is influenced by public social distancing protocols continuing into 2021 and the large increase in sovereign debt in response to the crisis. The scarring from the depth of the recession is expected to linger for some time, compounding previous issues which resulted in slow investment growth prior to the pandemic, which in turn slowed physical capital accumulation across the world.

Key risks include the possibility of additional outbreaks of the virus, as well as the extent of spill-overs from soft demand in the economy and the length of impact. A third source of uncertainty is how financial market sentiment will impact global capital flows for investment, together with the operation of supply chains post-pandemic.

Consistent with the softer outlook for growth and spare capacity in the global economy, the IMF expects inflation to be to 0.8 per cent in 2020 in advanced economies[15], down from 1.4 per cent in 2019, with world inflation at 3.2 per cent (emerging markets are expected to see inflation around 5.0 per cent in 2020). Inflation in advanced economies is then expected to pick up slightly to 1.6 per cent in 2021, before moving to a medium-term projection of 1.9 per cent by 2025. For emerging markets, the rate of inflation is expected to decline slowly over the same period, towards 4 per cent by 2025 (see Figure 6-5).

Figure 6-5: IMF inflation estimates, selected groupings and countries

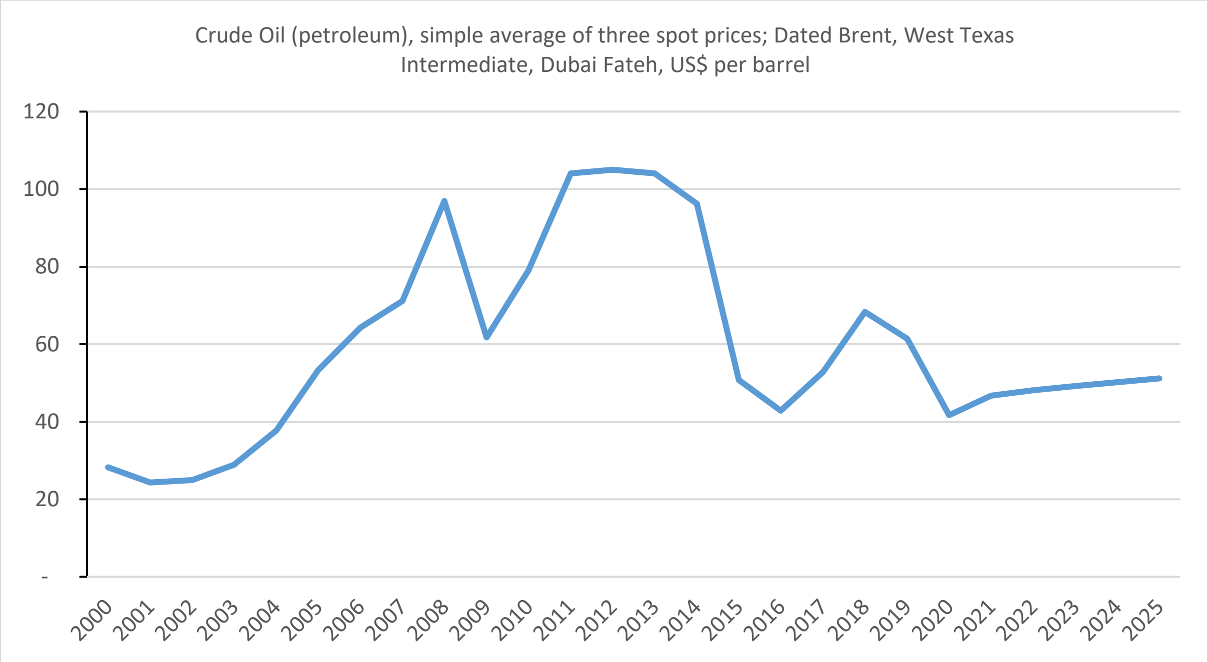


The IMF notes that oil prices decreased by 60 per cent between February and April 2020 as the pandemic hit – from US$53.73 per barrel on 20 February to below US$10 for West Texas Crude on 20 April, reducing demand for oil and raising concerns regarding storage capacity. As oil production was subsequently reduced, this saw prices climb back towards US$40 per barrel by early June. As OPEC and other oil producers continue to reduce production to support prices, prices appear to be stabilised around the US$40-42 mark, with the IMF projecting an average of US$41.69 in 2020.

The IMF projects average oil prices at US$46.71 in 2021 and US$48.09 in 2022. Oil prices are expected to see slow growth thereafter, as demand for oil rises along with economic activity and reduced travel restrictions (see Figure 6-6).

[15] A group which includes the Cook Islands

Figure 6-6: IMF oil price estimates, 1992 to 2024, US$/barrel



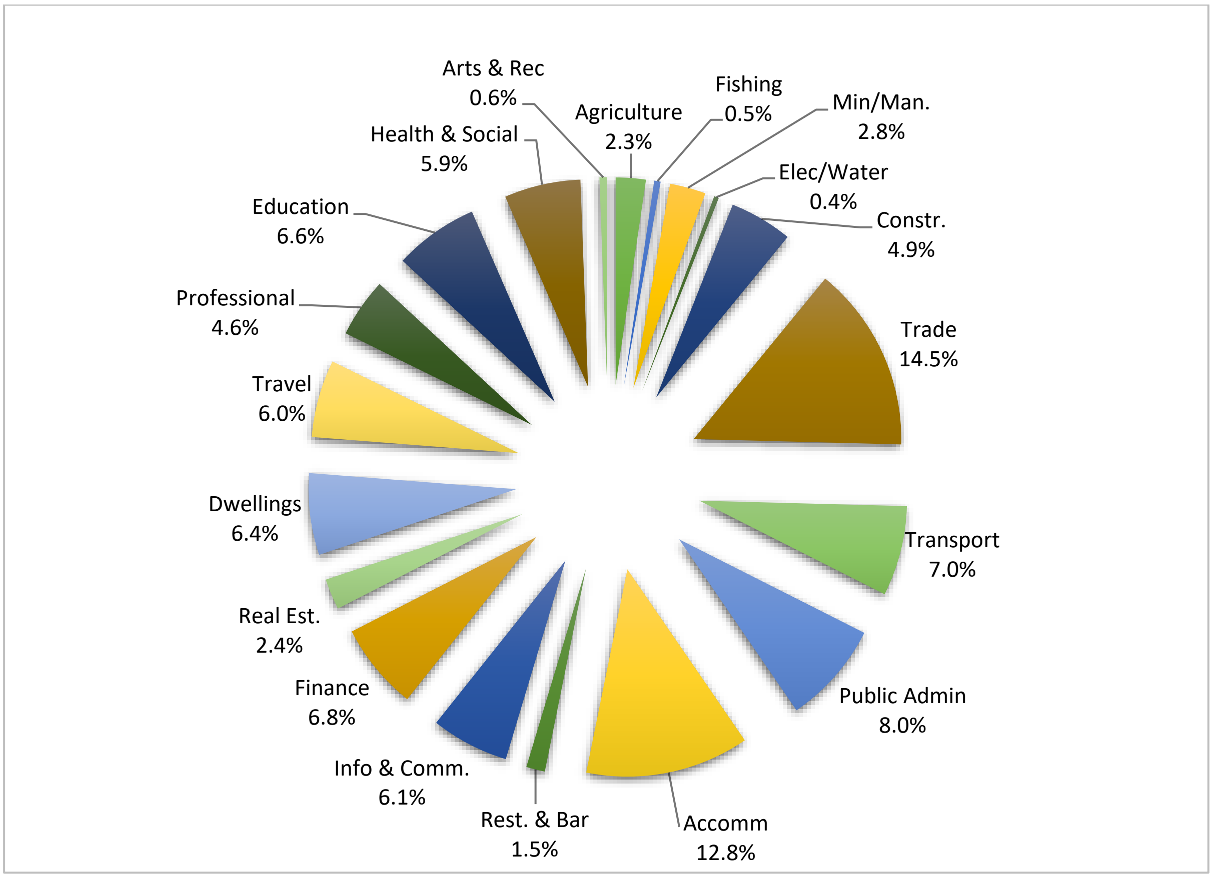
6.3 Cook Islands Economy

6.3.1 Structure and Performance

Due to the Cook Islands' large reliance on tourism, the Services sector accounted for a large proportion (89.1 per cent) of economic activity in 2019/20. This includes key industries such as Accommodation (12.8 per cent), Trade (14.5 per cent) and Public Administration (8.0 per cent).

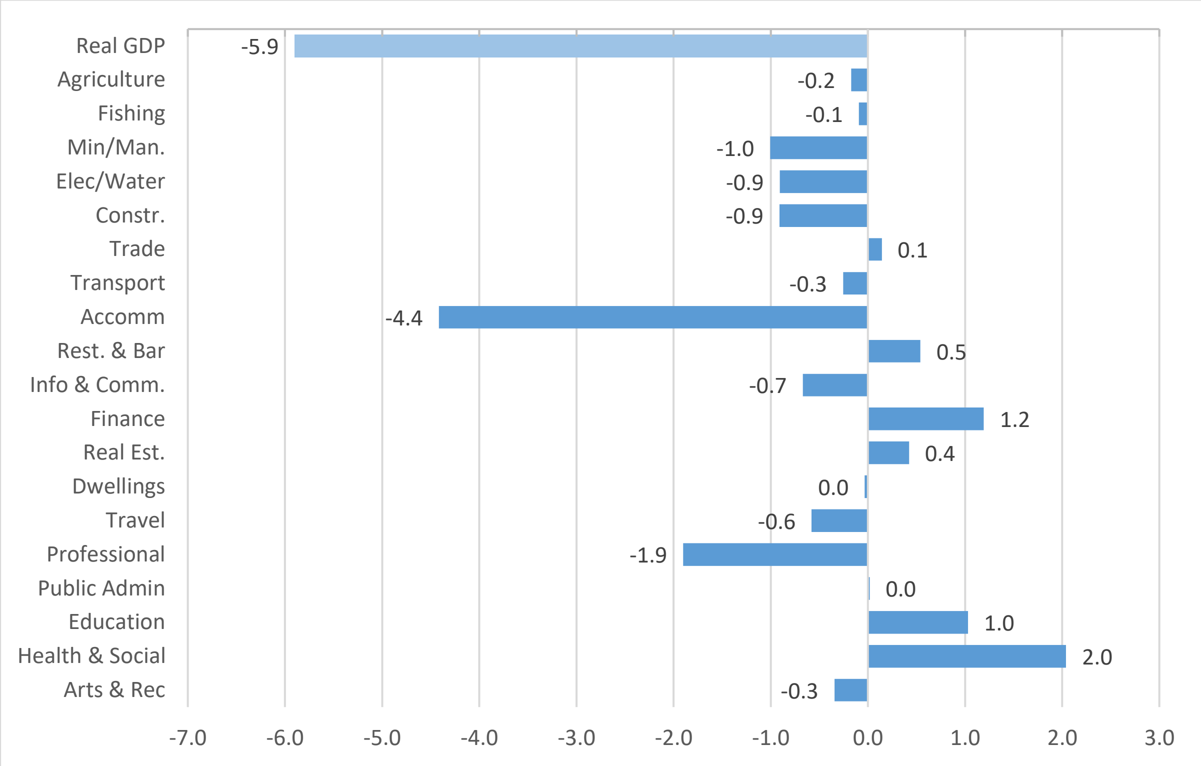
Figure 6-7 shows the breakdown of the Cook Islands economy by industry in 2019/20. This shows the dominance of the services sector, and how other industries, such as Agriculture (2.3 per cent) and Construction (4.9 per cent) contribute to the economy.

Figure 6-7: Cook Islands economy by industry, 2019/20



In 2019/20, the largest contribution to the decline in economic growth has been in the Accommodation sector, which contributed 4.4 percentage points of the 5.9 percentage point total loss (see Figure 6-8), combined with a 1.9 percentage point decline in Professional Services. Partially offsetting the declines are positive contributions from Healthcare and Social Work (2.0 percentage points), Finance (1.2 percentage points) and Education (1.0 percentage points).

Figure 6-8: Contribution to 2019/20 real growth (percentage point)



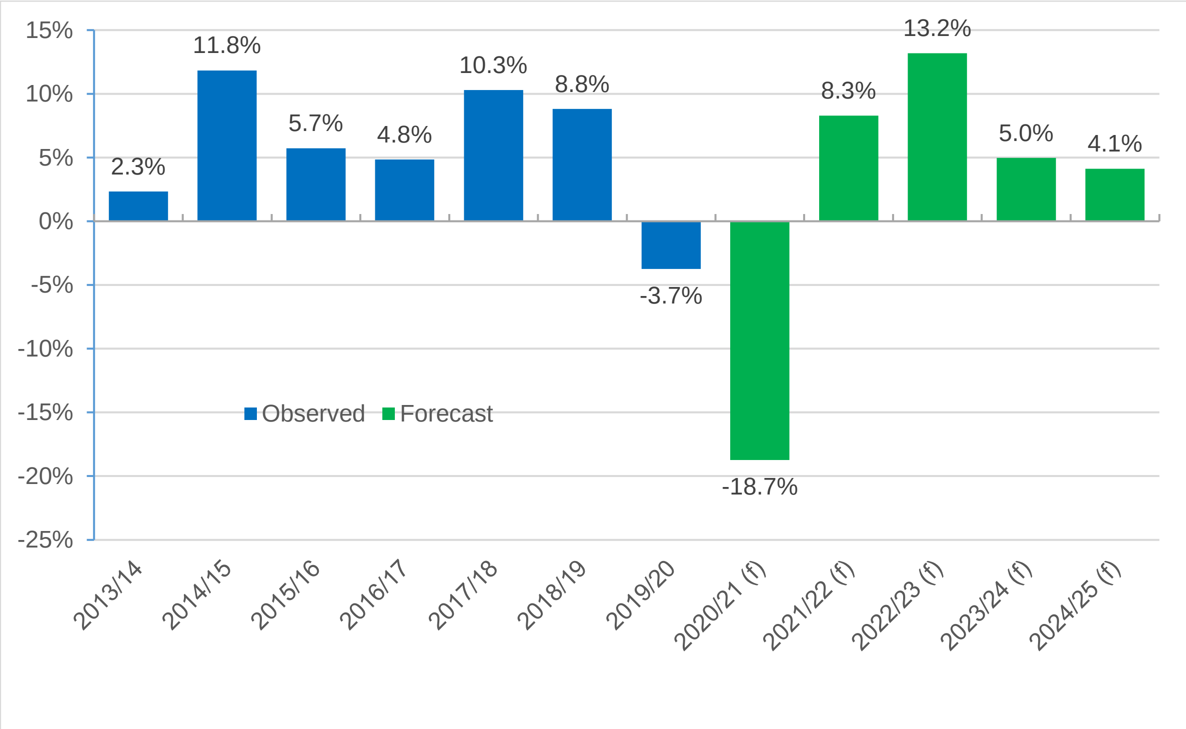
6.3.2 Nominal Outlook

Figure 6-9 shows the forecast percentage change in nominal GDP. It is estimated that nominal GDP contracted by 3.7 per cent in 2019/20. A further decline of 18.7 per cent is anticipated in 2020/21 before the recovery begins. Growth of 8.3 and 13.2 per cent are expected in 2021/22 and 2022/23 respectively.

This profile is based on a number of key assumptions and is sensitive to these assumptions, given the uncertainty surrounding the pandemic. The most crucial of these concerns the border opening between the Cook Islands and New Zealand (and subsequently Australia, and other markets). The assumption is that New Zealanders will recommence travel in April 2021, followed by Australians in July 2021 and other markets in April 2022. These markets all follow a slow and gradual return to 'normal', due to economic headwinds in source markets. The New Zealand market is expected to recover by early 2022, with slower recoveries in other markets. It is possible that this is a conservative assumption with respect to New Zealand, as an upside risk is that with few potential holiday destinations available, an increase in arrivals from New Zealand will be seen .

Assumptions have also been made about the growth of the construction industry during the downturn. The reduction in private investment is likely to be larger than previously expected due to the extended length of the border closures, however this is offset by Economic Response Plan measures which encourage investment, together with an extensive capital investment plan by government.

Figure 6-9: Annual change in nominal GDP (percentage)



In summary, as shown in Table 6-2, nominal and real GDP growth is expected to continue to decline significantly in 2020/21, before rebounding across the outer years. The decline in 2020/21 is less than would otherwise be expected due to the significant stimulus provided by the Government in the Economic Response Plan.

Table 6-2: Annual GDP growth summary

	2019/20	2020/21f	2021/22f	2022/23f	2023/24f
Nominal GDP growth (%)	-3.7	-18.7	8.3	13.2	5.0
Real GDP growth (%)	-5.9	-19.9	6.4	11.2	3.0
Implicit GDP deflator[16] (index)	105.7	107.1	109.0	110.9	113.0

6.4 Consumer price index

Inflation in the Cook Islands is measured by the consumer price index (CPI), which is reported on a quarterly basis by the Cook Islands Statistical Office. Aggregate inflation has fallen steadily since 2011/12, from 2.8 per cent per year then, to -0.1 per cent in 2016/17. In 2019/20, CPI rose slightly to an average of 0.7 per cent over the year, the strongest price growth in five years (Figure 6-10).

[16] A deflator is the factor used to account for a difference in prices between the current year and the base year (which is 2016 in Real GDP). This allows for changes in prices to be removed from changes in volume production when Real GDP is calculated.

Figure 6-10: CPI, year average, 2011/12 – 2019/20 (percentage change)

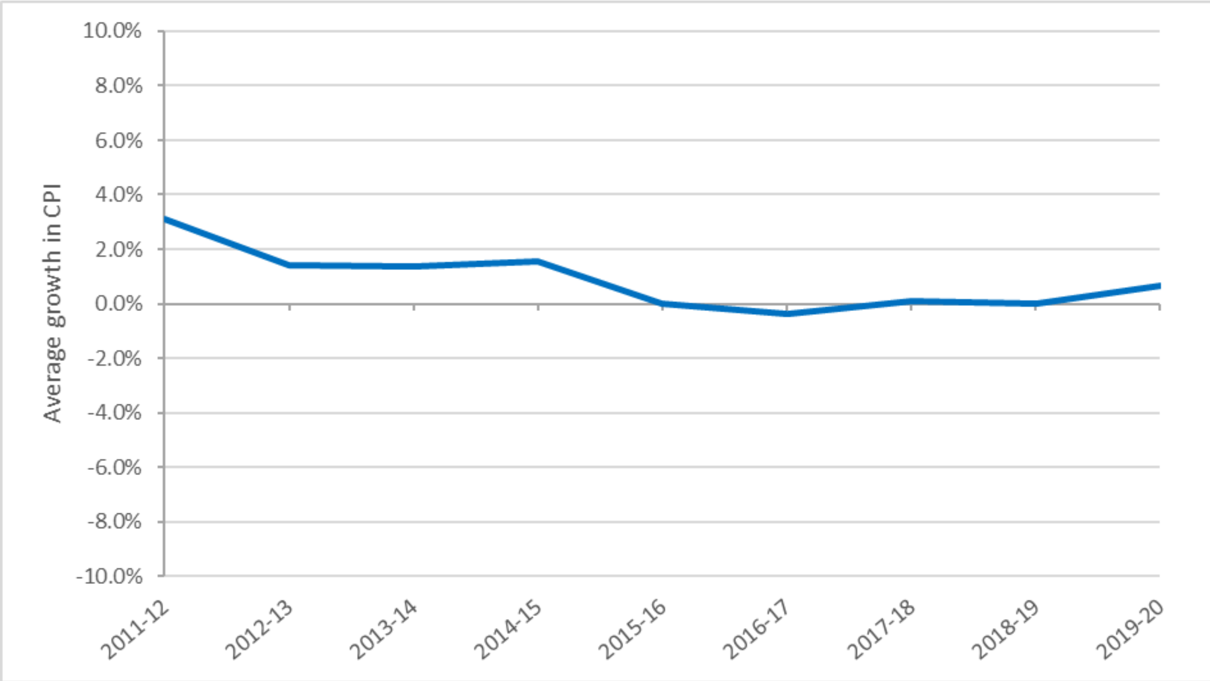
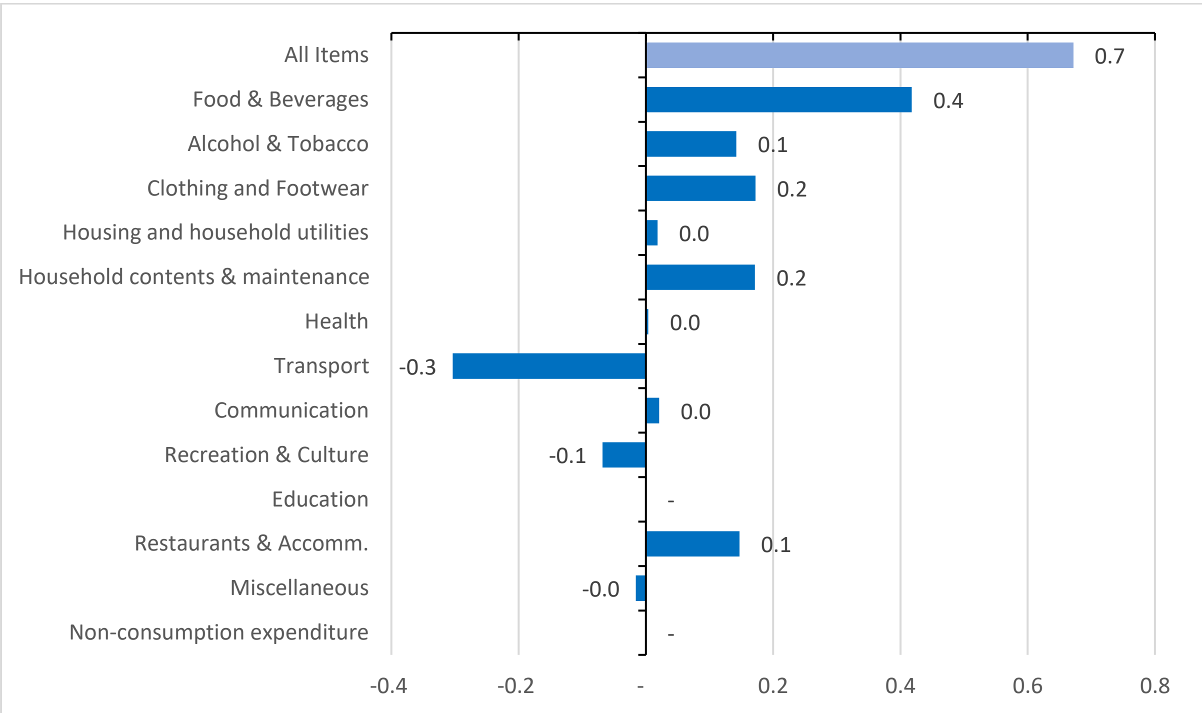


Figure 6-11 shows the contribution to aggregate inflation in 2019/20 by major category. In 2019/20, increases in the Food, Clothing and Household contents groups were partially offset by a fall in the Transport and Recreation groups.

Figure 6-11: Contribution to 2019/20 average inflation (percentage point).

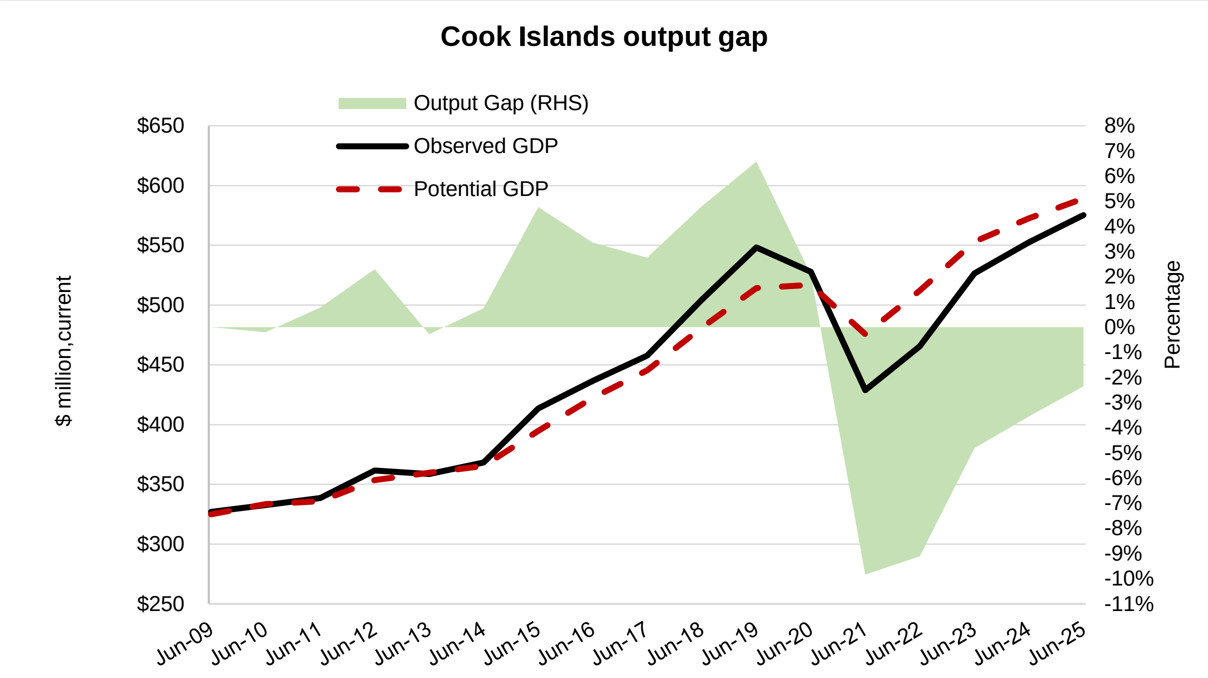


6.4.1 Inflation forecasts

As discussed in Section 6.2, the IMF October 2020 World Economic Outlook noted that there is a large degree of uncertainty around inflation forecasts at the global level, with pressures on both the up and down-sides. Overall, this is expected to keep overall inflation at relatively low levels across the world, with the higher rates of inflation in 'Emerging Market and Developing Economies', though this also declines across the period.

Analysis of the Cook Islands real output gap, using a multivariate Kalman filter approach, as shown in Figure 6-12, suggests that until the onset of the pandemic, the Cook Islands was confronting a positive output gap of considerable size.[17] While there is no evidence of overheating in the Consumer Price Index (CPI) data at present, should the positive output gap return with the recovery in the economy and continue for an extended period of time, capacity constraints such as labour and skills shortages are likely to strengthen, resulting in inflationary pressure. Forecasts of the nominal output gap indicate that the output gap will remain negative, but gradually close over the forecast period, as the economy recovers from the pandemic.

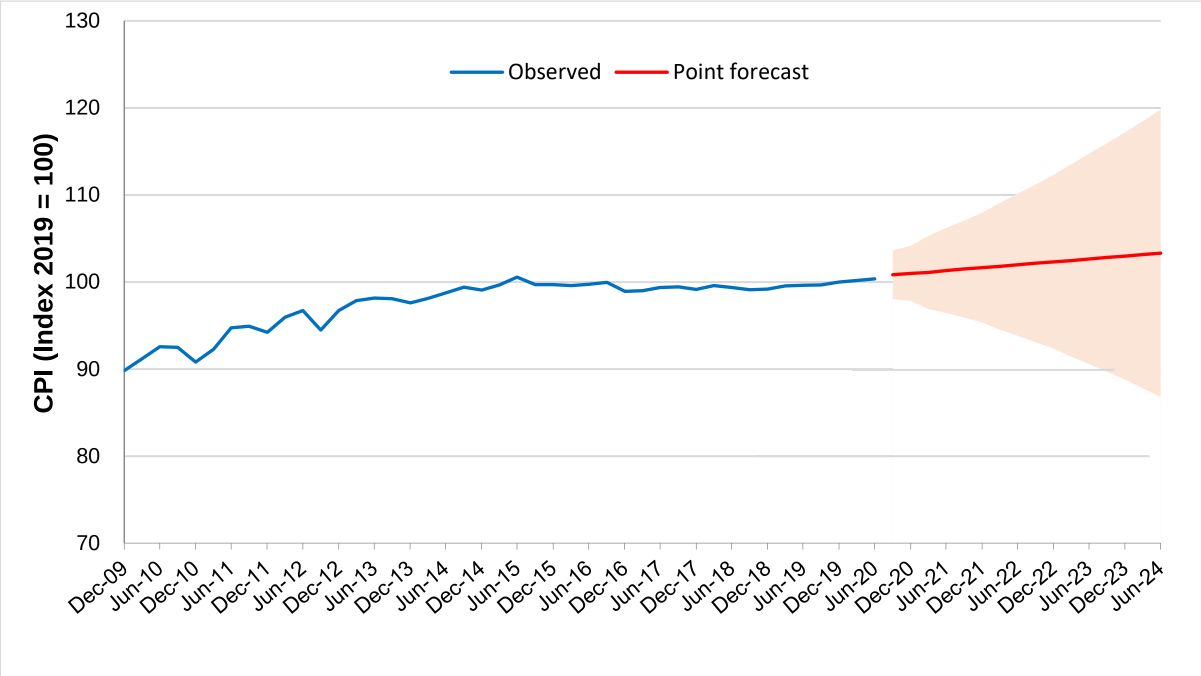
Figure 6-12: Nominal output gap, univariate Kalman filter forecast



Observed and forecast quarterly CPI from December 2009 to June 2024 is shown in Figure 6-13. A 95 per cent high and low confidence interval has also been computed and is displayed as the shaded area either side of the point forecast time series.

[17] For more information, see *Estimating the output gap in the Cook Islands – preliminary analysis: Working Paper No. 18/2*, available at: http://www.mfem.gov.ck/economics.

Figure 6-13: CPI, quarterly index, 2009 to 2025



As shown in Figure 6-14 and Table 6-3, inflation was 0.7 per cent in 2019/20, and is estimated to increase to 1.0 per cent in 2020/21 in part due to oil prices rebounding from record lows in 2019, before falling back to about 0.7 per cent per year over the forward budget period.

Figure 6-14: Annual average change in CPI (percentage)

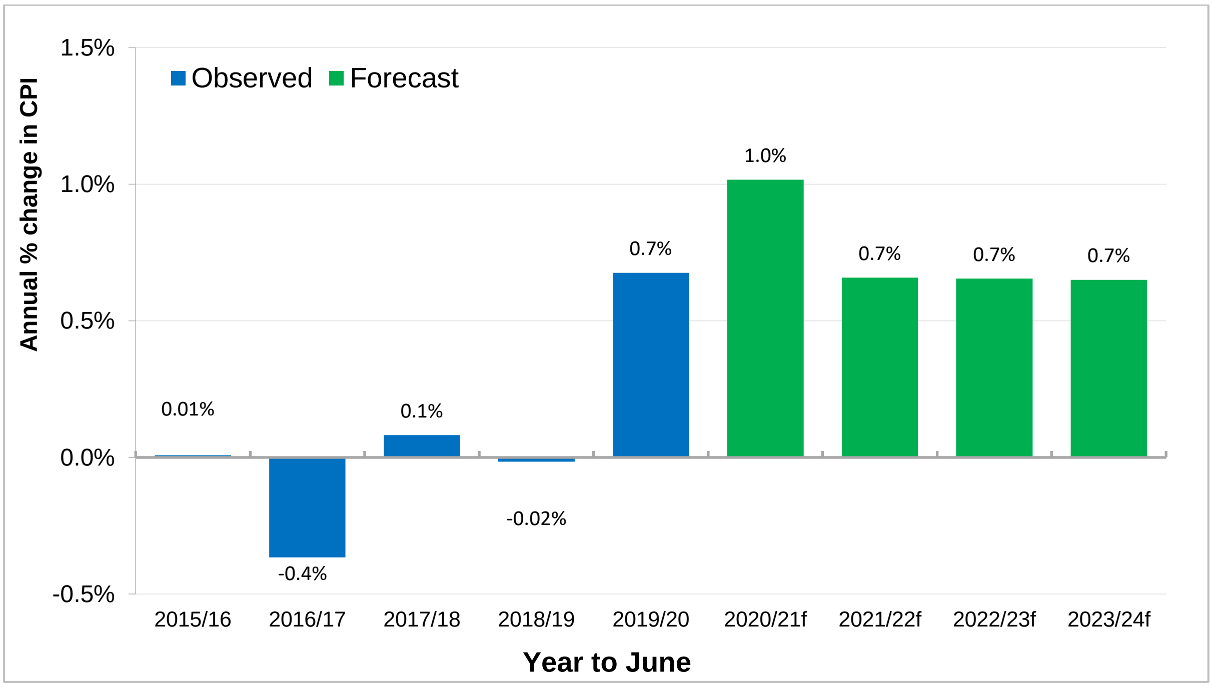


Table 6-3: Annual CPI forecast summary

	2019/20	2020/21f	2021/22f	2022/23f	2023/24f
CPI average annual index	100.0	101.1	101.7	102.4	103.1
CPI average annual percentage change	0.7	1.0	0.7	0.7	0.7

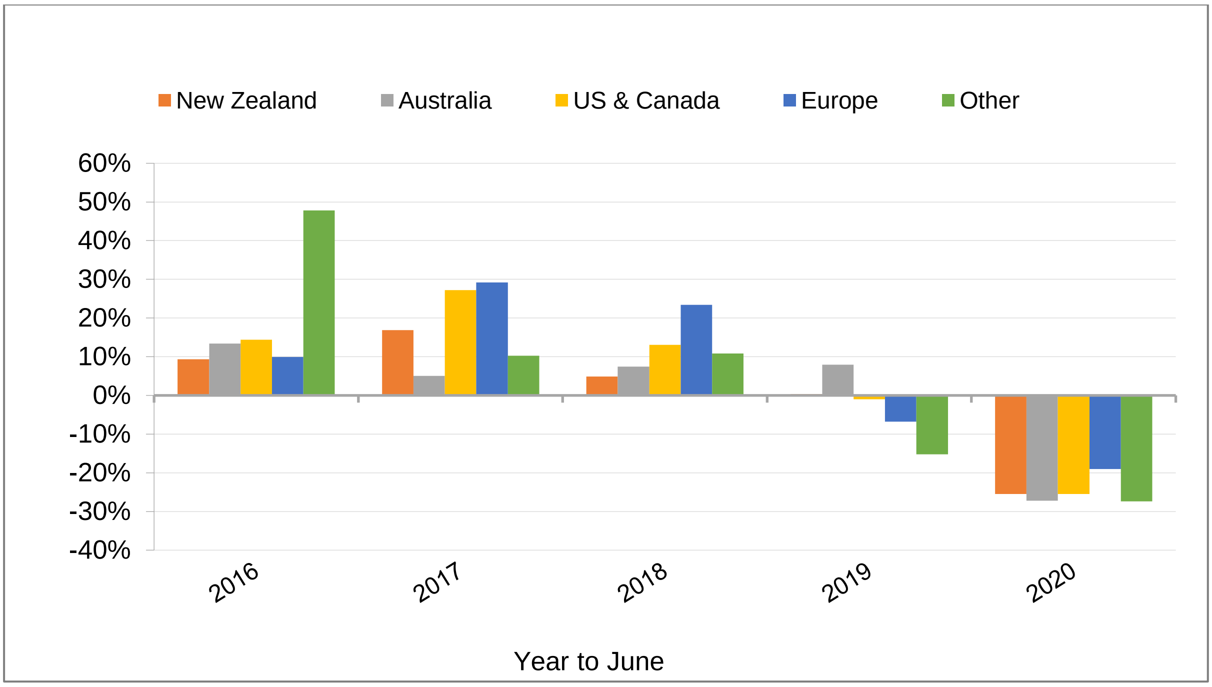
6.5 Tourism

6.5.1 Aggregate visitor activity

Tourism, the Cook Islands' largest economic contributor, continues to be the industry most impacted by COVID-19 due to the border closure since March 2020. Prior to this, visitor arrivals were expected to reach record levels over 2019/20, with visitor arrivals in the eight months to February being 6,000 higher than the same period in 2018/19. This growth was driven by an additional 5,000 visitors from New Zealand (6.8 per cent growth), while arrivals from the United States grew at over 10 per cent from a smaller base.

With no arrivals since mid-March, the overall total of 123,831 for 2019-20 is almost 43,000 visitors below the 2018-19 total (Figure 6-15).

Figure 6-15: Visitor arrivals, country of residence (annual percentage change)



The path back to a 'normal' level of visitor arrivals is expected to be slow and uncertain as restrictions are eased, travel becomes safer and incomes in source markets recover from the pandemic-induced recession.

Fiscal year 2020-21 is expected to see 7,133 visitors, based on assumptions such as the first visitors beginning to arrive in April 2021, initially from New Zealand only, with other markets opening at later times.

This initial opening is followed by almost 117,000 visitors expected in 2021-22, before a further 40 per cent growth in 2022-23 brings the level of visitors close to the total numbers experienced before the pandemic. In the outer forecast years, growth rates are expected to stabilise, with six per cent in 2023-24 and only slight growth in 2024-25. The number of unknowns creates a significant degree of uncertainty in these forecasts, with the key downside risk being further outbreaks of COVID-19 which necessitate borders remaining closed longer or closing again once re-opened. Assumptions surrounding these are discussed in Section 6.3.2.

Figure 6-16: Total visitor arrivals, quarterly, 2012 to 2024

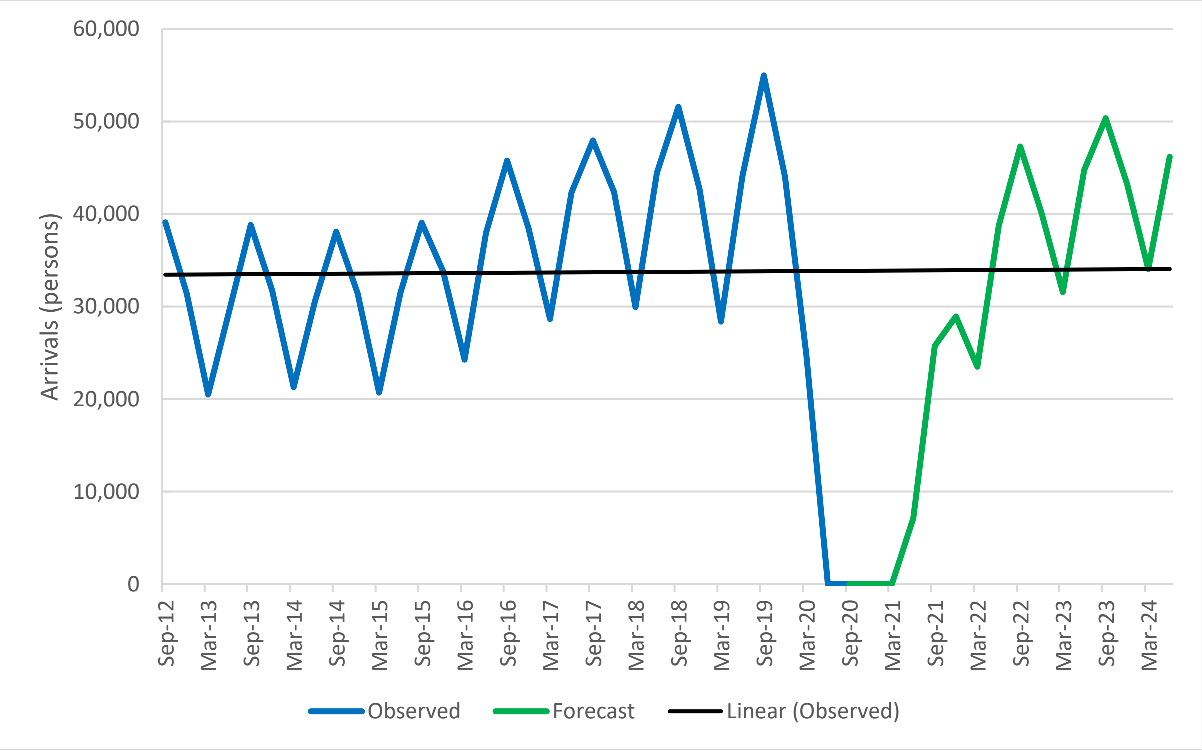


Table 6-4: Estimated total arrivals, quarterly, 2019/20 to 2023/24

Quarters	**2019/20**	**2020/21f**	**2021/22f**	**2022/23f**	**2023/24f**
September	54,989	0	25,741	47,313	50,364
December	44,069	0	28,931	40,194	43,230
March	24,728	0	23,491	31,581	34,041
June	0	7,133	38,772	44,788	46,197
Annual total	**123,786**	**7,133**	**116,935**	**163,876**	**173,832**

Given the reductions in expected arrivals, capacity constraints are not expected to be binding during the forecast period. However, as some parts of the holiday home market are moving to long-term rental this may create a temporary artificial shortage of accommodation if arrivals grow faster than expected, though this is considered a relatively low risk in the forecast period.

Over the forecast period, the largest forecast month of arrivals - July 2024, does not reach the level of the highest number of tourists in history – which was 18,612 in July 2019. This indicates that capacity is unlikely to be an issue in the medium term, however it is likely to once again become a key constraint at the end of the forecast period..

The shift within the rental accommodation market is expected to be temporary as the return of tourists will likely see long-term rentals shift back to short-term accommodation, rebuilding the holiday home market and mitigating the constraint initially, before returning towards long-term levels. This will simultaneously create constraints in the long-term rental market.

6.5.2 Major markets

Introduction

The major tourism markets for the Cook Islands are New Zealand, comprising 67 per cent of total arrivals in the eight months to February, followed by Australia with 17 per cent and Europe and North America making up 7 per cent each. Other markets make up the remaining 2 per cent. Over the forecast years, the share taken by New Zealand initially expands, being the first market expected to open up to the Cook Islands, with other markets being slower to expand as can be seen in Table 6-5, which shows the aggregate tourist arrivals forecasts broken down by major market and financial year.

Table 6-5: Forecast total tourism numbers, by major market, 2019/20 to 2023/24

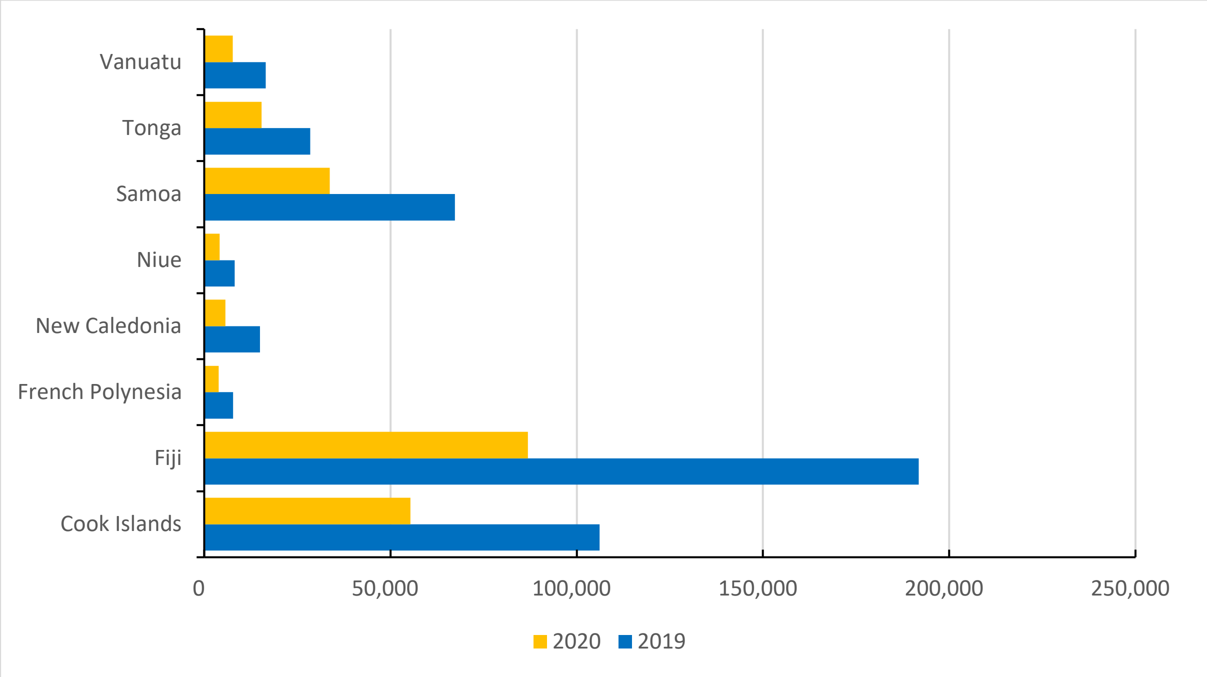
Markets	2019/20	2020/21f	2021/22f	2022/23f	2023/24f
New Zealand	82,358	7,133	97,018	114,816	115,338
Australia	20,736	-	18,607	29,952	32,942
North America	8,426	-	551	7,878	10,543
Europe	9,295	-	566	8,521	11,350
Other	2,971	0	193	2,708	3,660
Total	**123,786**	**7,133**	**116,935**	**163,876**	**173,832**

New Zealand

New Zealand arrivals in the year to September 2020 was 70,000 lower than the same period last year. The impact to the Cook Islands market in terms of the reduction in New Zealand based tourists is second to Fiji in terms of absolute impact, however the proportional reduction is similar across most Pacific Islands, as shown in Figure 6-17. The impact on the Cook Islands of this reduction is likely to be larger however, as visitors from New Zealand represent a larger share of the total visitors in the Cook Islands than in other markets such as Fiji. As New Zealanders make up around two-thirds[18] of the visitors to the Cook Islands, having this particular market unavailable impacts the economy considerably.

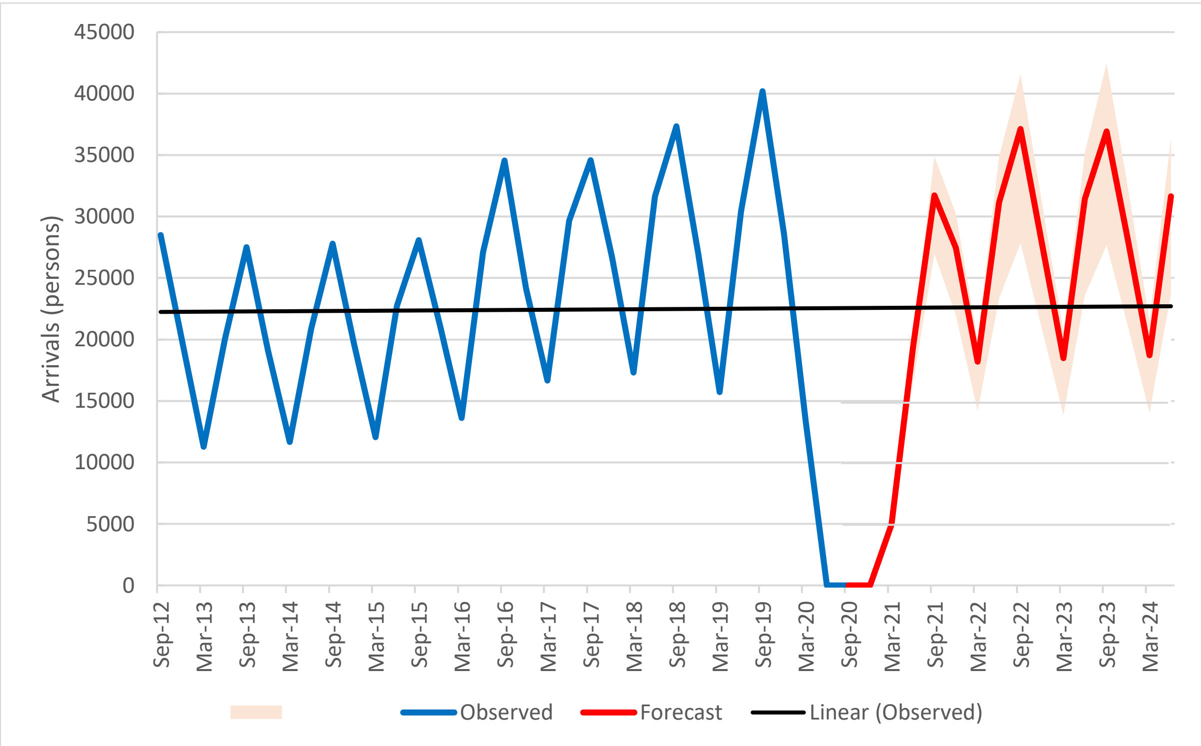
[18] Across 2015-16 to 2018-19 the share was 66.8%

Figure 6-17: New Zealand resident Pacific arrivals, by main country visited (year to August)



New Zealand remains the largest market for visitors to the Cook Islands and will increase in importance over the near-term, being the first market to safely open to the Cook Islands. Arrival numbers for New Zealand visitors to the Cook Islands will commence recovery after the border with New Zealand is opened, however the full recovery will take some time (see Figure 6-18). Post-pandemic, the number of visitors from New Zealand can be expected to be lower than previously anticipated due to the impacts of the pandemic on household incomes.

Figure 6-18: New Zealand arrivals, quarterly, 2012/13 to 2023/24

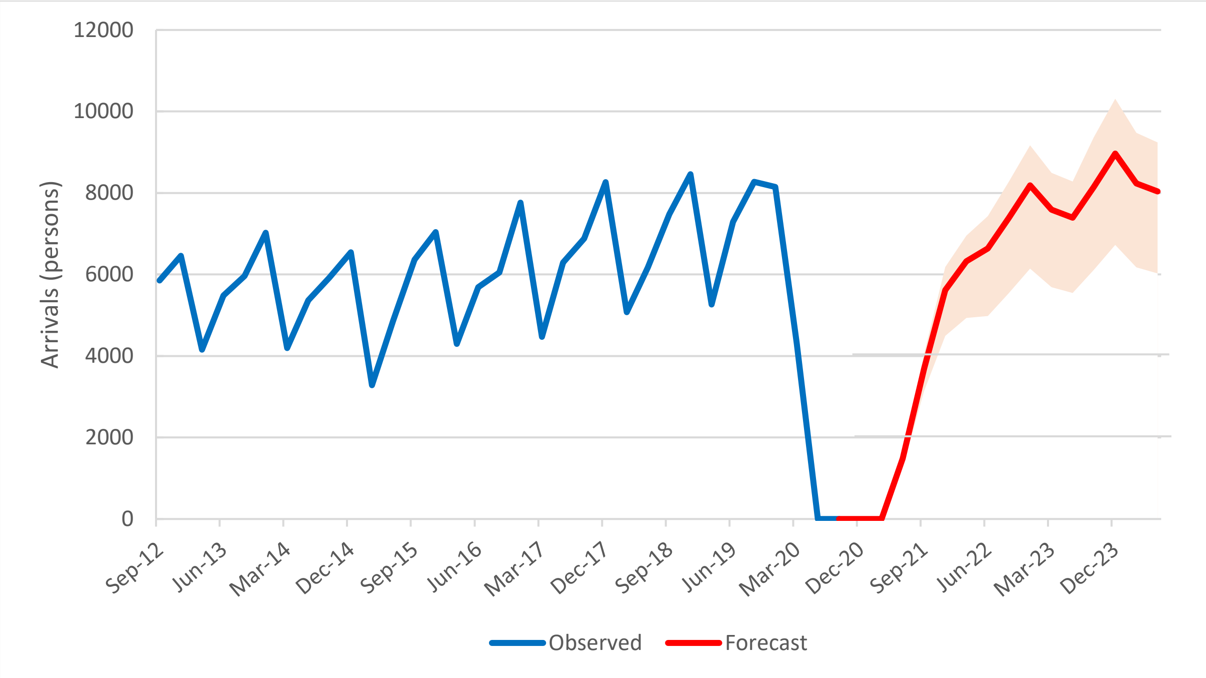


Australia

Australia is the second largest tourism market for the Cook Islands. The Cook Islands has seen significant growth in Australian visitors over the nine years to 2018-19, with growth averaging 7 per cent per year. This growth has been halted by the impact of the pandemic, and the recovery will depend on the success of combatting the virus in Australia. Pre-pandemic growth was related to strong growth in Australian outbound tourism (8 per cent in 2018/19) and the increase in flights from New Zealand to Rarotonga which has increased interconnection options from Australian cities.

Arrivals from Australia are assumed to resume in July 2021, before slowly moving back towards normal levels, totalling over 30,000 in 2023-24 (see Figure 6-19).

Figure 6-19: Australia arrivals, quarterly, 2012/13 to 2023/24



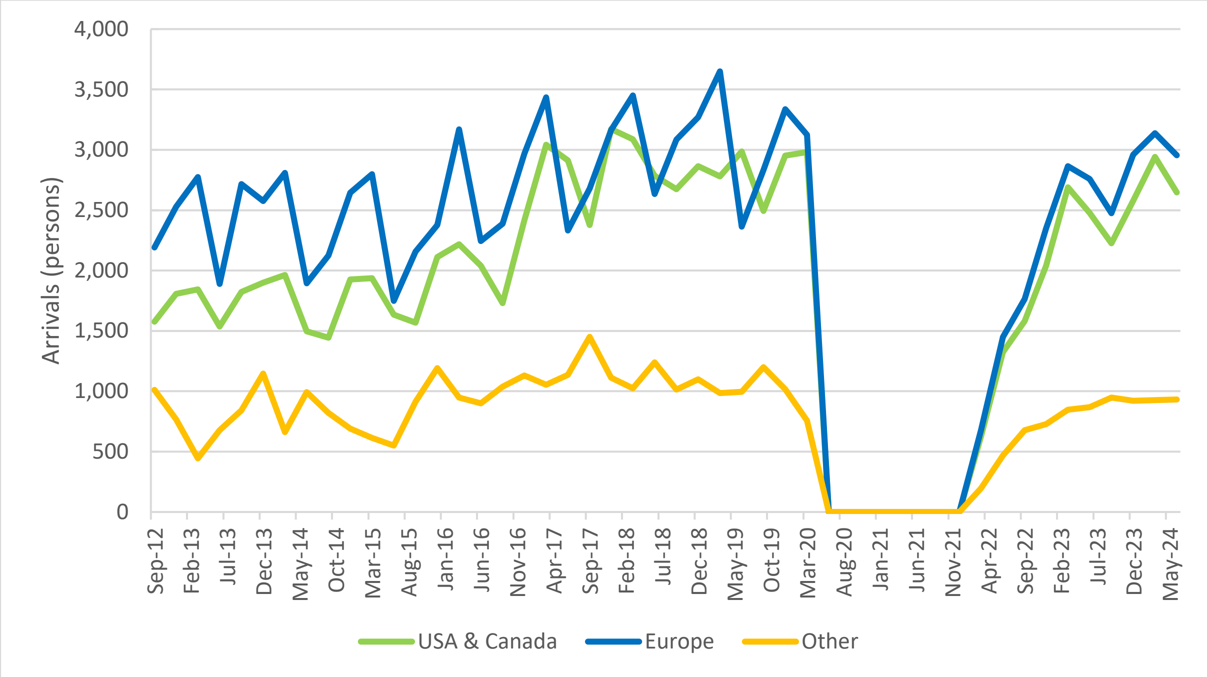
Other markets

Other tourism markets are likely to be unavailable to the Cook Islands for a longer period of time as the rates of infection of COVID-19 in Europe and North America have been rising markedly in recent weeks, suggesting a steeper curve to control the virus. Developments surrounding potential vaccines are promising, despite this, other markets are likely to lag behind New Zealand and Australia as source markets.

Prior to the border closure, other markets were showing relatively weak results for the eight-month period to February 2020. The United States was the outlier with an increase of 500 visitors on the same period in the year prior, with 8,767 visitors. The only other market growing in this time was Asia which only saw an increase of around 100 visitors resulting in a large proportional change given its low base of 1,700 visitors. The Canadian and European markets saw 200 (from 3,400) and 100 (from 12,500) fewer visitors, respectively, over the same timeframe.

It is assumed that these markets will open in April 2022, with slow growth at first before moving back toward the levels seen prior to the pandemic by 2024.

Figure 6-20: Other major markets arrivals, quarterly 2012/13 to 2023/24



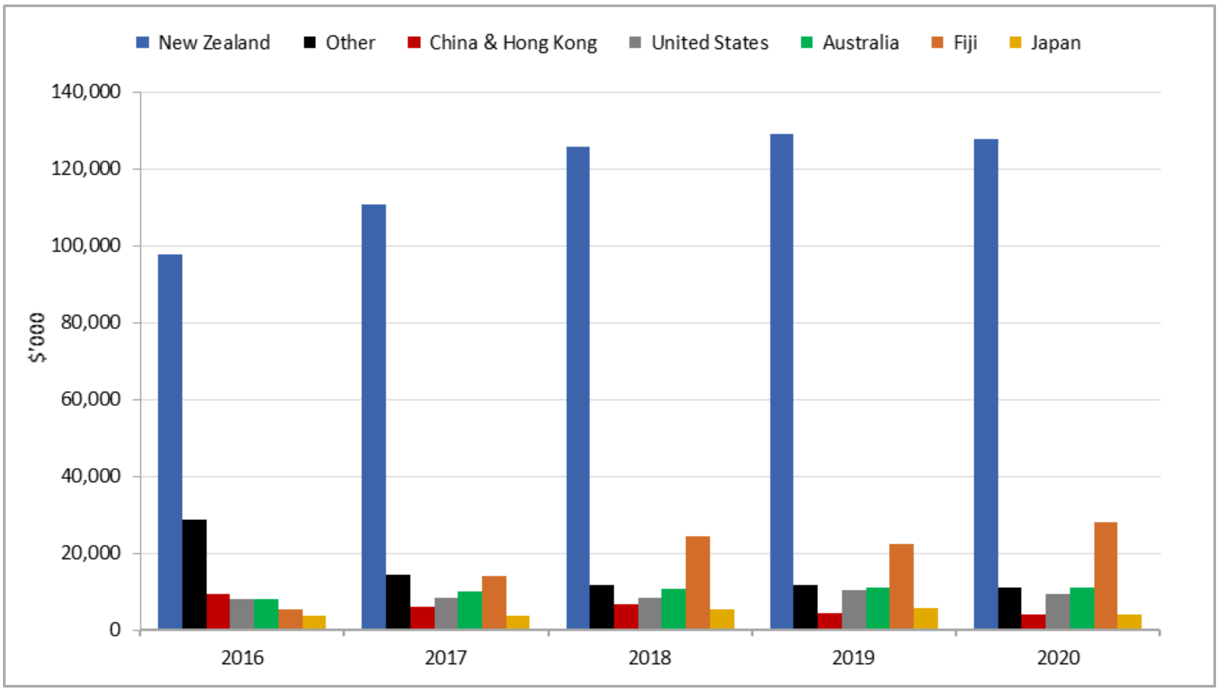
6.6 Trade in Goods

6.6.1 Goods imports

Due to the size and geography of the Cook Islands, the country is highly reliant on the import of goods in order to provide a range of goods and services.

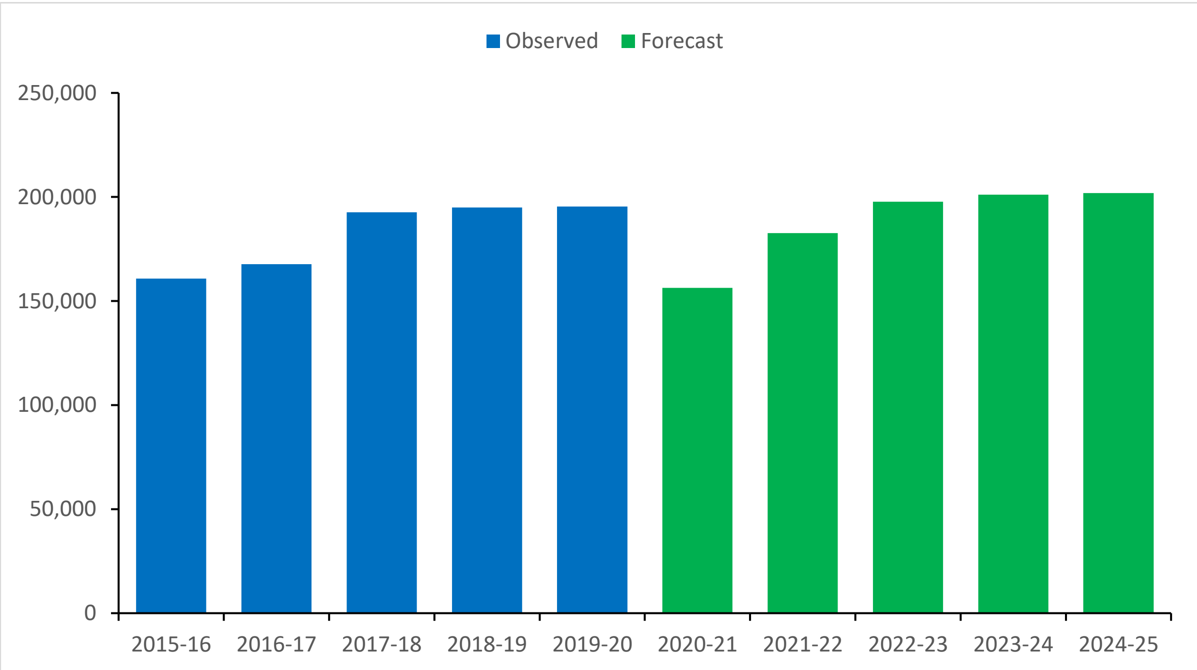
The 12 months to August 2020 (the latest available data) is a story of two halves. In the 6 months to February, prior to the pandemic, as visitor arrivals reached new records, total imports rose by $13 million compared to the same period in the year before. However, since then – in the period March to August – total imports declined by almost $21 million, resulting in an overall decline over the 12-month period of $7.9 million, or 4.0 per cent. Consistent with the year to August, there was very little change (0.2 per cent growth) between the 2018/19 and 2019/20 fiscal years (see Figure 6-21).

Figure 6-21: Import value by country of origin, year to June ($'000)



Import growth is expected to follow a similar, but muted, profile to visitor arrivals, with visitors increasing demand for goods in the tourism-related sectors of the economy. The drop of 20.0 per cent in imports in 2020/21 when compared to 2019/20, results in the lowest level of imports in d five years, before increasing as arrivals grow. These increases are of 16.7 per cent in 2021-22, 8.3 per cent in 2022-23 before moving back towards slower growth rates thereafter.

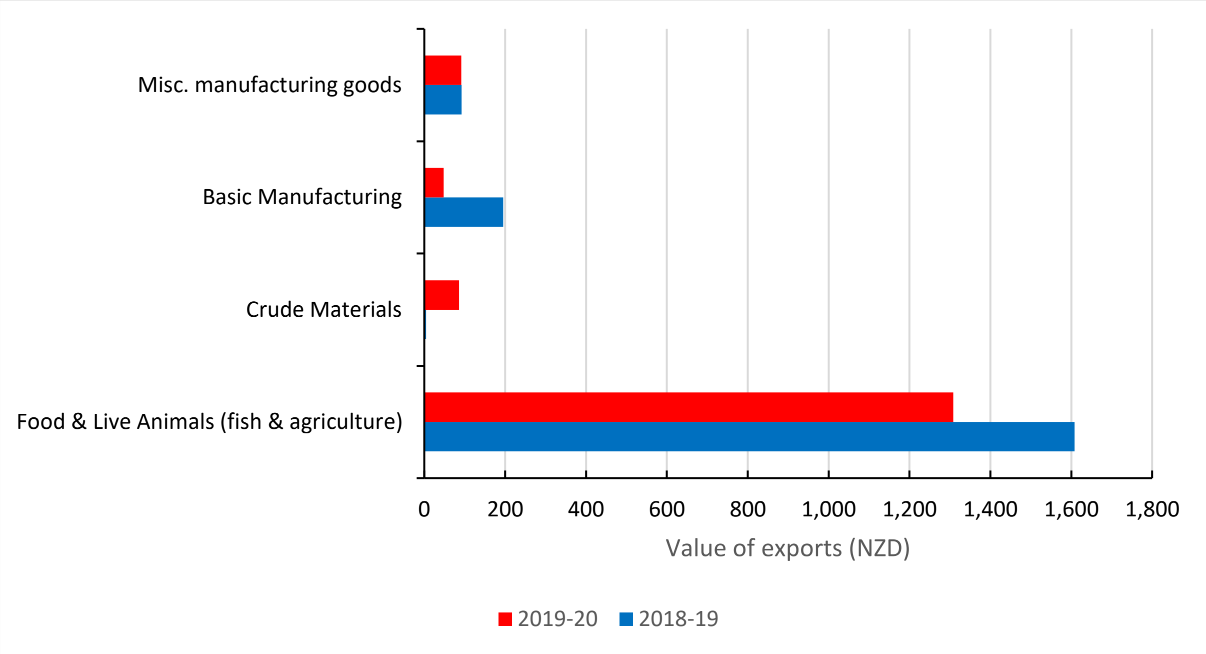
Figure 6-22: Value of total imports, annual, 2015-16 to 2023-24, year to June ($'000)



6.6.2 Goods exports

Total goods exports in the year to June 2020 fell by around 19 per cent from $1.90 million to $1.53 million (after adjustments to remove fishing exports from foreign boats which do not make landfall in the Cook Islands and the one-off E-waste recycling shipments in 2019). This decline has been in most major categories, aside from Crude Materials, which grew from $5,000 in 2018-19 to $86,000 in 2019-20, and Miscellaneous Manufacturing which remained stable.

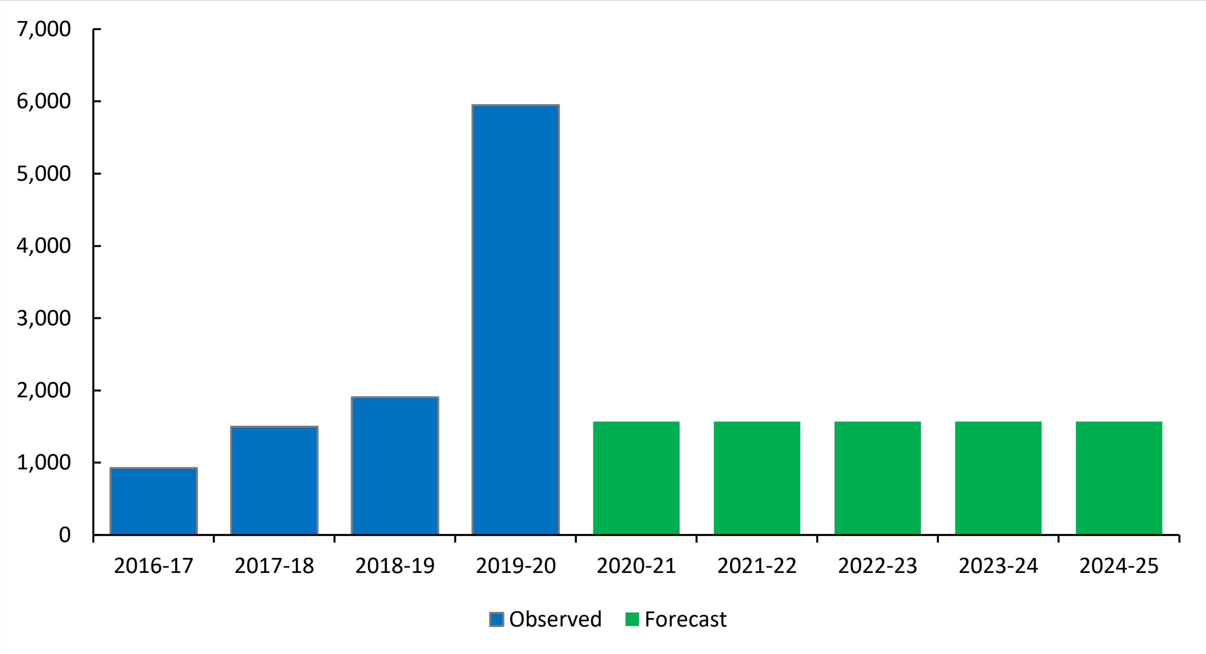
Figure 6-23: Major goods exports, 2018-19 and 2019-20, year to June ($'000)[19]



Looking forward, the value of goods exports is expected to remain steady, as shown in Figure 6-24.

[19] Excludes 4.37 million in recyclables export in 2019.

Figure 6-24: Value of total exports, annual, 2016-17 to 2023-24, year to June ($'000)



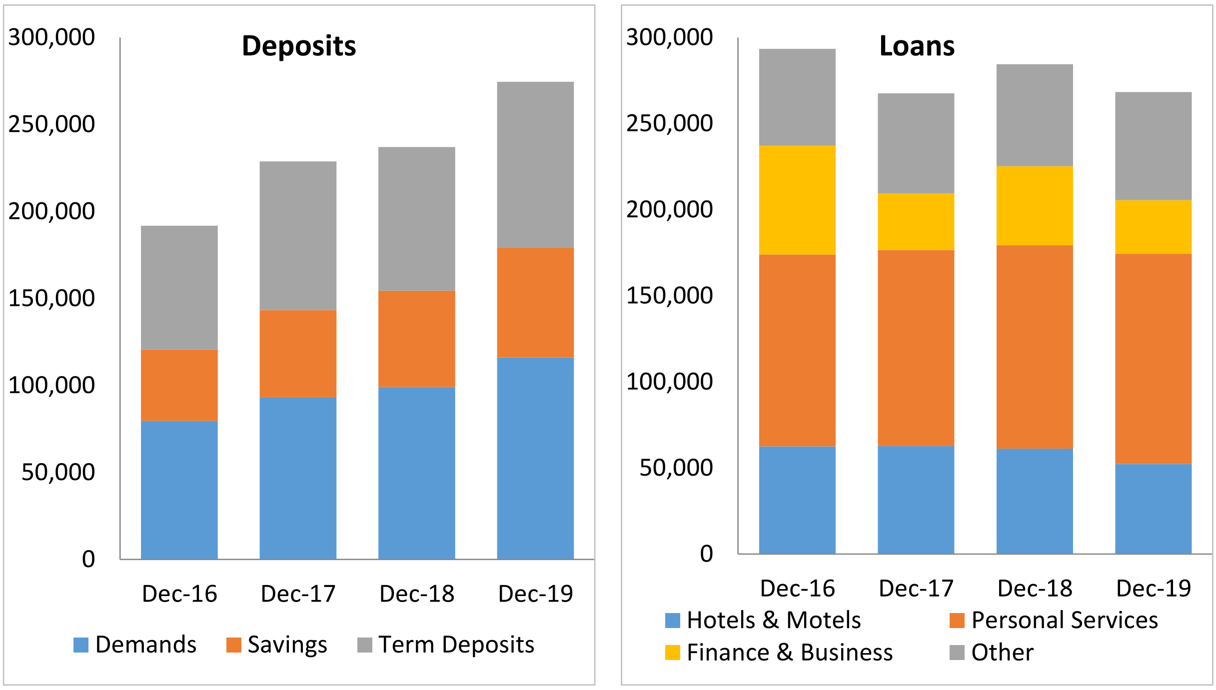
6.7 Other key industries

6.7.1 Banking and finance

Deposits

Total deposits in Cook Islands banks in December 2019 were 15.8 per cent higher than at December 2018, increasing from $237.1 million to $274.6 million. The key driver of this increase, approximately 45 per cent, was a steep rise in demand deposits, from $99.1 million to $116.1 million. Both savings and term deposits also grew significantly over the year.

Figure 6-25: Total value of bank deposits and loans, December 2014 to December 2019 ($'000)



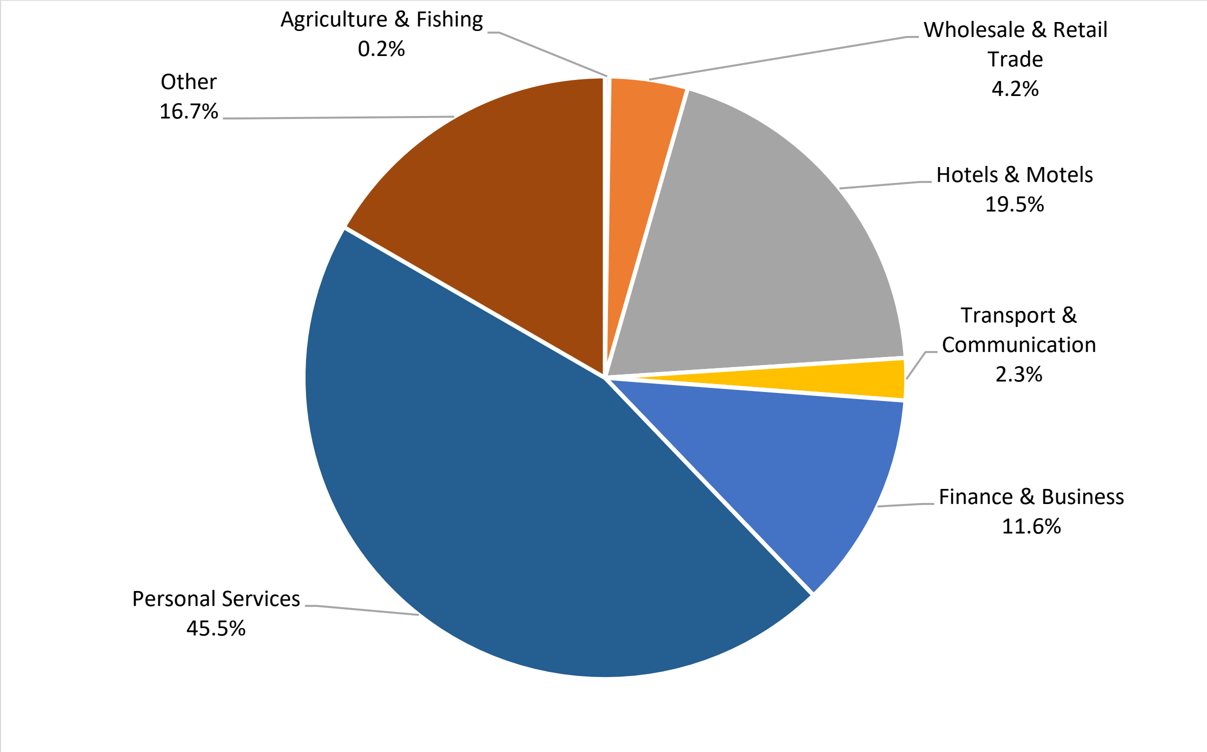
Loans

Total lending by Cook Islands banks in December 2019, when compared to December 2018, fell by 5.7 per cent from $284.5 million to $268.3 million (**Error! Reference source not found.**). This is due to large falls in lending to finance and business ($14.6 million) and hotels and motels ($8.9 million), partially offset by increases in personal services ($4.0 million) and other sectors[20] ($4.7 million).

Lending by Cook Islands banks is dominated by loans to the Personal Services, Hotels and Motels and Finance and Business industry sectors. In December 2019, these sectors accounted for 45, 20 and 12 per cent of the total loan portfolio, respectively (Figure 6-26).

[20] Including Agriculture and Fishing, Wholesale and Retail Trade, Transport and Communications and Public Administration, as well as anything which does not fit into a named category.

Figure 6-26: Loans and Advances by Industry (December 2019, share of total)



Economic Response Plan and Banking

The Government has enacted a number of measures in partnership with the commercial banks of the Cook Islands such as the Business Continuity Credit Facility (BCCF), the Interest Relief Program (IRP) and the upcoming Business Growth Loan Program (BGLP). The BCCF and BGLP facilities provide access to credit at more affordable rates for businesses to get through the downturn and fund investments which can support the recovery process. The IRP, along with the loan deferral program implemented by the commercial banks reduces the amount of financial stress for people with debt, reducing the risk of business losses and mortgagee repossessions.

6.7.2 Financial services industry

The industry

The financial services industry, by statutory definition, includes Cook Islands businesses licensed to carry out banking, insurance and manage trusts, both domestically and internationally.

The Cook Islands has passed laws to ensure its financial institutions comply with the OECD's Common Reporting Standard requiring the automatic exchange of an individual's financial information with the country where that individual is tax resident. Similarly, the Cook Islands has passed laws specifically requiring financial institutions to provide the United States (US) Internal Revenue Service with financial information held on US taxpayers.

In 2017 the European Union (EU) commenced its good tax governance initiative whereby it assessed over 90 countries against its criteria of transparency, fair taxation and compliance with the OECD's anti-base erosion and profit shifting measures. The EU assessed the Cook Islands and identified certain areas that it considered amounted to preferential and harmful tax regimes. The Cook Islands has enacted legislation to address these concerns. The international financial services industry, and in particular the business of the licensed trustee companies, are most affected by the changes required by the EU. Ongoing reviews, planning and implementation will be required by Government in this area to ensure the Cook Islands meets international regulatory and compliance standards.

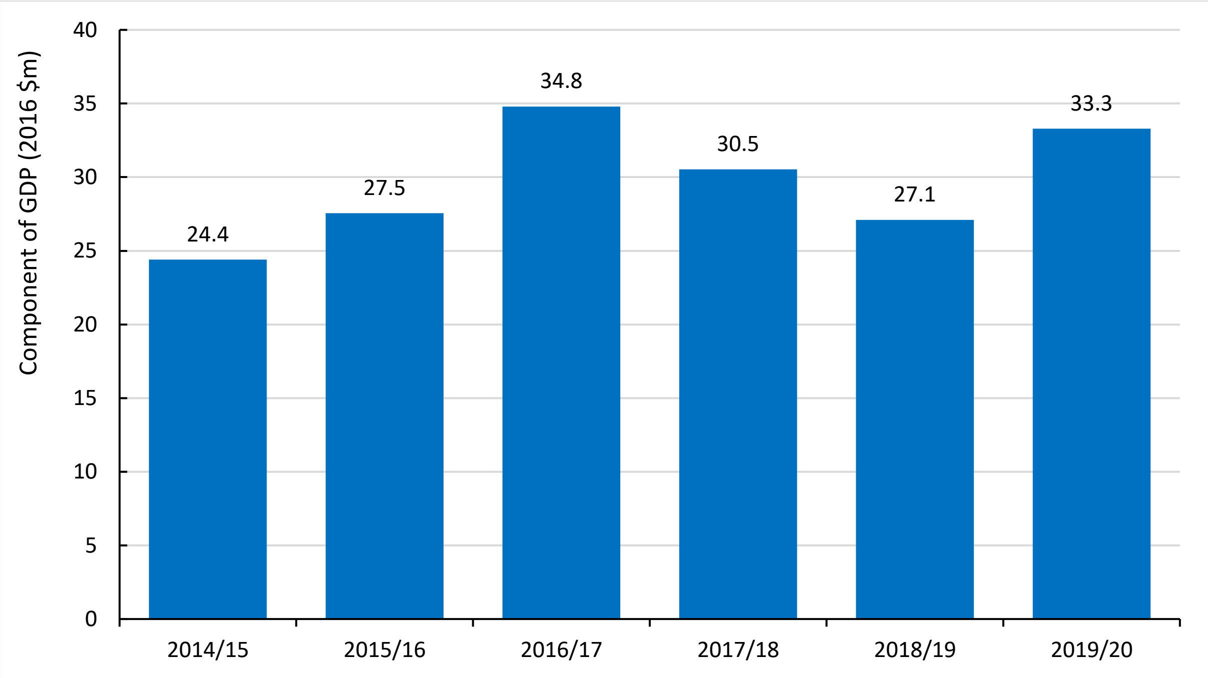
The licensed trustee companies are responsible for the administration of approximately 3,500 entities and trusts registered on the Cook Islands international registers. The registration and renewal fees derived by Government from these entities/trusts for the year ended 30 June 2020 was approximately $1.6 million. The growth of these numbers depends on the impact of international regulatory requirements and the licensed trustee companies' ability to operate efficiently and diversify with innovation. Product development, strategic marketing and financial technology innovations will be essential for sustained growth. The primary market for the services of licensed trustee companies remains the USA, however efforts are being made to develop an Asian market.

Financial services industry – domestic and international

The financial services industry, which includes trustee companies, banks, insurance companies and money exchangers, employs over 260 staff.[21]

The Cook Islands Statistics Office identifies the financial services industry as the finance and insurance sector. The finance and insurance sector's contribution to GDP, shown in Figure 6-27, has fallen from $34.8 million in 2016/17 to $33.3 million in 2019/20.

Figure 6-27: Finance and insurance contribution to real GDP, 2013/14 to 2019/20 ($'000)



In November 2018, MFEM requested technical assistance from the International Monetary Fund's (IMF) Pacific Financial Technical Assistance Centre (PFTAC) to estimate the economic and revenue

[21] Based on surveys conducted by the Financial Services Development Authority. The employment rate is estimated using the number of active Cook Islands National Superannuation Fund members as a proxy for total employees in the Cook Islands, which was 5,653 as at September 2019.

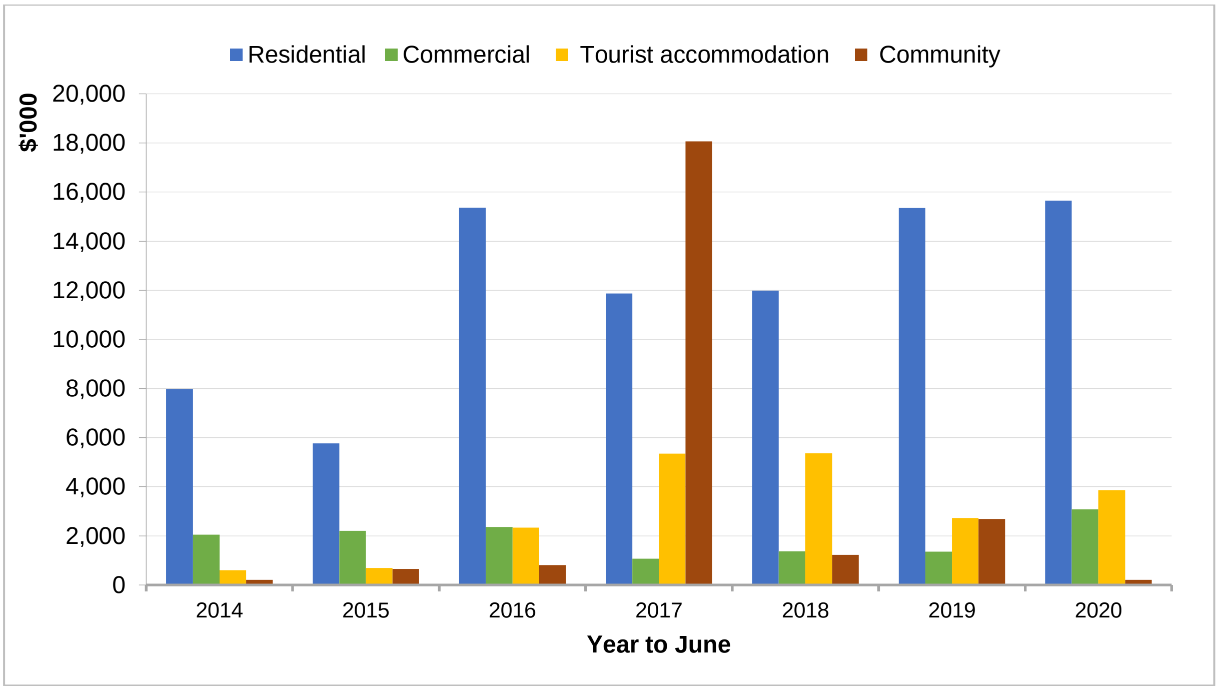
contributions of the international financial services industry in the Cook Islands.[22] The IMF report defined the international financial services industry as the activities of the eight licensed trustee companies, the ship registry, the Financial Supervisory Commission, the FSDA and the one Cook Islands licensed bank that carries on business in the international financial services sector.

The report estimated that between 2010 and 2017 the total, direct and indirect, contribution to GDP of the international financial services industry has fluctuated between 3.8 and 4.8 per cent. The direct contribution has increased from $12.5 million in 2010 to $14.9 million in 2017, while the indirect contribution has remained around $3.5 million per year. The indirect contribution has remained unchanged because purchases of production inputs from other businesses in the Cook Islands have been falling.

6.7.3 Housing and construction

The total value of Cook Islands building approvals in the year to June 2020 rose 3 per cent to $22.8 million from $22.1 million the previous year. Large increases in commercial buildings ($1.7 million) and tourist accommodation ($1.1 million) account for this growth, from relatively low bases. A decline in the value of community buildings of $2.5 million partially offsets this growth, with a relatively small change in the value of residential buildings approved (Figure 6-28).

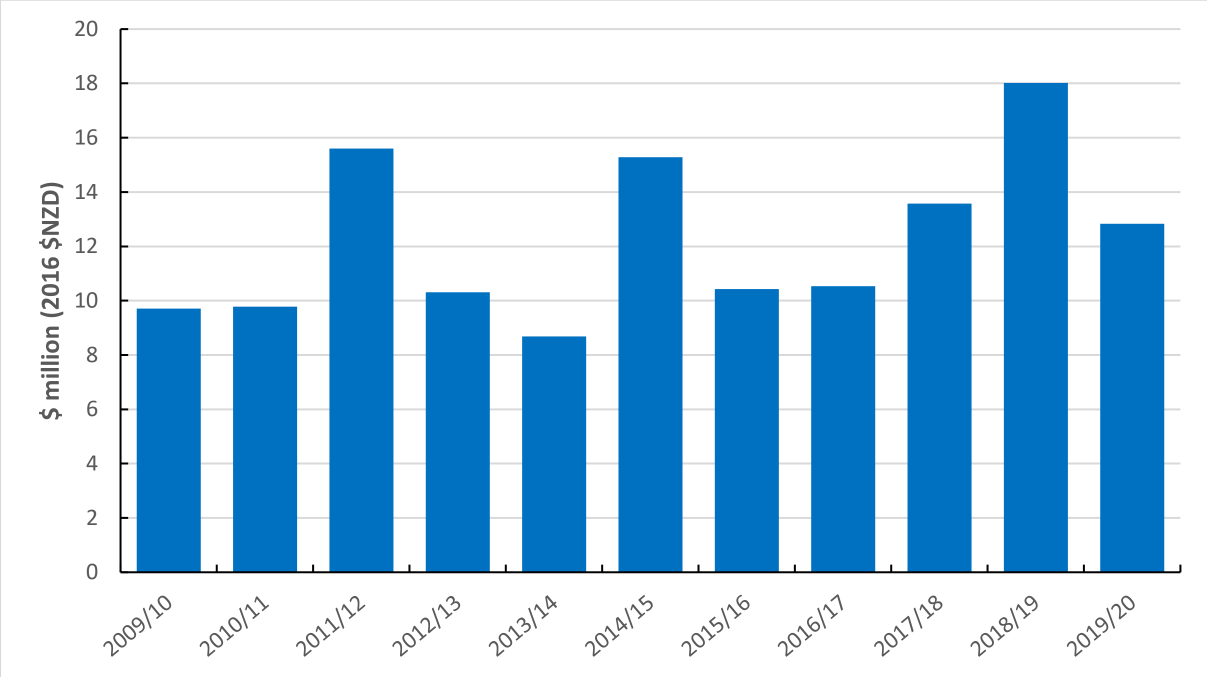
Figure 6-28: Building approvals, $'000, 2014 to 2020



The high value of building approvals in recent years is reflected in the performance of the construction sector of the Cook Islands economy. The construction sector's contribution to GDP, shown Figure 6-29, has risen from $10.4 million in 2015/16 to $18.0 million in 2018/19 and $12.8 million in 2019/20.

[22] IMF (2019). Cook Islands International Financial Services Industry. Iris Claus, PFTAC Technical Assistance Report, April 2019. Available at: https://www.imf.org/en/Publications/CR/Issues/2019/08/14/Cook-Islands-Technical-Assistance-Report-International-Financial-Services-Industry-48585.

Figure 6-29: Construction sector contribution to real GDP, 2009/10 to 2019/20 ($'000)



6.7.4 Marine resources

Fishing

The main benefit to the Cook Islands Government from fishing activities is revenue from treaty arrangements, license fees and the sale of catch quotas. The revenue estimate for 2019/20 is revised to $9.1 million. Most of this fishing takes place in the northern Cook Islands' fishery (north of 15°S latitude).

Under the Quota Management System (QMS) there is a total allowable catch of 9,750 metric tonnes (t) of albacore tuna and 3,500t of bigeye tuna per calendar year. The quota system was implemented in January 2017, with revenue returns in 2019 of around $3.7 million, exceeding previous licensing arrangements which returned around $2.4 million per year.

A significant portion of revenue comes from the purse seine fishery, where the Cook Islands Exclusive Economic Zone (EEZ) has a total limit of 1,250 fishing days in accordance with management measures implemented by the Western Central Pacific Fisheries Commission (WCPFC). These days have been sold to the United States (up to 350 days per year) and the European Union (EU – approximately 158 days per year) in particular. Over the past decade, purse seine fishing has overtaken longline fishing as the dominant fishery in the Cook Islands, expanding from 476t in 2010 to a peak of 30,273t in 2018, while longline fishing declined from over 15,000t early in the decade to 10,595t in 2019.

The price for a fishing day under the US Treaty is charged at US$9,500 per day, which ranges between NZ$13,500 to NZ$14,500, dependent on exchange rates.

Projected fisheries revenue for 2020/21 is at a similar level of $9.1 million. The sources of revenue include:

- $3 million from the longline licensing, development fees and quota management system;
- $3 million from the US Treaty;
- $2.1 million from other purse seine bilateral arrangements
- $400,000 from the EU Sustainable Fisheries Partnership Agreement (SFPA) fishing authorizations.
- $536,187 from other fishery revenue

The figures above exclude ODA of US$156,000 from the US Treaty Project Development Fund, and €350,000 for EU SFPA fisheries sectoral support. The reduction in the revised 2020/21 fisheries revenues is attributed to two key factors; impacts of COVID-19 on fishing sector and climatic conditions.

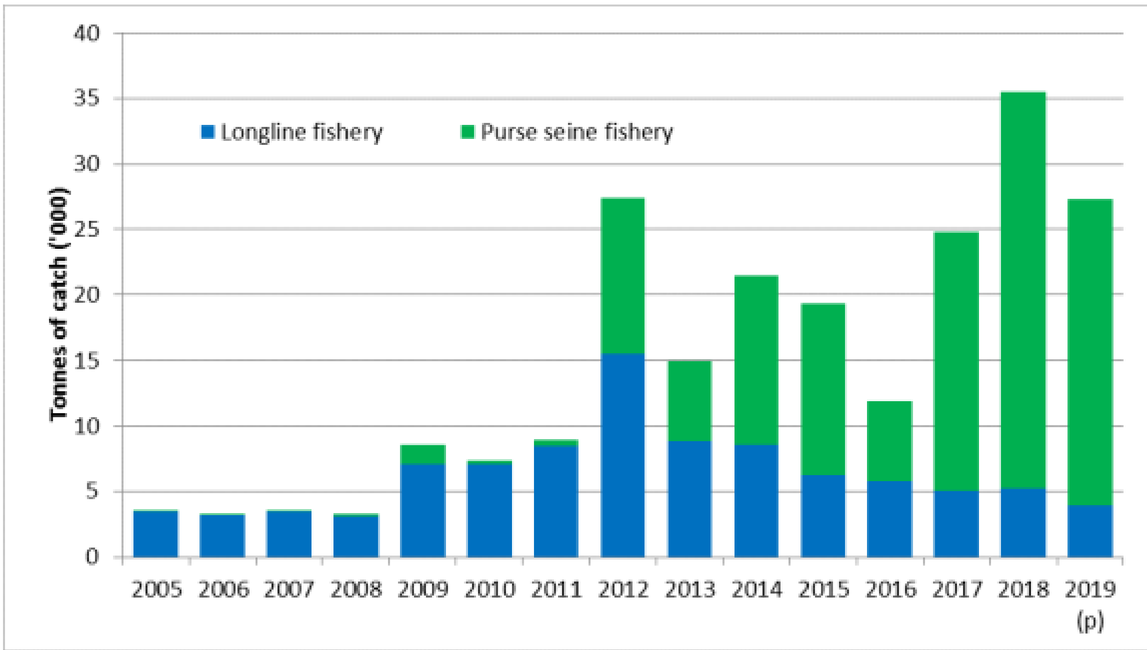
The longline fleet has experienced significant challenges due to the impacts of COVID-19 on the fresh fish market. Disruptions to supply chains, along with reduced demand for product in major markets due to health and travel restrictions, such as lockdowns and port closures, will have a flow on effect for the demand of access to the Cook Islands EEZ. Limited port services, closures of processing plants and the inability to move product will continue to impede longline operations.

Purse seine related revenue is largely dependent on annual fishing patterns influenced by climatic conditions such as the El Nino – Southern Oscillation (ENSO) cycles, and therefore experience year on year fluctuations. From May 2020 strong La Nina conditions have resulted in strong westward distribution of tuna stocks and therefore reduced catch rates in the Cook Islands EEZ. This has reduced the demand for purse seine vessel days in the Cook Islands EEZ and related revenue from the sale of days. These conditions are expected to continue through to February 2021 and likely onwards through to April 2021.

In 2019 a total of 9,200t of albacore (ALB) was purchased accounting for 95.9 per cent of the ALB total allowable commercial catch (TACC), and a total of 1,275t bigeye tune (BET) was purchased accounting for 51 per cent of the BET TACC.

Provisional commercial catches for all pelagic fishing sectors is 39,072t in 2019, an increase from 35,607t in 2018 and 25,695t in 2017.

Figure 6-30: Fishery catch in the Cook Islands EEZ (MT)



In the longline fishery, catch estimates indicate albacore and yellowfin tuna together account for around 80 per cent of species caught by longline in 2019, with an increase in yellowfin catch compared to 2018 (Table 6-6). Despite a decrease in purse seining effort in 2019, skipjack was still the dominant catch species in 2019, with approximately 27,202t accounting for 95 per cent of the total purse seine catch.

Table 6-6: Fishery catches in the Cook Islands EEZ by species (MT)

	2017			2018			2019		
	Longline	*Purse Seine*	*Local*	*Longline*	*Purse Seine*	*Local*	*Longline*	*Purse Seine*	*Local*
Albacore	3,315	0	0	3,697	0	1	6,864	0	3
Bigeye	259	439	0	254	256	1	842	236	1
Yellowfin	902	1,767	150	775	1,068	87	1,583	1,032	64
Skipjack	76	18,202	23	13	28,949	5	587	27, 203	7
Other	506	0	56	445	0	56	718	7	38
Total	**5,058**	**20,408**	**229**	**5,184**	**30,273**	**150**	**10,595**	**28,477**	**117**

In 2019, a total of 130 licensed vessels that operated within the Cook Islands EEZ were regulated by the Ministry of Marine Resources (MMR). This was a large increase over the 89 vessels registered in 2018, largely due to an additional 22 longline vessels and 15 purse seine vessels. In addition, there were 236 artisanal and game charter fishing boats reporting catches to the MMR (Table 6-7).

Table 6-7: Number of active fishing vessels

Licensed and active vessels	2014	2015	2016	2017	2018	2019
Long liner	36	38	47	55	40	62
Purse seiner	18	65	33	16	36	51
Other commercial	5	5	10	8	13	17
Total	**59**	**108**	**90**	**79**	**89**	**130**
Local artisanal and game fishery	302	301	285	273	238	236

One domestic commercial fishing company, with three Cook Islands' flagged longline vessels, operates in the southern Cook Islands waters, and offloads its catch to Avatiu port catering for the domestic market and export markets such as Japan. For Cook Islands domestic vessels that unload in Rarotonga, the volume unloaded has been declining from a peak of 286t in 2017 to 145t in 2019. This decrease in catch volume can be attributed to the reefing of one of the domestic vessels operating out of Rarotonga in 2018. The volume of exports decreased from 25t to nil over this period.

Landed frozen catch by foreign flagged vessels in Rarotonga totalled nearly 400t in 2016, up from 363t in 2015. There was no landed catch by foreign vessels in Rarotonga for 2017 and 2018. In 2019 two series of trans-shipments were conducted, one in Rarotonga and one in Pukapuka with a total of 1,500t being trans-shipped.

Table 6-8: Catch landed at Avatiu Port (MT)

	2015	2016	2017	2018	2019
Cook Islands flagged vessels					
Fresh catches offloaded	188	179	286	173	145
Fresh catches to be exported by airfreight	115	125	25	8	0
Chinese flagged vessels					
Frozen by-catch sold locally	0	0	0	0	0
Frozen catches to be exported by sea freight	363	399	0	0	1,500
Total	**666**	**703**	**311**	**181**	**1,645**

The small-scale fishery remains an important economic activity for game-charter operators and artisanal fishermen. Improvements in catch data by island is expected in the near future, a result of incentivized reporting as part of a fuel subsidy program instituted by MMR.

Black pearls

The pearl industry in the Cook Islands has declined markedly over the past 15 years. Total pearl exports reached an all-time high in 2000 at just over $18 million, however unregulated farming practices, poor oyster health conditions and disease, along with increased competition in the international market resulted in continued declines in exports.

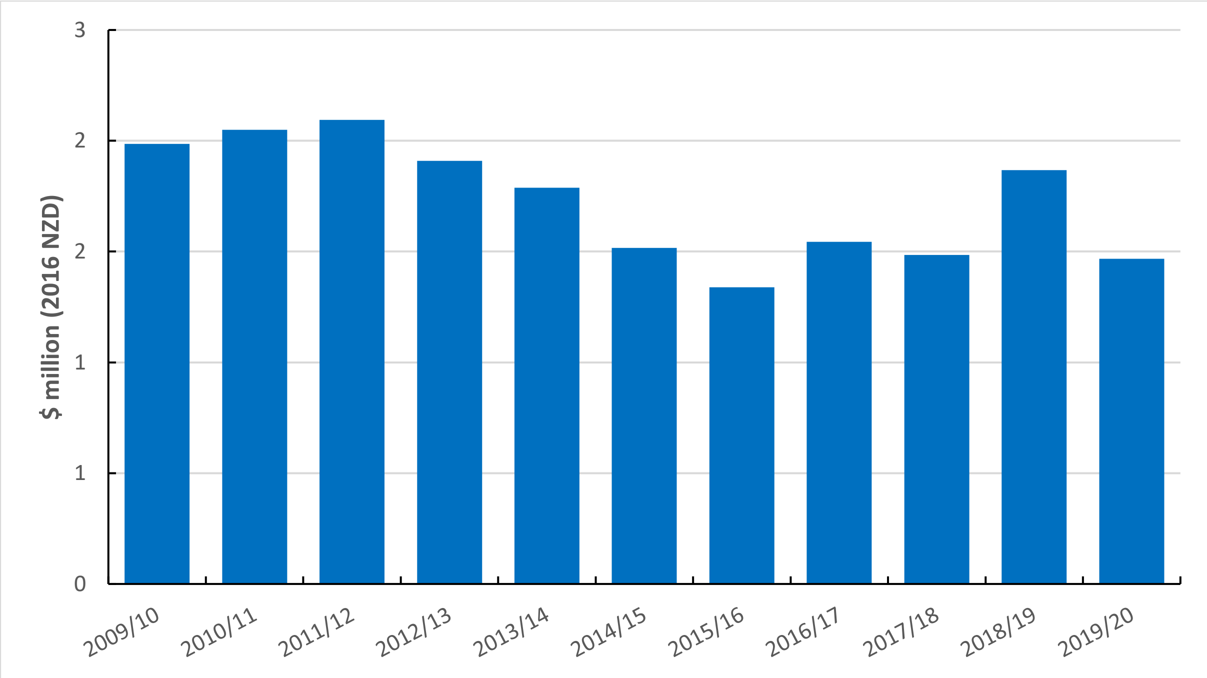
In 2019/20, the value of pearl and pearl shell exports fell to $167,000, down from $214,000 in 2018/19. In the Cook Islands there has been a distinct shift by major farmers investing in vertically integrated business models, with a focus on visitors and sales on the domestic market. As a result, export values are no longer representative of levels of production. This also means the industry has been more exposed to the COVID-19 pandemic and associated downturn.

This has affected global pearl production and significantly decreased demand for pearl products. Additionally, access to expatriate pearl technician services has been hampered due to travel restrictions. Several seeding/harvest cycles have been disrupted in 2020 and MMR is working with farmers to find a solution to avoid kill harvests that would result in little production for the next two years.

Economic contribution

The Fishing and Pearl sector which accounted for less than one per cent of real GDP in 2018/19, contracted by over 21 per cent from $1.87 million in 2018/19 to $1.47 million in 2019/20, in real terms (see Figure 6-31).

Figure 6-31: Fisheries contribution to GDP, annual, 2009/10 to 2019/20 ($m real)



6.7.5 Agriculture

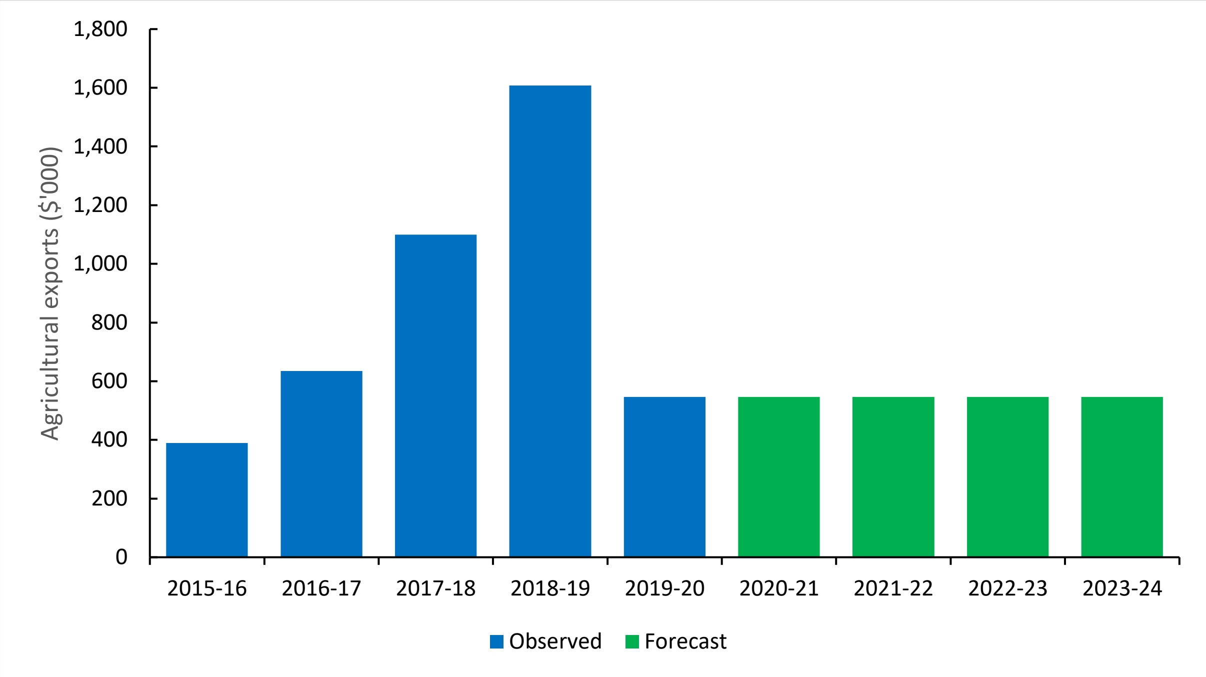
Agricultural activity and exports

The Agricultural sector accounted for about 1.42 per cent of real GDP in 2018/19, decreasing by 6 per cent in 2018/19 from $10.6 million to $10.0 million in real terms.

Noni juice remains the main agricultural export commodity from the Cook Islands. The industry has revived and is in a much stronger position from April 2019, hence the increase in 2018/19 when compared to 2017/18.

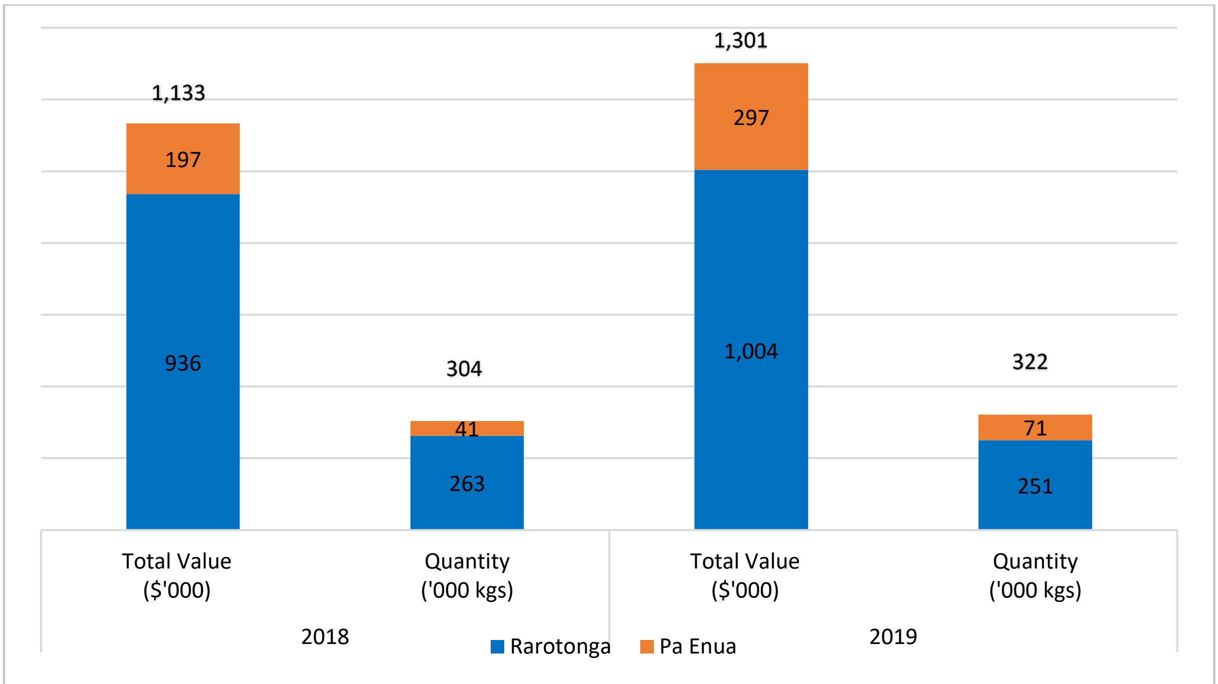
The primary export markets were Japan, China and, more recently, South Korea. Total agricultural exports, almost entirely comprised of Noni, rose from $1.0 million in 2017/18 to just $1.6 million in 2018/19, an increase of 63 per cent (see Figure 6-32). However, this increase was turned around in 2019/20, when exports of Noni fell to just over $0.5 million, in part due to the impact of fire on the processing plant.

Figure 6-32: Agriculture exports 2015/16 to 2024/25 ($'000)



The Ministry of Agriculture (MOA) continues to support commercial and semi-commercial farmers, including home gardeners, through their plants nursery with the supply of fruit and vegetable seedlings. Between July to December '2019, more than 115,300 ready-to-plant seedlings of assorted vegetables were distributed on Rarotonga. This support provided by MOA resulted in a total production of $1.3 million for 2019, in comparison with $1.1 million in year 2018.

Figure 6-33: Total Agricultural Production 2018 and 2019



The production of fruits, vegetables and root crops have significantly increased from 2018 to 2019. The demand from the tourism industry was a contributing factor to these increases.

Table 6-9: Cook Islands' agricultural production 2019

	Root crops		Fruits		Vegetables		Herbs & Vegetable Packs		Total	
	Wt	Value	Wt	Value	Wt	Value	Wt	Value	Wt	Value
	'000 kg	$'000	'000 kg	$'000	'000 kg	$'000	'000 kg	$'000	'000 kg	$'000
Rarotonga	19	98	118	593	50	184	63	128	250	**1,004**
Aitutaki	5	26	16	86	0.0	0.05			21	**112**
Atiu	5	22	0	0	0				5	**23**
Mangaia	19	71	1	3	2	2			21	**75**
Mauke	1	6	18	74	4	6			23	**86**
Total	**50**	**224**	**153**	**756**	**56**	**191**	**63**	**128**	**321**	**1,301**

When COVID-19 closed our borders, MOA, through its Agriculture Sector Response program provided a number of households with seeds and seedlings to support local production. This contributed to an increase in produce harvested for the first half of 2020/21, a total of 50,523 kilograms of produce with a value of $245,486. Some of these increases in production have ran into challenges however, as the lack of demand resulting from border closures has led to an oversupply in some products, hurting profitability.

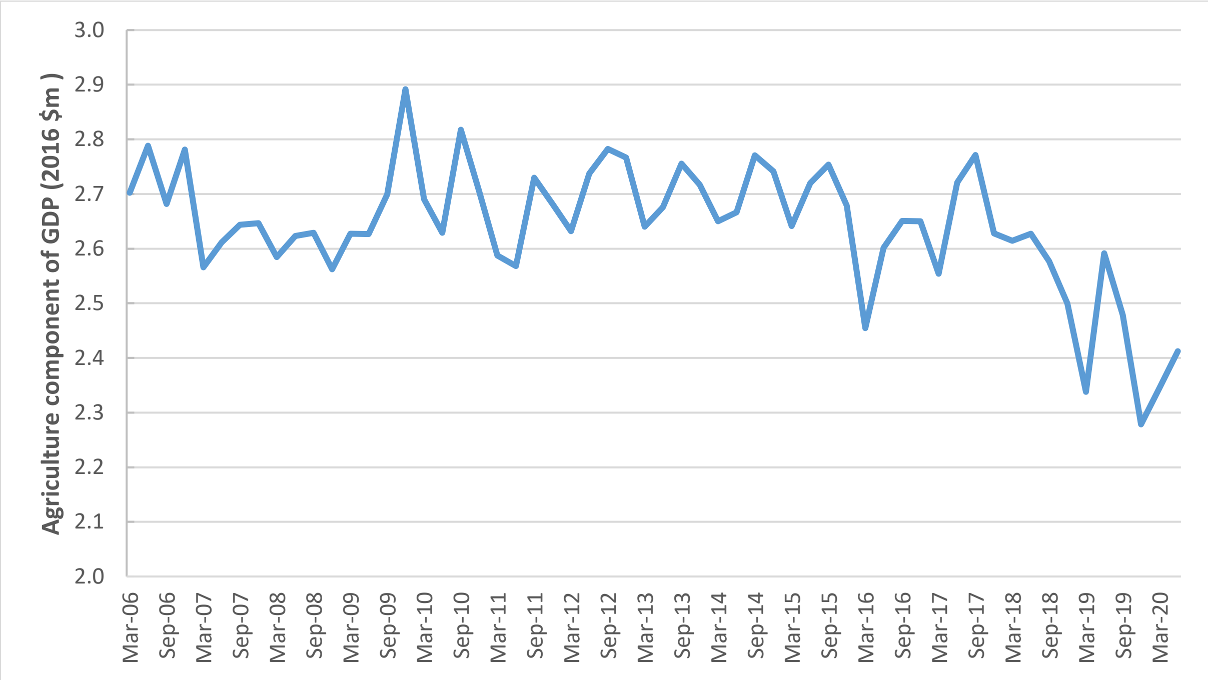
The MOA has established better data systems to ensure that more robust information and resources are available to help the ministry and farmers better understand the various challenges and the trends in the agricultural industry. This includes the establishment of the AgINTEL data system which forms the basis of the Punanga Nui Market bulletins which circulate important information to farmers. This system is being extended to the Pa Enua as well, including training programs to maximise the benefit of the use.

Four extra Hydroponic systems were established for the Northern group islands through the support of the PEARL project (Pa Enua Action for Resilient Livelihoods). The hydroponic setup is for Nassau, Penrhyn (2) and Palmerston which completes all islands in the northern group to have a community hydroponics plant run by their respective agriculture departments. These plants are to assist and provide these islands with vegetables.

The Ministry in collaboration with Pa Enua Action and Resilient Livelihoods (PEARL) project, Ridge to Reef (R2R) project, BTIB and Air Rarotonga has initiated the market access of produce of various crops for Pa Enua in Rarotonga.

Three islands (Mauke, Aitutaki and Mangaia) are now supplying on a weekly basis, produce to Prime Foods for sale. Mangaia supplies an average of 325 kilograms of exported produce to Rarotonga. These includes Capsicum, Taro, Yams and Tomatoes. Mauke supplies 125 kilograms and Aitutaki, who recently started supplying to Prime Foods, has so far exported 767 kilograms. Turmeric and Ginger are the main products supplied by Mauke whereas Aitutaki exports Eggplant, Watermelon, Cucumber, Coriander, Watermelon and Corn.

Figure 6-34: Agriculture contribution to GDP, quarterly, 2006/07 to 2019/20 ($ million real)



7 Crown Debt and Net Worth

The 2020/21 appropriation included an additional $76 million towards the Economic Response Plan Phase II (ERP) in direct response to the economic impacts of the pandemic. In order to finance the additional budgetary requirements, Government is taking on new debt.

Section 12 of the Loan Repayment Fund (LRF) Act 2014 requires the Ministry of Finance and Economic Management (MFEM) to provide Cabinet with a report on all proposed new debt and how it fits within the current economic, financial or fiscal policies of the Government and in accordance with the MFEM Act.

This chapter will demonstrate the impact of the proposed new debts, including the budget financing shortfall, on the net debt to GDP ratio as well as the debt servicing to total revenue ratio.

7.1 Gross Debt Reconciliation

The summary of movements table demonstrates the changes in the debt numbers since the passing of the 2020/21 Appropriation.

Table 7-1: Summary of movements – Crown Debt Schedule

Debt Financial forecast 2020/21	**Direct Debt**	**SOE Debt**	**Gross Debt**
Loans committed and drawn	124.41	49.53	173.94
Loans committed not drawn	16.54	0.00	16.54
SOE direct commercial debt	0.00	2.79	2.79
Total gross debt - original forecast	**140.95**	**52.32**	**193.27**
Adjustments made for half year update			
FOREX Exchange movement	-8.40	0.32	-8.07
Total Adjustments	***-8.40***	***0.32***	***-8.07***
Debt financial forecast - Half Year Update			
Loans committed and drawn	132.55	49.85	182.40
Loans committed not drawn	0.00	0.00	0.00
SOE direct commercial debt	0.00	2.79	2.79
Total gross debt - Half Year Update	**132.55**	**52.64**	**185.19**

Total movement in total gross debt was $8.07 million and mainly attributed to unrealised gain in exchange rate movements. This is down by $5.19 million on existing loans, followed by the difference in converting the ADB loan from US$20 million to NZD $30.41 million, down $1.80 million from the amount used in the original budget forecast.

Committed but not drawn loans of $16.54 million reported in the budget was originally planned to be drawn in the 2021/2022 year however, this is now expected to be drawn in January 2021 as part of the loan terms and conditions where the disbursement is required to be closed off by the end of January. The proceeds will be held in trust until 2021/22 when it is planned to be used.

7.2 Debt Headroom

Government will be forced to depart from the principles of responsible fiscal management specified in the Ministry of Finance Act 1995/96 and implemented through the Medium-term Fiscal Strategy (MTFS) in the short term until the economy has recovered from the impact of the pandemic. The current requirement is to maintain a net debt to GDP ratio below 35.0 per cent.

During the year, the government progressed negotiation of three new loans, two from the Asian Development Bank and one loan from the Asian Infrastructure Investment Bank (AIIB).

1. ADB COVID-19 Pandemic Response Option (CPRO) loan facility $30.41 million;
2. AIIB COVID-19 Pandemic Response Option (CPRO) loan facility $29.94 million (US$ 20 million);
3. ADB Disaster Resilience Program loan (Phase 3) $30.31 million.

The two CPRO loan facilities are required in direct response to the financial impact of the pandemic and to fund the Economic Recovery Plan and will be fully drawn during the 2020/21 fiscal year. The contingency loan, however, will only be drawn in the event of disasters triggered by natural hazards and health emergencies.

For the purpose of this analysis, the ADB contingency loan is only used to demonstrate scenarios in the event of a disaster which triggered drawdown. Figure 7-1 and Figure 7-2 reflect both the expected levels of net debt to GDP, and the 'worst case' scenario where the contingency loan is also drawn in full.

If considering contingency funding in addition to expected funding, net debt peaks at 52.2 per cent in 2021/22 with a maximum level of $242.8 million, followed by a maximum potential debt in 2022/23 of $247.9 million at a net debt ratio of 47.1 per cent.

Table 7-2: Financing Requirements 2021 - 2025

Debt Financing Requirements	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Net Operating Balance	($103,647)	($30,146)	$7,759	$12,962	$22,944
Net Non-Operating Balance	$24,788	($42,213)	($35,901)	($34,267)	($13,126)
Depreciation	$13,137	$13,137	$13,137	$13,137	$13,137
Payments made from LRF	$11,318	$0	$0	$0	$0
Total Cash Requirements	**($54,403)**	**($59,222)**	**($15,006)**	**($8,168)**	**$22,955**
less: General Cash Reserves	*$54,403*	*$11,155*	*$0*	*$0*	*$0*
Financing Requirements	**$0**	**($48,067)**	**($15,006)**	**($8,168)**	**$0**
Current gross debt level	$185,190	$174,191	$164,457	$150,029	$134,666
Estimated Debt Inc. Financing	**$185,190**	**$222,259**	**$227,531**	**$221,271**	**$205,908**
GDP forecast	$429,201	$464,751	$525,980	$552,093	$574,867
Gross Debt to GDP	**43.1%**	**47.8%**	**43.3%**	**40.1%**	**35.8%**
LRF Balance	$9,549	$9,740	$9,934	$10,133	$10,336
Estimated net debt level	$175,641	$212,519	$217,596	$211,138	$195,572
Net Debt to GDP	**40.9%**	**45.7%**	**41.4%**	**38.2%**	**34.0%**
Estimated net debt with contingency	$205,939	$242,816	$247,893	$238,934	$216,842
Net Debt to GDP with contingency %	**48.0%**	**52.2%**	**47.1%**	**43.3%**	**37.7%**

As highlighted in Table 7-2, Government forecasts a need to borrow an additional $71.2 million over the next three years, from 2021/22 to 2023/24, to cover the shortfalls in the forecast financing requirements. This amount excludes the expected reduction due to the reduced expenditures of the Medium-term Fiscal Strategy which result in a $6.5 million reduction as reported in Chapter 3.

The financing requirements are calculated assuming that the budget estimates will be fully spent, however this is highly unlikely, for the 2020 financial year there was an 81 per cent overall utilisation.

7.2.1 Net Debt to GDP

The actual drawdown graph demonstrates the impact of drawing down the full amount of the AIIB loan of $29.9 million (US$20 million) in the current year, net debt to GDP at 40.9 per cent, exceeds the threshold of 35.0 per cent.

It should be noted that full drawdown is a requirement of the terms and conditions of the loan although, only $16.5 million is expected to be used by the end of June 2021.

Figure 7-1: Net Debt to GDP Forecast 2021 – 2025 (*actual drawdown*)

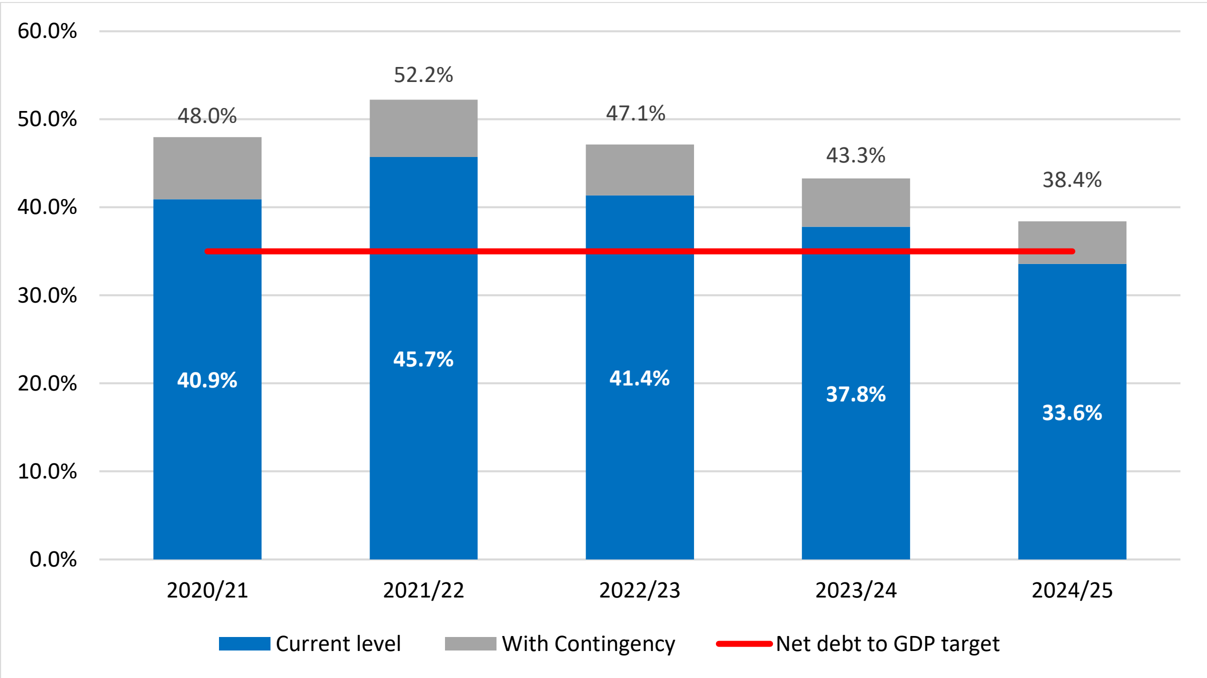
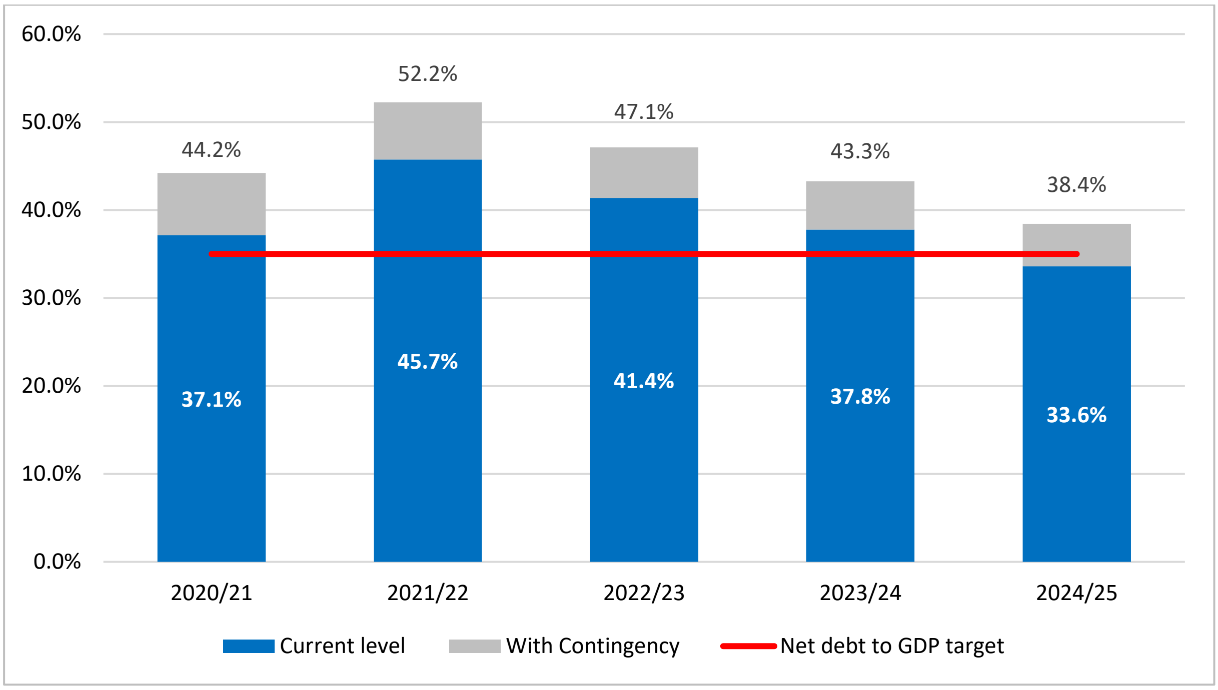


Figure 7-2: Net Debt to GDP Forecast 2021 – 2025 (*actual utilisation*)



The delay in establishing of a travel bubble between New Zealand and Cook Islands impacts the forecast for both total revenue and GDP. The downward revision in GDP numbers pushed the net debt to GDP ratio above the 35.0 per cent fiscal limit.

Figure 7-2, net debt to GDP – actual utilisation, demonstrates net debt to GDP of 37.1 per cent for 2020/21, the inclusion of the estimated financing requirements in 2021/22 pushes the net debt to GDP to 40.9 per cent before returning to within the required threshold from 2022/23 onward. This is on the assumption of conservative GDP results and full expenditure of the Government appropriation.

As illustrated in both scenarios, the net debt to GDP is expected to breach the 35.0 per cent fiscal limit until the 2024/25 fiscal year, provided that government does not take on additional debt or drawdown on the ADB contingency loan.

The net debt ratios reflected in Figure 7-1 and Figure 7-2 include directly held commercial debt taken up by state owned entities.

As GDP moves back toward trend levels once the pandemic and related restrictions are relaxed, this will have positive impacts on both the net debt to GDP ratio and the total revenue amounts. The economic recovery is expected to begin to gather steam in 2021/22, which is shown in Table 7-3. This additional debt is needed to protect livelihoods through the depth of the downturn in 2020/21 in particular.

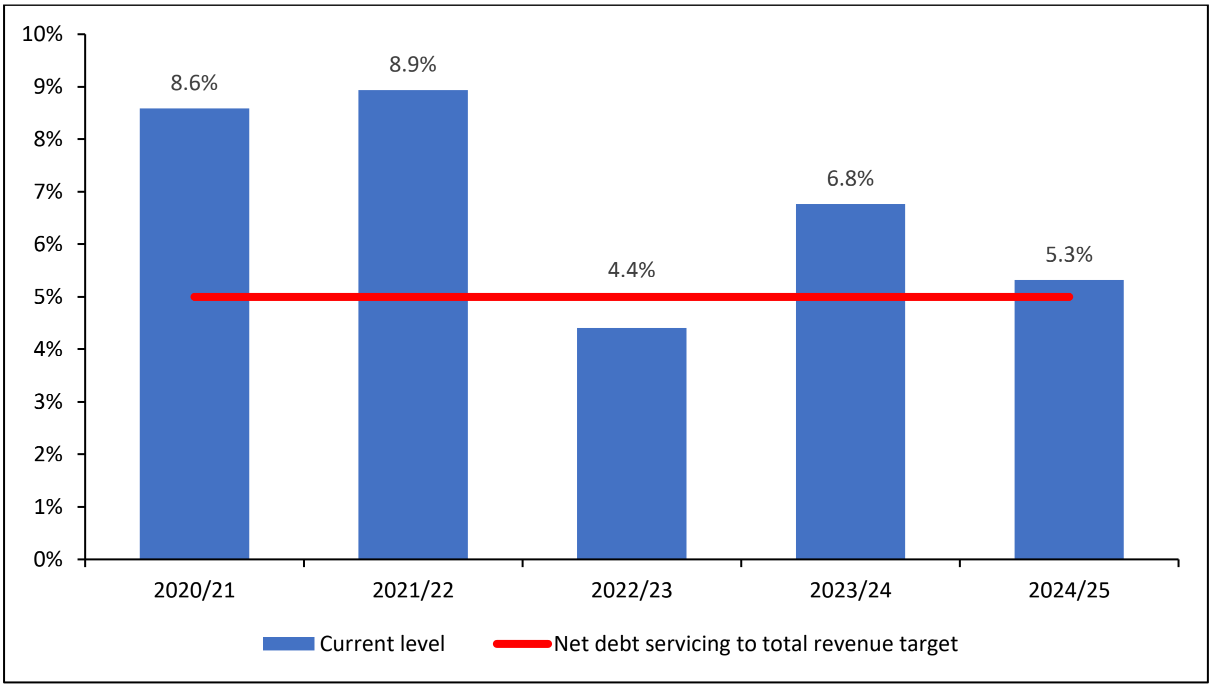
Table 7-3: Nominal GDP Growth

	2019-20	2020-21	2021-22	2022-23	2023-24
Nominal GDP growth	-3.7%	-18.7%	8.3%	13.2%	5.0%

7.2.2 Net Debt Servicing to Total Revenue

The net debt servicing to total revenue surpasses 5 per cent, an internal fiscal rule which is used to demonstrate the portion of Government revenue that is spent on debt servicing. This tool used together with cash flow forecasting is used to inform Government policies on its spending in the short to medium term budget.

Figure 7-3: Crown Net Debt Servicing to Total Revenue



Overall Crown debt is 99 per cent from external sources and 1 per cent of direct borrowing from a local commercial bank. Approximately 43 per cent of total debt are dominated in the NZD, this greatly reduces the risk of exposure to exchange rate fluctuations.

7.2.3 Conclusion

The 2020/21 appropriation was tabled including the debt financing requirements, the same loans are being analysed in this half year economic and fiscal update (HYEFU) but with the context of the downward revision in GDP and total revenue forecast. In addition, the government is also facing financing shortfall of an estimated $70 million over the next three years from 2021/22 to 2023/24, the gaps identified have also been included in the analysis.

The net debt to GDP is estimated to be 40.9 per cent and 45.7 per cent by the end of 2020/21 and 2021/22 respectively, surpassing the fiscal limit of 35.0 per cent. This is the result after confirming that the CPRO loans from ADB ($30.41 million) and AIIB (US$20 million) will be fully drawn in the current year. However, it is estimated that approximately $11.2 million will not be used until the 2021/22 year. In addition, the Government is also facing shortfall in financing requirements of $48.1 million in 2021/22, $15.0 million in 2022/23 and $8.2 million in 2023/24 respectively.

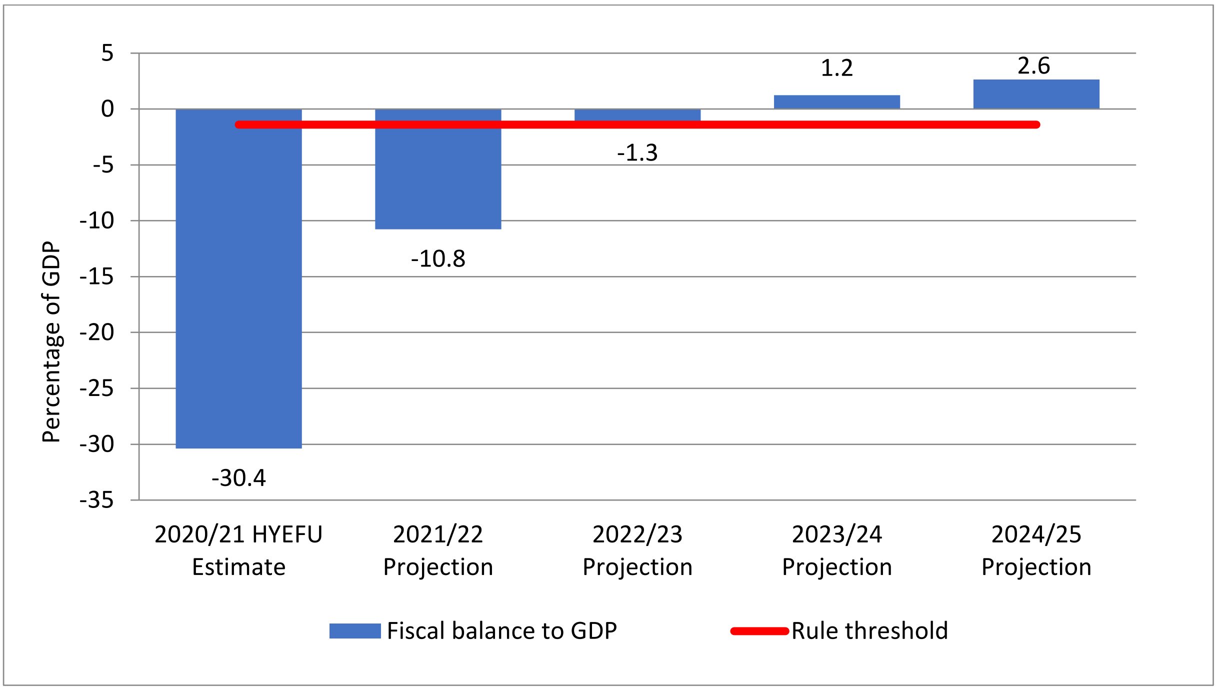
The Disaster Resilience Program loan (Phase 3) is a contingent loan facility that will only be drawn in the event of disasters triggered by natural hazards or health emergencies and is not included in the calculation.

Net debt servicing to total revenue surpasses 5 per cent except for the year 2022/23, the Government is required to ensure it is able to service its total loan portfolios when they are due.

Exposure to exchange rate fluctuations is being mitigated by negotiating loans in NZD which is the case with the ADB CPRO loan and the ADB Disaster Resilience Program loan.

Over the medium term, the Government has committed to maintaining a prudent fiscal management approach, which includes the necessary spending to support people through the pandemic. The post-pandemic years will have some fiscal restraint, as the economy recovers and the visitors return to the Cook Islands, with the expected fiscal balance to return below the -2 per cent target from 2022/23.

Figure 7-4: Fiscal Balance to GDP



7.3 Exchange Rate Assumptions

Table 7-4: HYEFU Exchange Rate Forecast – 2020/21 – 2023/24

Currency	2020/21	2021/22	2022/23	2023/24
EUR	0.5664	0.5632	0.5604	0.5528
USD	0.6680	0.6770	0.6810	0.6900
RMB	4.4719	4.5417	4.5379	4.5361
SDR	0.4634	0.4715	0.4729	0.4713

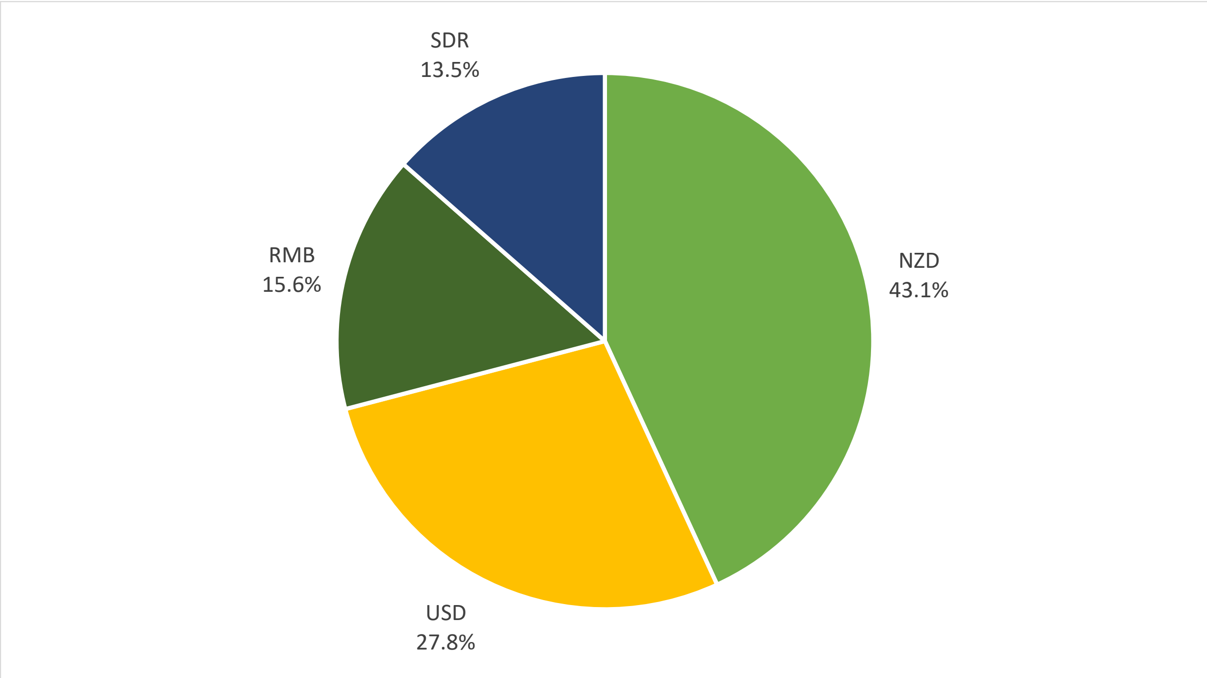
The New Zealand dollar strengthened against all major trading currencies compared to the June predictions. Currency movements continue to be heavily influenced by changing perceptions of risk and developments in the COVID-19 pandemic.

Table 7-5: HYEFU Exchange Rate Movement 2021 & 2022

Currency	2020/21	*2020/21 HYEFU*	Movement	2021/22	*2021/22 HYEFU*	Movement
EUR	*0.5403*	*0.5664*	***0.0261***	0.5500	*0.5632*	***0.0132***
USD	*0.6210*	*0.6680*	***0.0470***	0.6650	*0.6770*	***0.0120***
RMB	*4.1970*	*4.4719*	***0.2749***	4.3793	*4.5417*	***0.1624***
SDR	*0.4345*	*0.4634*	***0.0290***	0.4482	*0.4715*	***0.0233***

7.3.1 Crown Debt by Currency

Figure 7-5: Overall Debt by Currency June 2021



The NZD share of the total gross debt has increased from 33.5 per cent in the 2020/21 appropriation to 43.1 per cent in the half year economic fiscal update. This is a result of signing the new ADB COVID-19 Pandemic Response Option (CPRO) loan facility in NZD for $30.41 million, originally it was forecasted at US$20 million.

The Government will continue to mitigate exposure to exchange rate risk by;

1. Converting those loans that can be converted into the NZD.
2. Hold USD receipt in USD bank accounts in the Loan Repayment Fund. This is then used for direct debt repayments.

7.4 Status of Crown debt by individual loan

The Crown's total committed gross debt is $215.50 million, this is further broken down into loans that are drawn of $185.19 million and loans that are undrawn of $30.31 million. The undrawn loan is the ADB contingency loan, currently assumed to be drawn by December 2021.

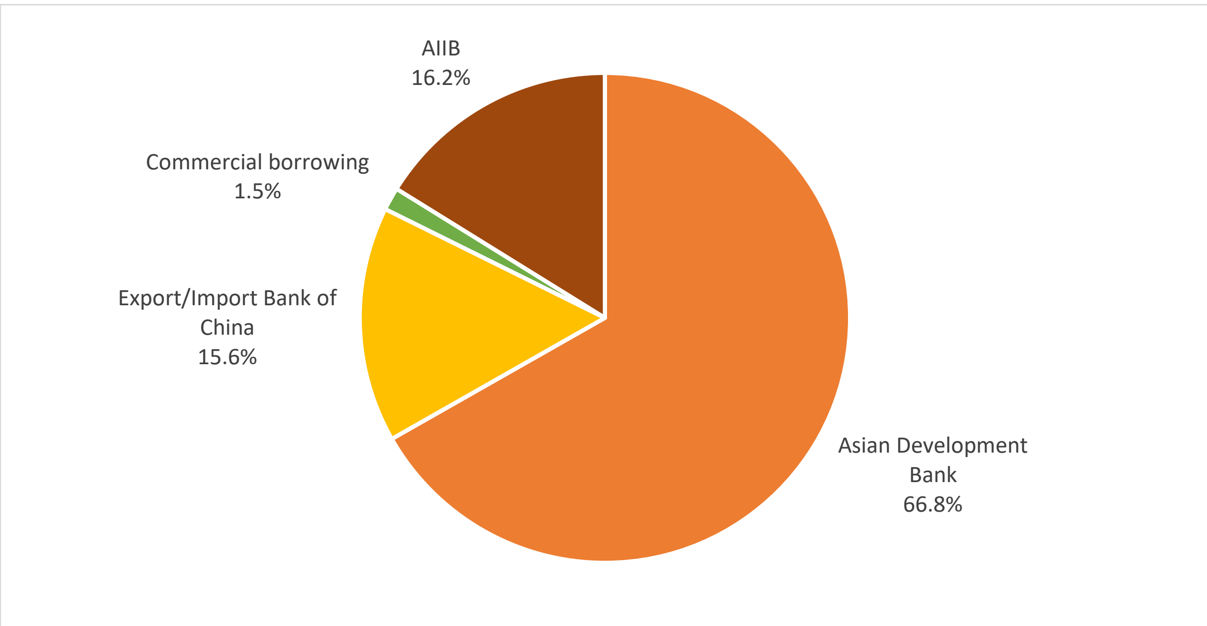
Table 7-6: Status of Government loans to 30 June 2021

Loans committed and drawn	Date loan taken	Original loan amount (000's)	Expected date of Repayment	Current Balance ($NZD 000's)
ADB 567 (SF) CIDB Project	July, 1982	USD 1,500	April, 2022	83
ADB 849 (SF) 2nd Multi-Project	December, 1987	SDR 2,150	August, 2027	1,123
ADB 1031 (SF) Outer Islands Telecom Project	October, 1990	SDR 3,578	August, 2030	3,136
ADB 1155 (SF) 2nd CIDB Project	March, 1992	SDR 1,085	December, 2031	821
ADB 1171 (SF) Emerg. Telecom Rehab Project	August, 1992	SDR 349	June, 2032	286
ADB 1309 (SF) Pearl Industry Dev. Project	December, 1994	SDR 272	August, 2034	344
ADB 1317 (SF) Educ'n Dev Project	February, 1995	SDR 1,852	August, 2034	2,098
ADB 1380 (SF) 3rd CIDB Project	January, 1996	SDR 1,977	September, 2035	1,821
ADB 1466 (SF) Economic Restructure Program	September, 1996	SDR 3,430	September, 2036	4,198
ADB 1588 (SF) Cyclone Emergency Rehab Project	January, 1997	SDR 583	January, 2038	744
ADB 1832 (SF) Waste Mgt Project	December, 2001	SDR 1,695	June, 2033	1,708
ADB 2174 (SF) Cyclone Emergency Assist Project	June, 2005	SDR 1,895	June, 2045	3,370
China - Multi-Functional Indoor Sports Stadium	August, 2008	RMB 74,100	August, 2028	7,763
ADB 2472 (OCR) Avatiu Port Development Project*	September, 2009	NZD 10,309	November, 2033	8,262
ADB 2473 (SF) Avatiu Ports Development project	September, 2009	SDR 4,524	November, 2040	5,315
ADB 2565 OCR Economic Recovery Support Program 1*	January, 2010	NZD 11,053	October, 2024	3,517
ADB 2739 (OCR) Amendment Avatiu Port project*	December, 2011	NZD 5,290	November, 2035	4,696
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB 118,000	December, 2032	21,044
ADB 2946 OCR Economic Recovery Support Program 2	December, 2012	NZD 11,053	October, 2027	3,927
ADB 3193 Renewable Energy Project	December, 2014	NZD 12,980	June, 2036	10,601
ADB 001-COO(FA-CDF) - Disaster Resilience Program	December, 2019	NZD 15,676	June, 2035	15,676
ADB 3632 - Loan for Undersea Broadband Cable	November, 2018	USD 15,000	2031	21,519
Commercial - Loan for Rarotonga Airport Equipment	January, 2018	NZD 3,206	2033	2,791
ADB 4010 - CPRO Loan	November, 2020	NZD 30,409	June, 2030	30,409
AIIB - CPRO Loan	December, 2020	USD 20,000	June, 2030	29,940
Total Loans Drawn Down				**185,190**
Committed but Undrawn				
ADB - Disaster Resilience Program (Phase 3)	December, 2021	NZD 30,312	June, 2035	30,312
Total Committed but Undrawn				**30,312**
Total Loans Commitment by the Crown				**215,502**

**These loans have been converted to NZD*

7.5 Crown Debt by Lenders

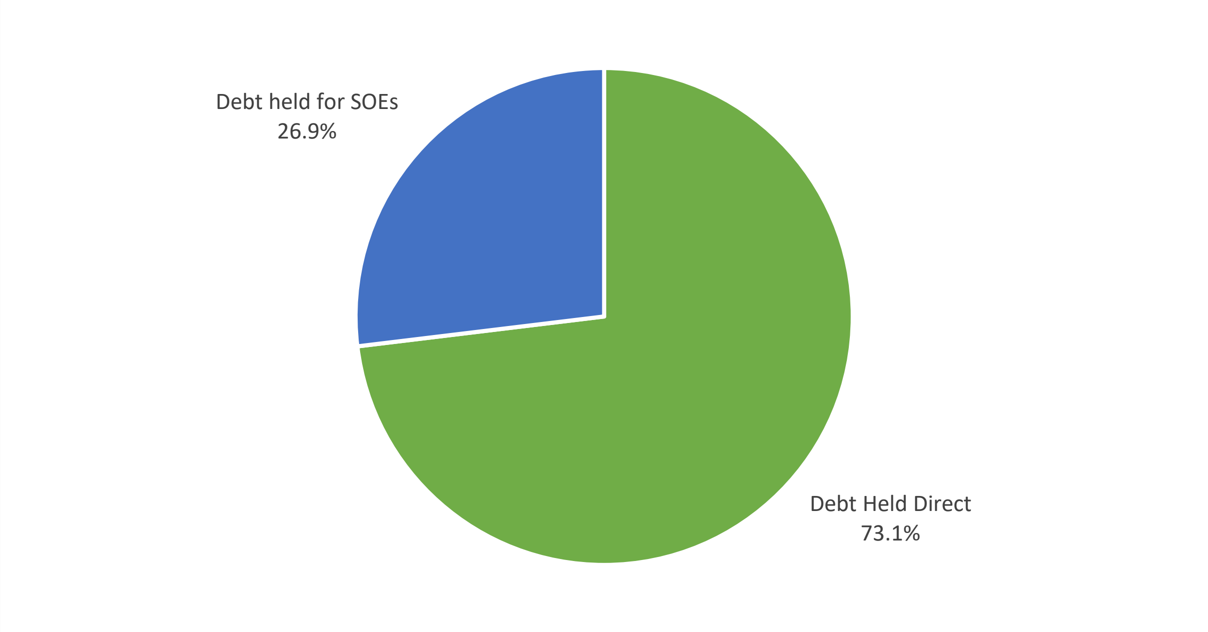
Figure 7-3: Overall Debt by Lender June 2021Figure 7-3



As illustrated in Figure 7-3, the ADB is our main lender with 66.8 per cent, followed by the Export/Import Bank of China (EXIM Bank) with 16 per cent, proposed AIIB loan with 16.2 per cent and one per cent held by local commercial financial institutions.

7.6 Crown Debt by Borrower

Figure 7-4: Gross Debt by Borrower June 2021



26.9 per cent of overall Crown debt or $49.85 million are loans taken on by the Crown on behalf of State-Owned Enterprises (SOEs) and are made up of primarily two main project loans – the loan to the Avaroa Cable Limited (ACL) for $21.52 million and the loan to the Ports Authority for $18.27 million at financial year end 2020/21.

The balance of 73.1 per cent includes the two CPRO loans with the ADB and the AIIB.

7.7 Other State-Owned Enterprise Debt

Since the enactment of the LRF Act, all new Crown debt (including SOE debt) must go through a full debt sustainability analysis and be approved by Cabinet (via the Minister of Finance), on the advice of the Financial Secretary.

Airport Authority

The Airport Authority is currently paying off its loan from the commercial bank (2021: $2.8 million). The estimate includes an additional loan of $1.0 million for the RESA project and for the building of the Air NZ cargo shed. The loan is to be secured by registered mortgage debenture over the assets and undertakings of the Authority.

Ports Authority

The Ports Authority is currently repaying its loan obligations to the ADB (2021: $18.27 million) and have made lump sum prepayments as part of managing its debt exposure to foreign exchange movement and more importantly continue to improve its serviceability.

The Ports Authority has received two years of debt repayment holiday allowance from government as a result of the COVID-19 pandemic impact on the Authority's revenue, the debt repayments during the repayment holiday period will be paid for by the Crown until 2022/23.

8 Official Development Assistance

Table 8-1: ODA Expenditure

Cook Islands ODA December 2020 Update	($'000)
FY2020/21 Half Year Update	84,560
FY2020/21 ODA Budget (excluding CSS)	61,553
FY2020/21 HYEFU estimated spend to date	35,046
Conversion rate December 2020	41%

Official Development Assistance (ODA) for 2020/21 was appropriated as an annual ODA expenditure at the value of $61.5 million. Estimated expenditure to date is reported at $35 million, representing a 41 per cent spend against the total budget for 2020/21. This includes programmes under 3rd Party spends and new ODA programmes.

8.1 New Zealand Programmes

Cook Islands Core Sector Support

A new Core Sector Support (CSS) Grant Funding Arrangement (GFA) with New Zealand, which is valued at NZD$31.3 million and allocated over 2019/20 to 2022/23, was signed in 2019. The goal of the support is to enhance the Cook Islands self-sufficiency through the first four years of Graduation to High Income Status by enabling predictable, efficient and effective delivery of priority development objectives coupled with practical policy reform. The Budget Support modality focuses on supporting measures to strengthen the tourism sector, health sector and the education system.

Under the same Core Sector Support Arrangement, New Zealand will provide NZD$5.1 million in funding over the same period to support public sector strengthening through the provision of specialist technical assistance. Technical assistance proposals must demonstrate relevance to the Cook Islands' Public Sector Strategy, broader Public Sector reform/strengthening and the Cook Islands Economic Development Strategy. Total estimated spend to date for this output is NZD$893,626.

COVID-19 Response – 2nd Phase Budget Support

The New Zealand Ministry of Foreign Affairs and Trade acting through the New Zealand High Commission in Rarotonga provided a contribution of NZD$15 million to the Government of the Cook Islands to support the implementation of its COVID-19 Economic Response Plan and complete necessary health and border system strengthening. This support was availed under New Zealand's Pacific Resilience Fund which aims to respond to the wide-ranging health, economic, and social impacts of the global COVID-19 pandemic.

The contribution is managed and administered by MFEM to further support the implementation of the Cook Islands Economic Response Plan (ERP) Phase II that will cushion the impact of the economic shock on businesses and workers and support confidence in the near term.

COVID-19: Pacific Financial Support Package

Through the New Zealand Aid Programme, New Zealand provided general budget support of NZD$7 million to the Government of the Cook Islands in March 2020 as part of this Pacific wide support package to respond to the impacts upon the Cook Islands brought about by COVID-19.

The contribution supported the Cook Islands response to the impacts of COVID-19 as indicated below:

- further support preventative measures by the Ministry of Health to delay COVID-19 arrival to the Cook Islands and strengthen our preparedness to contain and isolate its spread;
- elevating clinical and diagnostic support within the Ministry of Health
- strengthen our support to the most vulnerable in our community and supporting and protecting our overall workforce;
- support an economic package that will cushion the impact of the economic shock on businesses and workers and support confidence in the near term

The fund was managed and administered to achieve the purposes under the Cook Islands Economic Response Plan - Phase I.

New Zealand Volunteers Services Abroad (NZVSA) – New Zealand

This is a program directly managed by NZVSA for the purposes of sending skilled New Zealanders to the Cook Islands to share their experience and knowledge directly with public sector agencies. There has been an increase in volunteers assigned to the public sector agencies.

However, the COVID-19 pandemic have impacted on the volunteer service abroad (VSA) until time as the volunteers can travel to the Cook Islands. The VSA goal is to transfer skills and knowledge so that the changes achieved during an assignment remain sustainable after a volunteer returns to New Zealand.

Manatua Submarine Cable (ICT cable) – New Zealand Grant

Implementing Agencies: OPM

Total estimated spend to date: $798,393

The Manatua Procurement Group subcommittee is overseeing the operation of the supply contract with Subcom. Avaroa Cables Limited is the state-owned enterprise tasked with operating and managing the Cook Islands component of the Manatua Cable project. Manufacturing of the cable, final testing, physical inspection and quality checks are complete. The project is on track with the official launch of the Manatua Cable in November 2020

Mei Te Vai ki te Vai Project

Implementing Agency: Ministry of Finance and Economic Management

Total estimated spend to date: $293,438

The purpose of the Mei Te Vai Ki Te Vai Project is to improve the water quality of the lagoons in Rarotonga and Aitutaki for the benefit of our health, environment and economy. The following are project activities progress to date:

- In early 2020, MFEM confirmed a reticulated wastewater system with tertiary-level treatment and land-based disposal is the preferred approach to the MTVKTV project.

Next steps are:

- Public information sessions on the draft Environmental Impact Assessment and draft design
- Phase two of the social/cultural impact assessment
- Begin detailed design of wastewater infrastructure

For further information please visit https://www.totatouvai.co/mei-te-vai-ki-te-vai

Asset Management

Implementing Agency: Ministry of Finance and Economic Management

Total estimated spend to date: $1,700,000

The Cook Islands received a $13 million grant from NZ in December 2018 towards supporting Asset Management. This will contribute towards the maintenance and repair of Te Mato Vai (TMV). For more information please visit website https://www.totatouvai.co/te-mato-vai-1

Project Activity	Progress
Te Mato Vai Stage 1 Remediation	Local company Landholding Limited has been awarded $11.2 million contract to undertake work to improve the resilience of the public water supply ring main. All pipe laying and commissioning works are complete (including disinfection and pressure test of the pipes) and the new pipelines are now connected to the network and being operated by To Tatou Vai. Practical completion was awarded to Landholdings on the 7th September 2020. The project has now entered 12 month defect liability period.

Rarotonga Airport Upgrade Designs

Implementing Agencies: Airport Authority Cook Islands

Total estimated spend to date: $190,000

Funding of NZ$994,000 under this Agreement will be provided to Airport Authority Cook Islands via the Cook Islands Government. The funding will be used to review the airport development plan in light of the impact of COVID-19 on anticipated airport activity and to fund consulting services to prepare design and tender documentation for the revised airport terminal requirements and the required strengthening of the airport apron. It is anticipated that having this design work and construction documentation prepared will enable AACI to access contraction financing from the private sector, commercial sources or other development partners.

Cook Islands – PACER Plus outreach and consultation

Implementing Agencies: Ministry of Foreign Affairs and Trade

Total estimated spend to date: $40,377

PACER Plus is a trade and development agreement signed by Australia, New Zealand and nine Pacific Island countries including the Cook Islands. This Activity is part of a package of support, provided under the PACER Plus Readiness Package, which is available to assist Pacific signatories to ratify PACER Plus. The benefits derived from PACER Plus will also contribute to diversifying the Cook Islands economy, which has taken on elevated importance due to COVID-19 economic related impacts.

8.2 European Union Programmes

European Development Fund – Budget Support to the Sanitation Sector

Implementing Agency: Ministry of Finance and Economic Management

Total estimated spend to date: $236,051

The focus of the incentivized budget support under the EU's 11th cycle of funding (EDF11), which allocates funding using national systems until the year 2020, will continue with the Cook Islands priority of improving the Sanitation Sector. The Cook Islands submission under the 11th EDF funding cycle approved by the EU Commission focusses on upgrading commercial facility sewage systems on Aitutaki and Rarotonga to meet the *Public Health (Sewage and Wastewater Treatment and Disposal) Regulations 2014* standards. During 2020/21 an amount of NZ$2 million has been received. The implementing agency for this program is the Ministry of Finance of Economic Management through its Major Projects and Procurement Support division.

Sustainable Fisheries Partnership Agreement - Multiyear (Fisheries) Policy Support

Implementing Agency: Ministry of Marine Resources

Total estimated spend to date: NIL

This Sustainable Fisheries Partnership Agreement (SFPA) includes an annual fisheries sector contribution of EUR 350,000 by the European Commission under the 4 year protocol. The sectoral support component of the SFPA is utilised to supplement the Ministry of Marine Resources Budget Appropriations and Business Plan through the implementation of the Multiannual Sectoral Programme. This program is currently in its fourth year of implementation and to date approximately EUR $1 million has been received.

GCCA+SUPA - GLOBAL CLIMATE CHANGE ALLIANCE PLUS: SCALING UP PACIFIC ADAPTATION (GCCA+ SUPA) PROJECT

Implementing Agencies: OPM / Ministry of Marine Resources

Total estimated spend to date: $45,332

This EU funded project focuses on Enhancing a Climate Resilient Marine Sector in the Cook Islands. Implemented by the Pacific Community, the project aims to strengthening adaptive management of marine systems through strengthened, climate-focussed monitoring, education and awareness. Working closely with MMR and CCCI, the project will focus primarily on improving the marine research centre in Aitutaki.

8.3 Japan Programmes

Economic and Social Sector Programme 2018 – Japanese Machinery and Equipment

Implementing Agencies: MFEM

Total estimated spend to date: $702,370

A provisional Manufacture Japan Market test was carried out by Japan International Cooperation Systems (JICS) to obtain an understanding of Japan’s manufacturer’s interest in providing the items identified in the sixteen (16) item priority list and establish costs estimates. Japanese manufacturers showed an interest in providing six (6) of the items. These were accordingly approved by the Japanese authorities.

Using JICS procurement process, five of the six items have completed the procurement process and contracts have been awarded. These included excavators, water trucks, sprinkler truck for Infrastructure Cook Islands and the Ministry of Agriculture, ambulances for the Ministry of Health and Tractor truck with low bed semi-trailer for Infrastructure Cook Islands.

Procurement for the remaining ambulances for the Ministry of Health and road sweeper for Infrastructure Cook Islands is underway with manufacturing and shipment of items expected early to mid-2021.

Co-financing on the part of Government includes exemptions of relevant import VAT taxes in accordance with the VAT Act 1997 for approved ODA imports. Cook Islands Government financial procedures and procurement processes will be adhered to.

8.4 United Nations Programmes

Global Environment Facility - Renewable Energy Grant (Southern Group) - (administered by Asian Development Bank)

Implementing Agencies: OPM

Total estimated spend to date: NIL

The GEF BESS contract was awarded to M-Power Limited on the 1 June 2017 for a fixed price of US$3,092,768 (equivalent). A variation for NZ$103,000 was agreed in August 2018 to allow a larger transformer sizing. Completion and commissioning of Rarotonga airport west BESS for load shifting occurred in September 2019.

The BESS will be connected to the existing electricity grid to provide flexible response to fluctuating Solar PV output in the TAU network. The main function of this BESS is to:

- Minimise the severity and frequency of events that cause low load at the Power Station
- Minimise any curtailment of Solar PV facilities that may be necessary to maintain grid stability

The Airport West BESS is a containerized energy storage and power conversion platform, utilizing a flexible open architecture communication. The supplied Battery System has a total energy rated capacity of 6.4MWh at Beginning of Life (BOL) but is expected to de-rate over the 10 year period End of Life (EOL) to 4MWh.

The travel restriction as a result of the COVID-19 pandemic has meant that works still to be completed have been placed on hold.

Global Environment Facility – Small Grants Programme

Implementing Agencies: Cook Islands Red Cross

Total estimated spend to date: NIL

As the only in-country development partner agency outside of Government, CIRC is responsible for the administration of small environmental projects targeted at Cook Islands civil society organisations. The Cook Islands Global Environment Facility (GEF) Small Grants Programme (SGP) was established in 2005 and until 2015 was part of the SGP Samoa. As of late 2014, the Cook Islands Red Cross Society serves as the SGP host institution with the GEF SGP Cook Islands now a separate programme.

The Operational Phase 6 (OP6) country programme with the aim to "effectively support creation of global environmental benefits and the safeguarding of global environment through community and local solutions that complement and add value to national and global level action." The focus of support for community based organized activities are on conservation of biodiversity, waste management, prevention of land degradation, capacity building and awareness programmes to address climate change through community based support. Formal signing of OP6 MOA's grantees was held in November 2019 with funding disbursed to recipients in February 2020. A further of allocation of $200,000 was extended to the Cook Islands. Applications for the second phase have been received and undergoing processes with the aim to have funds approved by December 2020.

Ridge to Reef - Protecting biodiversity and enhancing ecosystem functions through approach in the Cook Islands

Implementing Agencies: National Environment Service

Total estimated spend to date: $573,638

A full extension request to July 2021 for the project lifespan was approved by the Biodiversity Steering Committee and submitted to UNDP for endorsement and approval by UNDP. This will enable all stakeholders to implement their existing activities and work programmes in order to achieve the overarching goal of the project. Planning of the activities for the remaining term of the project is currently underway.

Western Pacific Multi-country Integrated HIV/TB program – United Nations Development Programme (UNDP)

Implementing Agencies: MOH

Total estimated spend to date: $39,238

UNDP is the Principal Recipient for the Multi-Country Western Pacific Integrated HIV/TB Programme. It aims to improve the coverage and quality of HIV/TB prevention, treatment and care in 11 participating Western Pacific countries. The HIV activities includes strengthening Mobile HIV testing and counselling initiative, continuation of the Counselling and Testing program. The TB activities include monitoring and evaluation of policies implemented in hospitals and centres, training of community volunteers, community awareness and training of health staff on contact tracing.

8.5 Green Climate Fund Programmes

The Cook Islands can now access climate related finance of up to approximately $71.5 million (US$50 million) per project directly from the Green Climate Fund (GCF) which is a significant achievement for the Cook Islands.

The country has become the first nation in the Pacific to be accredited to the fund which was formed to assist developing countries in adaptation and mitigation practices to counter climate change.

The Ministry of Finance and Economic Management (MFEM) in collaboration with Climate Change Cook Islands have been implementing Readiness programmes since gaining accreditation in 2018 to strengthen agencies capacity implementing GCF projects.

Green Climate Fund Readiness 3

Implementing Agencies: MFEM – OPM

Total estimated spend to date: $305,279

Readiness 3 is predominately based on concept note development and capacity building within OPM, MFEM, BCI and the Private sector. The Readiness support is assisting BCI's accreditation to the fund. To date the Cook Islands have submitted two concept notes to GCF under the Simplified Approval Process and Enhanced Direct Access.

The SAP Concept Note to enhance the capacity of the health system of Cook Islands to protect and improve population health in an unstable and changing climate seeks GCF financing of approximately US$9.9 million. Objects of the SAP proposal will assist in the following areas:

- Component 1: Strengthening the capacity and capabilities of the Ministry of Health, partners and stakeholders to integrate climate change considerations in their health operations
- Component 2: Building institutional capabilities to respond to climate change health issues and effectively deliver health services to the population of Cook islands
- Component 3: Preventative measures to reduce health impacts from climate change in communities

The EDA Concept Note proposal will provide direct financing for communities and businesses to respond to climate change in the Cook Islands. This proposal seeks to access approximately US$19.3 million for the following objectives:

- Component 1 aims to support communities to increase the resilience of essential community buildings and to ensure that construction-sector activities are sustainable
- Component 2 will upgrade existing private buildings to comply with the new 2019 Building Code, in particular private buildings belonging to self-employed, sole traders, and micro- and small-enterprises
- Component 3 aims to support landscape-scale interventions that reduce the risk profile of the environments in which buildings and people's livelihoods reside through enhanced ecosystem services
- Component 4 will build capacity at local and central Government levels and among key stakeholders

Green Climate Fund – Renewable Energy Grant (Southern Group) - (administered by Asian Development Bank)

Implementing Agencies: OPM

Total estimated spend to date: NIL

The Airport South BESS contract was awarded to Vector on 30 September 2018, which is to implement two units of 1.0 MW/4.0MWh (a total of 2.0MW/8.0MWh) battery energy storage system (BESS) for load shifting capability at the Rarotonga airport south. Completion of the detailed design and breaking ground with civil works took place in October 2019. The BESS and Ring Main Unit underwent factory testing and inspection with proposed commissioning of Ring Main Unit and transformers prior to Christmas. Tesla due on-site in January 2020 for main commissioning works.

Rebidding and the Invitation for Bids (IFB) for the Rarotonga Power Station BESS contract was issued on 27 May 2019. The deadline for the submission of bids was extended from 7 August to Wednesday 14 August 2019. The Bid Evaluation was completed in October and contract award is planned for next quarter. The purpose of this BESS is to provide grid stability at the Rarotonga power station through implementation of a 6MW/3MWh modular/containerized BESS. Out of 30 firms that received the bidding documents, six (6) bidders submitted bids.

The travel restriction as a result of the COVID-19 pandemic has meant that works still to be completed have been placed on hold.

8.6 Adaptation Fund Programmes

Pa Enua Action for Resilient Livelihoods (PEARL)

Implementing Agencies: OPM

Total estimated spend to date: $1,504,559

The Cook Islands aims to use the funds to strengthen national and local capacity to reduce climate change risks, establish climate resilient water management instruments through an approach that involves communities and to revitalize agricultural production systems. The intention is to support greater food security and protect livelihoods in Pa Enua, particularly islands in the northern group, which comprises seven low-lying, sparsely populated, coral atolls and sand cays.

The Project is made up of the 3 components:

1. Strengthening disaster risk governance to manage disaster risk and enhancing disaster preparedness for effective response to "Build Back Better" in recovery, rehabilitation and reconstruction
2. Integrated water security management planning and implementation

3. Revitalised agricultural production systems strengthening island food sources and livelihoods in the Pa Enua

Good progress has been made on achieving the targets with the first Project Performance Report endorsed by the Adaptation Fund. The project is nearing its second year of implementation.

Aid Effectiveness

The Aid Effectiveness budget is drawn from the interest earned on development partner trust accounts and is used to support the implementation of official development assistance policy. The program currently contributes to several projects including the following: annual meeting of development partners, surge capacity to catch up and standardise Crown financial statements, training and set-up of project financial management software and support project development in the areas of climate finance. Total estimated spend to date is $52,377.

9 Schedules

9.1 Statement of Fiscal Responsibility (Operating)

	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Operating Revenue							
Taxation Revenue	159,060	148,281	93,814	81,276	110,494	149,575	165,610
Other Crown Revenue	30,049	31,790	17,614	37,461	18,202	15,468	12,302
Trading Revenue	7,746	3,690	3,703	3,703	4,697	4,902	4,902
Interest on Loans to Subsidiaries	760	360	0	0	0	582	831
Dividends	4,556	960	1,500	500	1,836	2,056	2,241
Interest on Balances	2,483	2,917	800	909	391	395	200
Core Sector Support	7,730	7,825	7,730	7,925	7,825	7,825	0
Total Operating Revenue	**212,385**	**195,824**	**125,162**	**131,774**	**143,445**	**180,803**	**186,087**
Operating Expenditure							
Ministry Outputs	**123,997**	**149,336**	**195,505**	**195,990**	**134,881**	**134,064**	**133,955**
Personnel	*53,065*	*59,418*	*64,356*	*64,356*	*65,643*	*66,194*	*66,387*
Operating	*23,316*	*20,562*	*19,573*	*19,695*	*19,915*	*19,999*	*20,551*
Administered Payments	*41,328*	*61,937*	*105,215*	*105,579*	*42,963*	*41,511*	*40,657*
Depreciation	*6,287*	*7,418*	*6,360*	*6,360*	*6,360*	*6,360*	*6,360*
POBOC	26,262	27,007	*29,568*	*29,568*	28,177	28,667	28,784
Total Other Operating	**7,250**	**4,208**	**6,926**	**6,926**	**10,533**	**10,313**	**10,392**
Debt Interest Contribution to LRF	*2,082*	*1,785*	*0*	*0*	*3,607*	*3,387*	*3,466*
Asset Management (CIIC)	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Crown Infrastructure Depreciation	*2,084*	*1,786*	*4,603*	*4,603*	*4,603*	*4,603*	*4,603*
Transfer to Emergency Response Trust Fund	*50*	*50*	*50*	*50*	*50*	*50*	*50*
Depreciation Contingency Fund	**0**	**0**	**2,174**	**2,174**	**2,174**	**2,174**	**2,174**
Chinese Equipment	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Rarotonga Water Network	*0*	*0*	*803*	*803*	*803*	*803*	*803*
Northern Pa Enua Renewable Energy System	*0*	*0*	*400*	*400*	*400*	*400*	*400*
Southern Pa Enua Renewable Energy System (excl. Aitutaki)	*0*	*0*	*971*	*971*	*971*	*971*	*971*
Other Assets	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Contingency Funds - Operating	*308*	*586*	*100*	*100*	*100*	*100*	*100*
Contributions to CISWF	*2,726*	*0*	*0*	*0*	*0*	*0*	*0*
Total Operating Expenses	**157,508**	**180,551**	**231,999**	**232,485**	**173,591**	**173,044**	**173,132**
Operating Surplus/(Shortfall)	**54,877**	**15,272**	**-106,837**	**-100,711**	**-30,146**	**7,760**	**12,955**

9.2 Statement of Fiscal Responsibility (Non-Operating)

	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Reductions in Net Borrowings	**6,463**	**(9,896)**	**(61,661)**	**(75,128)**	**9,209**	**8,207**	**12,661**
Loan Disbursements	(1,095)	(17,282)	(70,426)	(83,510)	0	0	0
Principal repayment	7,558	7,386	8,765	8,382	9,209	9,166	13,667
Subsidiary Loan Repayments - Principle	0	0	0	0	0	(959)	(1,006)
Capital Expenditures	**36,102**	**39,073**	**42,419**	**42,804**	**32,954**	**27,644**	**21,556**
Ministries and Outer Islands (Including CIIC Capital)	36,102	39,073	42,019	42,404	32,954	27,644	21,556
Infrastructure Capital Investment in SOEs	0	0	400	400	0	0	0
Airport Authority	*0*	*0*	*400*	*400*	*0*	*0*	*0*
Te Aponga Uira	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Contingency Funds - Capital Expenditure	0	0	0	0	0	0	0
Foreign Aid - Capital	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Receipts	7,772	7,761	37,782	37,782	1,654	227	227
Expenditure	(7,772)	(7,761)	(37,782)	(37,782)	(1,654)	(227)	(227)
Other Committed Considerations	**845**	**86,032**	**8,102**	**7,535**	**50**	**50**	**50**
Transfer to Reserve Trust Fund	795	0	0	0	0	0	0
Stabilisation Fund	0	56,700	0	0	0	0	0
Advanced Subsidiaries - Avaroa Cable Ltd	0	17,282	8,052	7,485	0	0	0
Infrastructure Trust Fund	0	12,000	0	0	0	0	0
Disaster Response Fund	50	50	50	50	50	50	50
Total Non-Operating balance	**(43,411)**	**(115,209)**	**(11,141)**	**(24,788)**	**(42,213)**	**(35,901)**	**(34,267)**
To be Funded by							
Operating Surplus	54,877	15,323	(106,837)	(100,711)	(30,146)	7,760	12,955
Depreciation	8,370	9,204	13,136	13,136	13,136	13,136	13,136
of which: R.E. Capital Replacement	0	0	1,371	1,371	1,371	1,371	1,371
General Cash Reserves	(29,674)	69,377	48,091	112,312	46,356	5,247	(9,082)
Stabilisation Fund	0	0	56,700	0	0	0	0
Contribution to Loan Reserve Fund	9,787	9,254	0	0	12,817	9,708	17,208
Transfer IN and OUT of Infrastructure Trust Fund	0	12,000	0	0	0	0	0
Transfer to Emergency Response Trust Fund	50	50	50	50	50	50	50
Total Funding Items	**43,411**	**115,209**	**11,140**	**24,788**	**42,213**	**35,901**	**34,267**
Net Surplus/Shortfall	**0**	**0**	**(1)**	**0**	**0**	**0**	**0**

9.3 Fiscal Indicators Table

	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Statement of Financial Performance							
Taxation Revenue ($m)	159.1	148.3	93.8	81.3	110.5	149.6	165.6
Social Contributions ($m)	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Other Revenue ($m)	53.2	47.5	31.3	50.4	32.9	31.2	20.4
Total Operating Revenue ($m)	**212.4**	**195.8**	**125.2**	**131.8**	**143.4**	**180.8**	**186.1**
Total Operating Revenue Percentage of GDP	39.4	37.1	26.5	30.7	30.9	34.4	33.7
Tax Revenue Percentage of GDP	29.5	28.1	19.9	18.9	23.8	28.4	30.0
Total Cyclical Revenue ($m)	24.3	14.8	15.5	12.6	16.4	13.0	10.6
Total Cyclical Revenue Percentage of GDP	4.5	2.8	3.3	2.9	3.5	2.5	1.9
Total Structural Revenue ($m)	188.1	181.1	109.7	119.2	127.0	167.8	175.4
Total Structural Revenue Percentage of GDP	34.9	34.3	23.2	27.8	27.3	31.9	31.8
Personnel ($m)	**59.0**	**66.2**	**71.5**	**71.6**	**72.5**	**73.1**	**73.4**
Percentage of Total Revenue	27.8	33.8	57.1	54.4	50.5	40.4	39.5
Percentage of Structural Revenue	31.4	36.6	65.2	60.1	57.1	43.6	41.9
Total Operating Expenditure ($m)	**157.5**	**180.6**	**232.0**	**232.5**	**173.6**	**173.0**	**173.1**
Percentage of GDP	29.2	34.2	49.1	54.2	37.4	32.9	31.4
Percentage of Operating Revenue	74.2	92.2	185.4	176.4	121.0	95.7	93.0
Cash Operating Expenditure*	148.8	171.0	218.5	218.8	160.7	160.4	159.8
Operating Balance ($m)	**54.9**	**15.3**	**-106.8**	**-100.7**	**-30.1**	**7.8**	**13.0**
Percentage of GDP	10.2	2.9	-22.6	-23.5	-6.5	1.5	2.3
Capital Expenditure	36.1	39.1	42.4	42.8	33.0	27.6	21.6
Depreciation	8.4	9.2	13.1	13.1	13.1	13.1	13.1
Non-Operating Balance ($m)	-43.4	-115.2	-11.1	-24.8	-42.2	-35.9	-34.3
Fiscal Balance surplus/deficit ($m) *	**27.1**	**-14.6**	**-136.1**	**-130.4**	**-50.0**	**-6.7**	**4.5**
Percentage of GDP	5.0	-2.8	-28.8	-30.4	-10.8	-1.3	0.8
Statement of Financial Position ($m)							
Assets ($m)	443.1	492.2	514.5	489.4	451.7	450.6	450.1
Liabilities ($m)	177.3	183.4	238.6	247.1	236.3	226.8	212.6
Crown Balance ($m)	265.8	308.7	275.8	242.3	215.4	223.7	237.4
Percentage of GDP	49.3	58.5	58.4	56.5	46.3	42.5	43.0
Working Capital ($m)	106.7	9.3	0.1	11.2	-48.3	-63.5	-71.8
Working Capital (months coverage)	8.6	0.7	0.0	0.6	-3.6	-4.7	-5.4
Stabilisation Account	*0.0*	*56.7*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
General Cash Reserves	106.7	66.0	0.1	11.2	-48.3	-63.5	-71.8
Statement of Borrowings ($m)							
Gross Debt end of FY ($m)	112.6	106.7	173.9	185.2	174.2	164.5	150.0
Excluding Contingency Loan	112.6	0.0	0.0	0.0	0.0	0.0	0.0
Percentage of GDP	20.9	20.2	36.8	43.1	37.5	31.3	27.2
Net Crown Debt, end of FY ($m)	91.7	86.3	164.6	175.6	164.5	154.5	139.9
Percentage of GDP	17.0	16.3	34.8	40.9	35.4	29.4	25.3
Loan Repayment Reserves Held ($m)	20.9	20.5	9.4	9.5	9.7	9.9	10.1
Net Debt Servicing ($m)	7.3	10.1	11.5	11.3	12.8	12.6	17.1
Percentage of Total Revenue	3.4	5.1	9.2	8.6	8.9	6.9	9.2
Percentage of Structural Revenue	3.9	5.6	10.5	9.5	10.1	7.5	9.8
Development Partner Support ($m)							
Grants ($m)	7.8	7.8	37.8	37.8	1.7	0.2	0.2
Percentage of GDP	1.4	1.5	8.0	8.8	0.4	0.0	0.0
Memo item: Nominal GDP ($m)	*538.8*	*528.1*	*472.5*	429.2	464.8	526.0	552.1

9.4 Schedule 1 – Agency Budget Appropriations

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Agriculture	1,056,072	314,509	0	30,000	1,400,581	45,535	1,355,046
Audit (PERCA)	993,854	112,800	0	18,000	1,124,654	60,700	1,063,954
Business Trade and Investment Board	432,796	342,866	0	4,000	779,662	28,000	751,662
Cook Islands Investment Corporation	1,508,000	1,424,000	4,990,000	45,000	7,967,000	703,831	7,263,169
Corrective Services	1,322,576	233,381	0	30,000	1,585,957	50,000	1,535,957
Crown Law	886,784	162,791	155,000	3,000	1,207,575	0	1,207,575
Cultural Development	742,000	170,000	717,500	120,000	1,749,500	50,000	1,699,500
Education	11,562,048	2,842,691	4,682,034	620,000	19,706,773	0	19,706,773
Environment	1,070,826	201,000	453,271	30,000	1,755,097	35,000	1,720,097
Finance and Economic Management	4,862,000	817,430	77,101,748	260,000	83,041,178	383,500	82,657,678
Financial Services Development Authority	242,797	187,906	0	4,000	434,703	0	434,703
Foreign Affairs	1,897,692	823,083	15,000	45,000	2,780,775	28,000	2,752,775
Head Of State	173,969	32,867	36,000	8,000	250,836	0	250,836
Health	11,873,111	3,598,951	2,146,870	900,000	18,518,932	150,000	18,368,932
Infrastructure Cook Islands	2,399,000	440,000	3,200,000	145,000	6,184,000	300,000	5,884,000
Internal Affairs	1,257,000	255,000	3,149,437	27,000	4,688,437	0	4,688,437
of which: Welfare Payments - Allowances			*1,262,437*				
Justice	1,865,000	450,000	460,000	30,000	2,805,001	550,000	2,255,001
Marine Resources	1,191,000	705,958	250,000	150,000	2,296,958	28,000	2,268,958
Ombudsman	233,000	62,000	0	6,000	301,000	0	301,000
Parliamentary Services	560,000	67,000	159,373	22,000	808,373	0	808,373
Police	4,148,036	192,964	455,000	1,010,000	5,806,000	141,783	5,664,217
Prime Minister's Office	1,441,000	440,000	1,157,366	31,000	3,069,366	0	3,069,366
Public Service Commission	377,000	158,000	1,741,645	15,000	2,291,645	0	2,291,645
Cook Islands Seabed Minerals Authority	340,000	377,500	208,384	9,500	935,384	0	935,384
Tourism Corporation	1,919,000	2,013,000	4,500,000	48,000	8,480,000	20,000	8,460,000
Transport	1,011,000	174,000	0	51,000	1,236,000	22,000	1,214,000
Total Ministries, Crown & Statutory Agencies	**55,365,561**	**16,599,695**	**105,578,628**	**3,661,500**	**181,205,384**	**2,596,349**	**178,609,035**

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Ministerial Support							
Prime Minister	351,696	109,773	0	21,100	482,569	0	482,569
Deputy Prime Minister	270,784	84,574	0	22,642	378,000	0	378,000
Minister George Angene	164,000	132,000	0	12,000	308,000	0	308,000
Minister Robert Tapaitau	188,901	109,509	0	9,590	308,000	0	308,000
Minister Vaine Mokoroa	217,500	85,000	0	5,500	308,000	0	308,000
Minister Vainetutai Toki-Brown	181,000	115,838	0	11,162	308,000	0	308,000
7th Minister Office	0	0	0	0	0	0	0
Leader Of Opposition	115,160	186,040	0	6,800	308,000	0	308,000
Total Ministerial Support Offices	**1,489,041**	**822,734**	**0**	**88,794**	**2,400,569**	**0**	**2,400,569**
Outer Islands							
Aitutaki	1,229,593	389,305	0	480,000	2,098,898	67,828	2,031,070
Atiu	869,409	430,815	0	430,000	1,730,224	224,318	1,505,906
Mangaia	948,834	583,583	0	210,000	1,742,417	301,000	1,441,417
Manihiki	728,541	149,672	0	460,000	1,338,213	119,000	1,219,213
Mauke	796,787	214,643	0	380,000	1,391,430	113,853	1,277,577
Mitiaro	693,131	74,562	0	93,000	860,693	60,900	799,793
Palmerston	282,091	65,001	0	80,000	427,092	20,500	406,592
Penrhyn	645,527	164,792	0	180,000	990,319	74,000	916,319
Pukapuka-Nassau	892,715	141,754	0	215,000	1,249,469	73,695	1,175,774
Rakahanga	414,862	58,844	0	82,000	555,706	52,000	503,706
Total Outer Islands	**7,501,490**	**2,272,971**	**0**	**2,610,000**	**12,384,461**	**1,107,094**	**11,277,367**
Gross Total	**64,356,092**	**19,695,400**	**105,578,628**	**6,360,294**	**195,990,415**	**3,703,443**	**192,286,972**

9.5 Schedule 2 – Payments on Behalf of the crown (POBOCS)

Administering Ministry	POBOC	2020/21 Budget Estimate	2020/21 HYEFU Estimate
Compensation of Employees			
Finance & Economic Management	Parliamentary Superannuation	180,000	180,000
Audit	PERC Salaries and Administration Costs	57,500	57,500
Parliamentary Services	Civil List - Personnel	2,901,961	2,901,961
Parliamentary Services	House of Ariki	338,420	338,420
	Compensation of Employees POBOCs	**3,477,881**	**3,477,881**
Use of Goods and Services			
Audit	Audit Fees	95,600	95,600
Prime Minister's Office	Local Government Election	24,000	24,000
Parliamentary Services	Civil List - Constituency Visits	170,200	170,200
Parliamentary Services	Parliamentary Sitting Expenses	150,000	150,000
Parliamentary Services	QR Travel and Allowances (local and overseas)	109,000	109,000
Parliamentary Services	MP Travel and Allowances (local and overseas)	341,000	341,000
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	63,461
Transport	Maritime Radio Coverage	79,000	79,000
	Use of Goods and Services POBOCs	**1,032,261**	**1,032,261**
Subsidies			
Cook Islands Investment Corporation	Airport Authority subsidy	3,047,997	3,047,997
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	128,000	128,000
Cook Islands Investment Corporation	Ports Authority - subsidy	110,099	110,099
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	0	0
Cook Islands Investment Corporation	Te Mana Uira o Araura - subsidy	500,000	500,000
	Subsidies POBOCs	**3,786,096**	**3,786,096**
Social Assistance			
Internal Affairs	Welfare Payments	20,007,261	20,007,261
	Social Assistance POBOCs	**20,007,261**	**20,007,261**
Other Expense			
Finance & Economic Management	Pacific Catastrophe Risk Insurance	160,000	160,000
Finance & Economic Management	CIG Insurance	180,000	180,000
Finance & Economic Management	BEPS Subscription	35,000	35,000
Foreign Affairs	International Subscriptions	890,000	890,000
	Other Expenses POBOCs	**1,265,000**	**1,265,000**
Grand Total		**29,568,499**	**29,568,499**

9.6 Schedule 3 – Cook Islands Capital Spending

	2020/21 Budget Estimate	2020/21 HYEFU Estimate
Cook Islands Government Capital programs	42,418,807	42,804,357
Total Capital spending	**42,418,807**	**42,804,357**

9.7 Schedule 4 – Official Development Assistance

	2020/21 Budget Estimate	2020/21 HYEFU Estimate
Operating or recurrent expenditure	23,770,968	23,770,968
Capital Project Expenditure	37,782,105	37,782,105
Total Official Development Assistance	**61,553,073**	**61,553,073**

9.8 Schedule 5a – Other Expenses & Financing Transactions

Category of Expense	2020/21 Budget Estimate	2020/21 HYEFU Estimate
Contingency Funds - Operating	100,000	100,000
Crown Infrastructure Depreciation	4,602,500	4,602,500
Provisional for Doubtful Debts	0	0
Transfer to Emergency Response Trust Fund	50,000	50,000
Advanced Subsidiaries - Avaroa Cable Ltd	8,052,000	7,485,030
Transfer to Reserve Trust Fund	0	0
Depreciation Contingency Fund	2,173,580	2,173,580
Total Other Expenses	**14,978,080**	**14,411,110**

9.9 Schedule 5b – Loan Reserve Fund Appropriation

Category of Appropriation	2020/21 Budget Estimate	2020/21 HYEFU Estimate
Contribution to LRF - Principal	0	0
Contribution to LRF - Interest	0	0
Total Contribution to LRF	**0**	**0**

9.10 Summary

Category of Payment	2020/21 Budget Estimate	2020/21 HYEFU Estimate
Schedule 1 - Ministry Outputs (Gross Operating)	195,504,804	195,990,415
Schedule 2 - POBOCs	29,568,499	29,568,499
Schedule 3 - CIG Capital Expenditure	42,418,807	42,804,357
Schedule 4 - Official Development Assistance	61,553,073	61,553,073
Schedule 5a - Other Expenses and Financing Transactions	14,978,080	14,411,110
Schedule 5b - Loan Reserve Fund Appropriations	0	0
TOTAL APPROPRIATION	**344,023,263**	**344,327,453**

9.11 Schedule 6 – Capital Schedule

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Ministry of Agriculture				**30,091**	**71,184**	**49,039**	**49,039**	**0**	**0**	**0**
	Rarotonga	Upgrade of Nursery Facilities	CIG	0	71,184	49,039	49,039	0	0	0
	Rarotonga	Vanilla Shade House	CIG	30,091	0	0	0	0	0	0
Cook Islands Investment Corporation				**951,277**	**3,626,257**	**7,576,214**	**7,776,214**	**6,641,500**	**5,600,000**	**2,850,000**
	Aitutaki	Aitutaki Island Plan and Orongo Development Project	CIG	0	130,388	500,000	500,000	500,000	500,000	500,000
	Rarotonga	Government Building Projects	CIG	0	793,659	1,500,000	1,500,000	1,300,000	250,000	0
	Rarotonga	Land Acquisition	CIG	0	0	700,000	700,000	0	0	0
	Pa Enua	Pa Enua Government Building Projects - Northern Group	CIG	12,100	348,917	200,000	200,000	0	0	0
	Pa Enua	Pa Enua Government Building Projects - Southern Group	CIG	0	186,743	750,000	750,000	0	0	0
	Rarotonga	Rarotonga Airport Refurbishment	CIG	0	0	400,000	400,000	0	0	0
	Various	Rarotonga Health Projects	CIG	0	298,334	100,000	100,000	500,000	400,000	0
	Rarotonga	To Tatou Vai	CIG	0	247,708	3,224,500	3,224,500	4,341,500	4,450,000	2,350,000
	Rarotonga	Prison Development Programme	CIG	0	166,202	131,714	131,714	0	0	0
	Rarotonga	Relocation of Oral Health Services	CIG	0	30,583	70,000	70,000	0	0	0
	Rarotonga	MFEM Building	CIG	0	530,641	0	0	0	0	0
	Rarotonga	Removal of AM radio mast	CIG	0	269,282	0	0	0	0	0
	Various	FM and TV Telecommunications for the Pa Enua	CIG	0	0	0	200,000	0	0	0
	Rarotonga	Vaikapuangi Government Building-Design	CIG	200,464	623,800	0	0	0	0	0
	Rarotonga	Nukutere Rebuild	CIG	625,000	0	0	0	0	0	0
	Rarotonga	Tereora College Redevelopment Stage 1	CIG	113,713	0	0	0	0	0	0
	Rarotonga	Te Mato Vai - Stage 1: road & pipeline easement & Stage 2 land acquisition for water intakes	CIG	0	0	0	0	0	0	0
	Rarotonga	TMV Titikaveka Backroad Rehabilitation	CIG	0	0	0	0	0	0	0
Police				**0**	**60,870**	**0**	**0**	**0**	**0**	**0**
	Rarotonga	Integrated Communication System	CIG	0	60,870	0	0	0	0	0
Education				**160,276**	**279,249**	**360,000**	**360,000**	**360,000**	**360,000**	**360,000**
	National	Fund to be Prioritised by Education	CIG	160,276	279,249	360,000	360,000	360,000	360,000	360,000

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Health				**657,531**	**588,725**	**3,150,000**	**3,150,000**	**400,000**	**300,000**	**300,000**
	National	Fund to be Prioritised by Health for Technical Equipment	CIG	453,045	343,518	300,000	300,000	300,000	300,000	300,000
	National	CT Scanner	CIG	0	0	1,300,000	1,300,000	100,000	0	0
	National	Health ICT Upgrade	CIG	38,664	198,532	650,000	650,000	0	0	0
	National	PCR Laboratory	CIG	86,956	0	900,000	900,000	0	0	0
	Rarotonga	Ambulance	CIG	78,866	46,675	0	0	0	0	0
Infrastructure Cook Islands				**7,229,209**	**16,590,182**	**19,268,554**	**19,268,554**	**24,592,500**	**20,324,000**	**16,986,000**
	National	Bridges and Structures Asset Management and Improvement Programme	CIG	1,149,740	2,596,353	2,810,000	2,810,000	3,380,000	1,330,000	210,000
	National	Drainage Asset Management and Improvement Programme	CIG	0	2,559,591	950,000	950,000	260,000	1,000,000	1,000,000
	Various	Emergency Management and Support Infrastructure	CIG	546,254	1,781,025	3,718,411	3,718,411	2,600,000	50,000	2,000,000
	Various	Government Building Projects	CIG	0	0	850,000	850,000	0	0	0
	Penrhyn	Inland and Coastal Waters Asset Management and Improvement Programme	CIG	0	0	530,000	530,000	2,230,000	980,000	2,560,000
	National	Pa Enua Marine Infrastructure Improvement Programme	CIG	0	150,000	0	0	2,150,000	2,000,000	500,000
	National	Roads Asset Management and Improvement Programme	CIG	2,000,160	6,923,374	8,080,143	8,080,143	8,162,500	3,984,000	5,096,000
	Atiu	Atiu Road Improvement	CIG	486,261	681,884	0	0	0	0	0
	Rarotonga	Avatiu Valley Stream embankment	CIG	660,218	21,500	0	0	0	0	0
	National	Manea Games Upgrade	CIG	0	66,388	0	0	0	0	0
	Mitiaro	Mitiaro Water Upgrade	CIG	304,750	249,557	0	0	0	0	0
	Rarotonga	Rutaki Foreshore Rock Revetment	CIG	0	880,997	0	0	0	0	0
	Aitutaki	Establishing new water galleries	CIG	0	229,513	0	0	0	0	0
	Pukapuka	Nassau Ferry	CIG	0	350,000	0	0	0	0	0
	Rarotonga	Contingent Liability Capital Projects Account	CIG	0	100,000	0	0	0	0	0
Internal Affairs				**50,000**	**50,000**	**50,000**	**50,000**	**50,000**	**50,000**	**50,000**
	Rarotonga	Vaka Maintenance Capital Projects	CIG	50,000	50,000	50,000	50,000	50,000	50,000	50,000

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Ministry of Finance and Economic Management				**22,932,572**	**14,346,692**	**11,065,000**	**11,229,052**	**500,000**	**500,000**	**500,000**
	Rarotonga	FMIS purchase and implementation	CIG	391,103	417,581	65,000	65,000	0	0	0
	Rarotonga	Te Mato Vai - Rarotonga Water Upgrade	CIG	0	12,598,326	9,000,000	9,000,000	0	0	0
	Rarotonga	Mei Te Vai ki Te Vai	CIG	22,451,306	487,546	2,000,000	2,000,000	500,000	500,000	500,000
	Rarotonga	Shipping Vessel	CIG	37,709	22,599	0	0	0	0	0
	Rarotonga	AEOI IT System	CIG	52,454	0	0	0	0	0	0
	Rarotonga	MFEM Extension - Furniture and materials	CIG	0	183,877	0	0	0	0	0
	Rarotonga	The Centre of Excellence in Information Technology (CEIT) - Capital Purchases	CIG	0	0	0	65,102	0	0	0
	Rarotonga	COVID-19 Response Fund - Capital Needs	CIG	0	636,763	0	98,950	0	0	0
Justice				**200,000**	**0**	**0**	**0**	**0**	**0**	**0**
	Rarotonga	Online Business Registry	CIG	200,000	0	0	0	0	0	0
Parliament				**0**	**653,406**	**0**	**0**	**0**	**0**	**0**
	Rarotonga	Parliament Building Extension	CIG	0	653,406	0	0	0	0	0
Office Of Prime Minister				**2,887,594**	**1,956,231**	**300,000**	**321,497**	**100,000**	**100,000**	**100,000**
	National	Government IT Network	CIG	576,006	628,503	300,000	321,497	100,000	100,000	100,000
	Atiu	Atiu Power Distribution	CIG	1,094,370	175,742	0	0	0	0	0
	Pa Enua	Renewable Energy - Capital works	CIG	39,017	0	0	0	0	0	0
	Aitutaki	Aitutaki Renewable Energy Project	CIG	873,754	1,024,367	0	0	0	0	0
	Mangaia	Mangaia School Bus	CIG	87,307	0	0	0	0	0	0
	National	Renewable Energy Project Management and Support	CIG	217,140	127,619	0	0	0	0	0
MINISTRY TOTAL				**35,098,550**	**38,222,796**	**41,818,807**	**42,204,357**	**32,644,000**	**27,234,000**	**21,146,000**
Capital Funds Administered BY MFEM				**1,003,740**	**850,334**	**600,000**	**600,000**	**310,000**	**410,000**	**410,000**
	National	Capital Distribution Fund	CIG	930,135	800,873	490,000	490,000	200,000	300,000	300,000
	Pa Enua	Outer Islands Small Capital Fund	CIG	73,605	49,461	110,000	110,000	110,000	110,000	110,000
		Aitutaki		*0*	*0*	*16,000*	*16,000*	*16,000*	*16,000*	*16,000*
		Atiu		*6,272*	*0*	*12,000*	*12,000*	*12,000*	*12,000*	*12,000*
		Mangaia		*8,975*	*7,177*	*12,000*	*12,000*	*12,000*	*12,000*	*12,000*
		Manihiki		*8,006*	*4,414*	*10,000*	*10,000*	*10,000*	*10,000*	*10,000*
		Mauke		*8,873*	*8,096*	*10,000*	*10,000*	*10,000*	*10,000*	*10,000*
		Mitiaro		*6,768*	*7,177*	*8,000*	*8,000*	*8,000*	*8,000*	*8,000*
		Palmerston		*7,000*	*4,992*	*10,000*	*10,000*	*10,000*	*10,000*	*10,000*
		Penrhyn		*11,444*	*4,270*	*12,000*	*12,000*	*12,000*	*12,000*	*12,000*
		Pukapuka-Nassau		*8,609*	*6,358*	*12,000*	*12,000*	*12,000*	*12,000*	*12,000*
		Rakahanga		*7,658*	*6,977*	*8,000*	*8,000*	*8,000*	*8,000*	*8,000*
GRAND TOTAL				**36,102,290**	**39,073,130**	**42,418,807**	**42,804,357**	**32,954,000**	**27,644,000**	**21,556,000**

9.12 Schedule 7 – Revenues on Behalf of the Crown (ROBOCs)

	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Taxation Revenue							
Value Added Tax (VAT)	70,315,065	77,766,005	39,902,242	36,096,531	52,247,327	71,565,575	81,282,429
Income tax	36,351,845	27,966,613	20,708,027	18,527,561	19,703,251	29,604,450	32,375,303
Company tax	24,596,456	17,469,779	14,938,041	12,814,307	15,721,291	20,927,985	22,470,536
Import levies	14,565,054	14,701,390	12,215,582	11,981,249	12,841,725	13,948,824	15,108,620
Withholding tax	1,503,687	1,268,183	1,321,203	1,334,377	1,419,865	1,531,197	1,646,685
Departure tax	11,728,180	9,109,474	4,729,190	522,184	8,560,825	11,997,381	12,726,238
Total	**159,060,288**	**148,281,444**	**93,814,285**	**81,276,209**	**110,494,284**	**149,575,412**	**165,609,810**
Other Crown Revenue							
FSC Vested Assets	0	6,744,004	0	8,260,000	0	0	0
FSC Return of Excess	278,582	290,000	198,000	198,000	198,000	198,000	198,000
Immigration Fees	1,064,458	964,870	560,000	480,000	480,000	1,000,000	300,000
IMO Subscription - Maritime Cook Islands	67,493	15,940	66,000	66,000	66,000	66,000	66,000
Court Services	35,207	35,536	11,000	11,000	30,000	40,000	40,000
Instant Fines	38,924	7,890	40,000	40,000	40,000	40,000	40,000
Fishing Licenses	15,164,003	5,218,806	9,000,000	3,950,000	10,000,000	9,000,000	9,000,000
Fisheries - US Treaties (purse seing)	5,357,872	8,043,127	5,000,000	7,100,000	5,000,000	2,500,000	0
Fishing Fines	2,262,864	237,575	190,000	190,000	0	0	0
Research Fee	1,114	620	1,500	1,500	1,500	1,500	1,500
Permits	12,084	7,673	24,000	24,000	24,000	24,000	24,000
Dividends	***4,556,000***	***960,000***	***1,500,000***	***500,000***	***1,835,500***	***2,055,750***	***2,241,000***
Banana Court - dividend	10,000	0	0	0	0	0	0
Bank of the Cook Islands - dividend	284,000	0	0	0	135,500	255,750	341,000
Ports Authority - dividend	0	0	0	0	0	0	0
Punganga Nui Market - dividend	0	0	0	0	0	0	0
Te Aponga Uira - dividend	682,000	0	0	0	200,000	300,000	400,000
Extraordinary SOE - dividend	60,000	0	0	0	0	0	0
Telecom Cook Islands (Bluesky) - dividend	3,520,000	960,000	1,500,000	500,000	1,500,000	1,500,000	1,500,000
Numismatics	537,133	171,600	450,000	450,000	450,000	450,000	450,000
Border Management Fees	0	0	0	0	0	0	0
Drivers Licenses	288,978	256,120	260,000	120,000	260,000	260,000	260,000
Motor Vehicle Registration	870,827	492,865	875,000	875,000	875,000	875,000	875,000
Interest on balances	2,482,644	2,917,425	800,000	909,000	391,000	395,000	200,000
Interest on loans to subsidiaries	760,349	359,848	0	0	0	582,000	831,000

	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Foreign Investment Fees	28,980	16,497	27,000	27,000	27,000	27,000	27,000
Upper Air Management Agreement	576,531	922,118	0	38,908	203,616	419,836	454,310
Shipping Registration	264,707	61,625	90,000	90,000	90,000	90,000	90,000
International Shipping License	24,236	23,906	16,500	16,500	16,500	16,500	16,500
Liquor Licensing	65,839	98,037	70,000	50,000	50,000	70,000	70,000
Tattslotto Grants	193,377	216,674	120,000	120,000	120,000	120,000	120,000
Censorship Fees	2,458	702	1,000	1,000	1,000	1,000	1,000
Circulating Currency - Coins	534,671	321,917	350,000	5,000	5,000	5,000	5,000
Employer Liabilities	75,000	0	75,000	75,000	75,000	75,000	75,000
Motor Vehicle Dealers	3,358	3,870	3,000	3,000	3,000	3,000	3,000
Gains on FOREX	2,300,000	33,313	0	0	0	0	0
Core Sector Support	7,730,487	7,825,000	7,730,487	7,925,000	7,825,000	7,825,000	0
General Budget Support	0	7,604,396	0	15,082,658	0	0	0
South Indian Ocean Fisheries Agreement (SIOFA)	0	0	178,752	178,752	178,752	178,752	178,752
South Pacific Fisheries Management Organisation (SPRFMO)	0	0	7,435	7,435	7,435	7,435	7,435
Total Other	**45,578,175**	**43,902,953**	**27,644,674**	**46,794,753**	**28,253,303**	**26,325,773**	**15,574,497**
Total Crown Receipts	**204,638,463**	**192,184,398**	**121,458,959**	**128,070,962**	**138,747,587**	**175,901,185**	**181,184,307**

9.13 Schedule 8a – Administered Payments

Administering Ministry	Output	Administered Payment	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Compensation of Employees									
Cook Islands Investment Corporation	1	Infrastructure Committee	47,000	176,621	130,000	130,000	130,000	150,000	150,000
Cook Islands Investment Corporation	1	Special Projects Units	685,000	714,571	420,000	420,000	420,000	420,000	420,000
Cook Islands Investment Corporation	1	School Security	281,000	278,726	230,000	230,000	230,000	280,000	280,000
Cook Islands Investment Corporation	2	Joint Venture with Seabed Minerals Authority	320,000	289,024	130,000	130,000	130,000	130,000	130,000
Environment	1	National Heritage Trust	65,169	92,138	122,241	122,241	122,241	122,241	122,241
Finance and Economic Management	1	Price Tribunal Committee	46,055	38,827	45,000	45,000	45,000	45,000	45,000
Finance and Economic Management	2	The Centre of Research and Policy Studies	0	9,522	80,000	80,000	80,000	80,000	80,000
Justice	1	Judges Allowances	176,943	190,837	300,000	300,000	300,000	300,000	465,000
Justice	2	Project to bring land records up to date	120,000	0	120,000	120,000	120,000	120,000	120,000
Prime Minister's Office	4	ICT Support Team	0	65,634	250,000	434,366	0	0	0
Prime Minister's Office	8	Marae Moana Ambassador	0	0	60,000	60,000	60,000	0	0
Public Service Commission	3	HOM's Salaries	1,472,492	1,855,698	1,741,645	1,741,645	1,741,645	1,741,645	1,741,645
		Compensation of Employees Administered Payments	**3,213,659**	**3,711,597**	**3,628,886**	**3,813,252**	**3,378,886**	**3,388,886**	**3,553,886**
Use of Goods and Services									
CI Seabed Minerals	1	Seabed Minerals Sector Development	0	70,667	130,000	208,384	0	0	0
Cook Islands Investment Corporation	1	Provision for Land Rentals	667,863	465,740	500,000	500,000	500,000	500,000	500,000
Cook Islands Investment Corporation	1	Land Rent Reviews	0	163,296	0	0	0	0	0
Cook Islands Investment Corporation	2	Avaroa Cable	11,450	238,547	150,000	150,000	0	0	0
Cook Islands Investment Corporation	2	Renewable Energy Maintenance	0	194,987	100,000	100,000	0	0	0
Crown Law	2	Legal Provisions	0	0	155,000	155,000	0	0	0
Crown Law	2	Arbitration Case	1,156,705	338,851	0	0	0	0	0
Crown Law	1	Pacific Islands Law Officers Network (PILON)	29,642	0	0	0	0	0	0
Cultural Development	1	Te Maeva Nui Constitution Celebrations	3,669,873	678,501	502,500	502,500	1,472,500	1,472,500	722,500
Cultural Development	1	Te Kopapa Reo Maori Board	14,590	13,648	15,000	15,000	15,000	15,000	15,000
Cultural Development	1	Cook Islands Cultural Fund	0	151,775	200,000	200,000	200,000	200,000	200,000
Cultural Development	2	Audio and Visual Digitization	0	39,884	0	0	0	0	0
Education	3	Tertiary Training Institutions	732,670	847,677	1,160,000	1,160,000	1,160,000	1,160,000	1,160,000
Education	4	Bus Service	0	24,482	26,325	26,325	26,325	26,325	26,325
Environment	3	E - Waste & Whiteware Collection	84,681	143,607	0	0	0	0	0
Environment	2	EIA Process	0	149,640	150,000	150,000	150,000	150,000	150,000

Administering Ministry	Output	Administered Payment	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Environment	3	Management of Suwarrow Park	0	68,277	150,000	181,030	150,000	150,000	150,000
Finance and Economic Management	1	Public Sector Strengthening-processes and systems	187,821	304,386	150,000	150,000	150,000	200,000	200,000
Finance and Economic Management	6	COVID-19 Medical Response Fund	0	4,723,490	3,000,000	3,000,000	0	0	0
Finance and Economic Management	1	COVID-19 Economic Response Plan	0	17,741,983	64,000,000	64,000,000	0	0	0
Finance and Economic Management	2	The Centre of Excellence in Information Technology (CEIT)	27,027	158,234	60,000	60,000	0	0	0
Finance and Economic Management	2	Audit of Crown Accounts	30,000	0	30,000	30,000	30,000	30,000	30,000
Finance and Economic Management	1	Standard and Poors Subscription	58,520	62,555	70,000	70,000	70,000	70,000	70,000
Finance and Economic Management	2	Special Investigative and Prosecution Services	67,305	90,389	50,000	50,000	50,000	70,000	70,000
Finance and Economic Management	2	Debt Advisory Services	60,000	12,332	60,000	60,000	60,000	60,000	60,000
Finance and Economic Management	2	FMIS Maintenance	0	0	80,000	80,000	80,000	80,000	80,000
Finance and Economic Management	2	Government Broadband Utilities	0	0	30,000	30,000	30,000	30,000	30,000
Finance and Economic Management	3	Border Management System Maintenance	155,250	155,250	155,250	155,250	155,250	155,250	155,250
Finance and Economic Management	3	Post Tax Amnesty Work	18,061	292,553	321,337	321,337	0	0	0
Foreign Affairs	5	Cook Islands Student Association Support	0	10,000	10,000	10,000	10,000	10,000	10,000
Foreign Affairs	5	Returned Services Association	4,706	517	5,000	5,000	5,000	5,000	5,000
Head Of State	1	Domestic Hosting Entertainment	11,850	9,142	15,000	15,000	15,000	15,000	15,000
Head Of State	1	QR Social Responsibility Fund	7,516	5,126	8,000	8,000	8,000	8,000	8,000
Head Of State	1	Head of State Rent	0	13,042	13,000	13,000	13,000	13,000	13,000
Health	4	Pharmaceuticals	1,117,829	945,515	867,800	867,800	867,800	867,800	867,800
Health	1	Operation Namu	88,016	0	0	0	0	0	0
Infrastructure Cook Islands	3	Bridges and Stream Structure Maintenance	600,000	1,097,967	970,000	970,000	970,000	970,000	970,000
Infrastructure Cook Islands	5	Waste Management	494,000	578,047	730,000	730,000	730,000	730,000	730,000
Infrastructure Cook Islands	4	Road and Drainage Asset Management	647,204	1,090,696	1,100,000	1,100,000	1,000,000	1,000,000	1,000,000
Infrastructure Cook Islands	1	Emergency Response Work	0	135,144	200,000	200,000	200,000	200,000	200,000
Infrastructure Cook Islands	1	Pa Enua Machinery Maintenance Funds	196,602	196,186	200,000	200,000	200,000	200,000	200,000
Infrastructure Cook Islands	4	Water Maintenance	442,704	0	0	0	0	0	0
Infrastructure Cook Islands	4	Road Assets Management	646,009	0	0	0	0	0	0
Internal Affairs	2	Children Forum	0	0	0	0	0	0	0
Internal Affairs	2	Internal Affairs Youth Program	0	24,782	45,000	45,000	45,000	45,000	45,000
Internal Affairs	4	Vaka Maintenance	397,554	391,282	400,000	400,000	400,000	400,000	400,000
Internal Affairs	5	Lease extension	48,600	36,000	72,000	72,000	72,000	72,000	72,000
Parliamentary Services	1	Special Select Committee	18,812	95,262	90,000	159,373	60,000	60,000	60,000

Administering Ministry	Output	Administered Payment	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Parliamentary Services	2	Pacific Legislatures for Population and Governance (PLPG)	41,532	0	0	0	0	0	0
Parliamentary Services	2	Remuneration Tribunal Committee	17,823	0	0	0	0	0	0
Police	1	Search and Rescue	0	18,667	20,000	20,000	20,000	20,000	20,000
Police	1	Serious Crime Investigations	68,291	98,014	100,000	100,000	100,000	100,000	100,000
Police	1	Te Kukupa - Biannual Slipping	29,338	60,662	150,000	150,000	0	150,000	0
Police	1	Te Kukupa - Fuel Contribution	140,000	78,876	140,000	140,000	140,000	140,000	140,000
Police	2	Police Youth Program	44,801	34,574	45,000	45,000	45,000	45,000	45,000
Prime Minister's Office	1	Social Responsibility Fund	243,000	460,343	363,000	363,000	363,000	363,000	363,000
Prime Minister's Office	1	Community Support Fund	91,118	85,555	100,000	100,000	100,000	100,000	100,000
Prime Minister's Office	3	Pa Enua Mechanical Overseer	0	92,670	100,000	100,000	100,000	100,000	100,000
Prime Minister's Office	5	Energy Commissioner	0	0	50,000	50,000	50,000	50,000	50,000
Prime Minister's Office	6	Red Cross	0	50,000	50,000	50,000	50,000	50,000	50,000
Tourism Corporation	1	Marketing Resources - Tourism Growth Strategy	5,072,000	4,922,000	4,500,000	4,500,000	4,922,000	4,922,000	4,922,000
		Use of Goods and Services Administered Payments	**17,440,761**	**37,660,821**	**81,589,212**	**81,767,999**	**14,784,875**	**15,004,875**	**14,104,875**
Subsidies									
Education	3	University of the South Pacific Contribution	183,410	147,706	205,000	205,000	205,000	205,000	205,000
Finance and Economic Management	1	Airline Underwrite	12,925,262	8,720,655	7,000,000	7,000,000	12,000,000	12,000,000	12,000,000
Finance and Economic Management	2	Subsidy of audio/visual broadcasting in Pa Enua	39,728	38,956	45,000	45,000	45,000	45,000	45,000
Finance and Economic Management	2	Asian Infrastructure Investment Bank (AIIB) Membership	0	31,746	30,500	30,500	30,500	30,500	30,500
Finance and Economic Management	1	Pacific Financial Regional Technical Assistance (PFTAC) Contribution	0	0	15,000	15,000	0	0	0
Finance and Economic Management	1	Universal Access Fund	0	0	220,000	220,000	400,000	500,000	500,000
Finance and Economic Management	6	Provision for Inter Island Shipping	174,066	1,234,920	800,000	800,000	500,000	500,000	500,000
		Subsidies Administered Payments	**13,322,467**	**10,173,983**	**8,315,500**	**8,315,500**	**13,180,500**	**13,280,500**	**13,280,500**
Social Assistance									
Education	2	Government Funded Scholarships	672,787	757,559	780,000	780,000	780,000	780,000	780,000
Health	1	NCD Fund	194,999	195,000	195,000	195,000	195,000	195,000	195,000
Health	4	Patient Referrals	730,002	850,000	850,000	850,000	850,000	850,000	850,000
Health	5	Workforce Development	279,337	156,350	234,070	234,070	234,070	234,070	234,070
Internal Affairs	1	Welfare Payments - Allowances	742,134	1,192,476	1,262,437	1,262,437	1,268,780	1,268,862	1,268,718
Justice	1	Legal Aid	10,560	0	40,000	40,000	40,000	40,000	40,000
		Social Assistance Administered Payments	**2,629,819**	**3,151,385**	**3,361,507**	**3,361,507**	**3,367,850**	**3,367,932**	**3,367,788**

Administering Ministry	Output	Administered Payment	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Other Expense									
Cook Islands Investment Corporation	2	To Tatou Vai	380,622	2,300,000	3,330,000	3,330,000	3,155,000	1,400,000	1,400,000
Education	2	Private School Funding	2,229,709	2,509,346	2,510,709	2,510,709	2,510,709	2,510,709	2,510,709
Finance and Economic Management	1	Competition and Regulatory Authority	0	150	480,000	480,000	600,000	538,000	419,000
Finance and Economic Management	2	Production of new currency, transportation and sale of old coins	35,259	753,679	379,661	379,661	15,000	350,000	350,000
Finance and Economic Management	4	National Census	0	0	0	0	300,000	0	0
Finance and Economic Management	4	Conduct of a Labour Force Survey	0	59,071	0	0	0	0	0
Internal Affairs	2	SIF - Cook Islands Government Contribution	772,913	848,053	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Internal Affairs	5	CISNOC Grant	720,000	475,715	370,000	370,000	370,000	370,000	370,000
Marine Resources	3	Fisheries Development Facility	178,298	199,229	250,000	250,000	300,000	300,000	300,000
Finance and Economic Management	2	Marumaruatua	255,212	0	0	0	0	0	0
Marine Resources	3	Fisheries Development Facility in the Pa Enua	0	94,413	0	0	0	0	0
		Other Expenses Administered Payments	**4,572,013**	**7,239,656**	**8,320,370**	**8,320,370**	**8,250,709**	**6,468,709**	**6,349,709**
Grand Total			**41,178,719**	**61,937,443**	**105,215,475**	**105,578,628**	**42,962,820**	**41,510,902**	**40,656,758**

9.14 Schedule 8b – Payments on Behalf of Crown (POBOCs)

Administering Ministry	Output	POBOC	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Compensation of Employees									
Finance and Economic Management	2	Parliamentary Superannuation	113,844	40,356	180,000	180,000	180,000	180,000	180,000
Audit (PERCA)	3	PERC Salaries and Administration Costs	36,919	45,543	57,500	57,500	57,500	57,500	57,500
Parliamentary Services	1	Civil List - Personnel	2,358,896	2,689,451	2,901,961	2,901,961	2,901,961	2,901,961	2,901,961
Parliamentary Services	1	House of Ariki	228,733	330,213	338,420	338,420	348,420	348,420	348,420
		Compensation of Employees POBOCs	**2,738,391**	**3,105,563**	**3,477,881**	**3,477,881**	**3,487,881**	**3,487,881**	**3,487,881**
Use of Goods and Services									
Audit (PERCA)	2	Audit Fees	95,600	82,791	95,600	95,600	95,600	95,600	95,600
Justice		General Elections, Petitions and By-Elections	0	0	0	0	0	0	0
Parliamentary Services	1	Civil List - Constituency Visits	53,742	145,928	170,200	170,200	170,200	170,200	170,200
Parliamentary Services	1	Parliamentary Sitting Expenses	297,226	321,913	150,000	150,000	150,000	150,000	150,000
Parliamentary Services	1	MP Travel and Allowances (local and overseas)	414,766	468,531	341,000	341,000	341,000	341,000	341,000
	1	QR Travel and Allowances (local and overseas)	117,499	109,000	109,000	109,000	109,000	109,000	109,000
Transport	2	Maritime Radio Coverage	0	0	79,000	79,000	79,000	79,000	79,000
Prime Minister's Office	3	Local Government Election	0	3,391	24,000	24,000	0	0	0
Foreign Affairs	5	International Maritime Organisation - Maritime Cook Islands	0	0	63,461	63,461	63,461	63,461	63,461
		Use of Goods and Services POBOCs	**978,833**	**1,131,554**	**1,032,261**	**1,032,261**	**1,008,261**	**1,008,261**	**1,008,261**
Subsidies									
Finance and Economic Management		Apex - Profit Guarantee	0	0	0	0	0	0	0
Cook Islands Investment Corporation	2	Bank of the Cook Islands - social assistance subsidy	120,000	53,871	128,000	128,000	128,000	128,000	128,000
Cook Islands Investment Corporation	2	Airport Authority subsidy	2,047,997	2,047,997	3,047,997	3,047,997	2,047,997	2,047,997	2,047,997
Cook Islands Investment Corporation	2	Ports Authority - subsidy	110,000	105,312	110,099	110,099	110,099	110,099	110,099
Cook Islands Investment Corporation	2	Te Aponga Uira - social assistance subsidy	380,000	380,000	0	0	0	380,000	380,000
Cook Islands Investment Corporation	2	Te Mana Uira o Araura - subsidy	0	0	500,000	500,000	0	0	0
		Subsidies POBOCs	**2,657,997**	**2,587,180**	**3,786,096**	**3,786,096**	**2,286,096**	**2,666,096**	**2,666,096**
Social Assistance									
Internal Affairs	1	Welfare Payments	19,035,449	19,259,278	20,007,261	20,007,261	20,269,454	20,379,580	20,497,189
		Social Assistance POBOCs	**19,035,449**	**19,259,278**	**20,007,261**	**20,007,261**	**20,269,454**	**20,379,580**	**20,497,189**
Other Expense									
Finance and Economic Management	2	Pacific Catastrophe Risk Insurance	153,139	151,768	160,000	160,000	160,000	160,000	160,000
Finance and Economic Management	2	BEPS Subscription	0	35,855	35,000	35,000	35,000	35,000	35,000
Foreign Affairs	5	International Subscriptions	627,194	636,204	890,000	890,000	890,000	890,000	890,000
Finance and Economic Management	2	CIG Insurance	70,578	100,001	180,000	180,000	40,000	40,000	40,000
		Other Expenses POBOCs	**850,911**	**923,828**	**1,265,000**	**1,265,000**	**1,125,000**	**1,125,000**	**1,125,000**
Grand Total			**26,261,581**	**27,007,403**	**29,568,499**	**29,568,499**	**28,176,692**	**28,666,818**	**28,784,427**

9.15 Schedule 9a – Debt Servicing Schedule ($'000)

Creditor	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Asian Development Bank (ADB)							
Principal	4,645	4,688	5,857	5,857	6,654	6,443	7,743
Interest	1,786	1,829	2,067	2,067	1,875	1,684	1,828
Total Debt Servicing to ADB	**6,431**	**6,517**	**7,924**	**7,924**	**8,529**	**8,127**	**9,570**
People's Republic of China (China)							
Principal	2,712	2,698	2,908	2,908	2,787	2,632	2,594
Interest	722	664	657	657	574	490	431
Total Debt Servicing to China	**3,434**	**3,362**	**3,566**	**3,566**	**3,362**	**3,122**	**3,025**
Gross Debt Servicing	**9,865**	**9,879**	**11,490**	**11,490**	**11,890**	**11,249**	**12,595**

9.16 Schedule 9b – Loan Reserve Fund (LRF) Schedule ($'000)

Transaction	2018/19 Actual	2019/20 Actual	2020/21 Budget Estimate	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Opening Balance in LRF	21277	20,922	20,458	20,458	9,549	9,740	9,934
Transfer into LRF by Government	9,362	9,864	0	0	12,817	9,708	17,208
Contribution to LRF - Principal	6,995	7,375	0	0	9,209	9,166	13,667
Contribution to LRF - Interest	2,367	2,489	0	0	3,607	3,387	3,459
Interest earned by LRF	426	0	409	409	191	195	199
Total inflows	**9,787**	**9,864**	**409**	**409**	**13,008**	**9,903**	**17,407**
Total Principal Paid out of LRF	7558	7,375	8,765	8,382	9,209	9,166	13,667
Total Interest Paid out of LRF	2524	2,489	2,725	2,936	3,607	3,387	3,459
	0	0	0	0	0	0	0
Total outflows	**10,082**	**9,864**	**11,490**	**11,318**	**12,817**	**12,553**	**17,126**
Valuation Adjustment							
Closing balance of LRF	**20,982**	**21,256**	**9,377**	**9,549**	**9,741**	**8,630**	**12,053**

9.17 Schedule 10 – Official Development Assistance Schedule

Agency	Development Partner	Programs/Projects by Agency	2018/19 Actual	2019/20 Actual	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget
		Cook Islands General Budget Support						
MFEM	New Zealand	Cook Islands Core Sector Support - Budget Support	7,700,000	7,825,000	7,925,000	7,825,000	7,825,000	0
MFEM	New Zealand	COVID-19: Pacific Financial Support Package	0	7,000,000	0	0	0	0
MFEM	New Zealand	COVID-19 Response - 2nd Phase Budget Support	0	0	15,000,000	0	0	0
MFEM	Australia	Cook Islands Budget Support	0	604,396	0	0	0	0
MFEM	China	COVID-19 Co-operation	0	0	82,658	0	0	0
		Total General Budget	**7,700,000**	**15,429,396**	**23,007,658**	**7,825,000**	**7,825,000**	**0**
		Recurrent ODA Expenditure						
MFEM	ADB	APDFR Grant Agreement	0	0	1,500,000	0	0	0
MFEM	New Zealand	Cook Islands Core Sector Support - TA Component	0	1,278,833	1,475,000	1,275,000	1,275,000	0
MFEM	India	India Grant Fund	61,651	16,524	680,000	0	0	0
MFEM	UNDP	Pacific Parliamentary Development Project	121,216	0	0	0	0	0
MOT	UNDP	Disaster Resilience for Small Pacific Islands (RESPAC Cook Islands)	0	30,131	40,000	0	0	0
MFEM	Japan	Grassroots Grant Fund	141,640	169,303	575,137	0	0	0
MFEM	Japan	JICA Training and Development	0	0	125,000	0	0	0
MFEM	Other	Aid Effectiveness	124,993	53,928	100,000	100,000	100,000	100,000
MMR	European Union	Sustainable Fisheries Partnership Agreement	60,712	220,193	593,220	0	0	0
OPM	New Zealand	NZ Volunteer Services Aboard	3,719,418	196,000	200,000	200,000	200,000	200,000
MMR	Japan	Japan Trust Fund	1,477,990	199,231	0	0	0	0
MMR	Forum Fisheries Agency	Project Development Fund - US Fisheries Treaty		16,000	206,439	206,439	206,439	206,439
MFAI	Forum Fisheries Agency	Project Development Fund - US Fisheries Treaty	553,293	0	30,303	30,303	30,303	30,303
MOH	WHO	WHO Biennium Budget Support	196,283	0	0	0	0	0
MOH	UNDP	Western Pacific Multi-country Integrated HIV/TB programme - UNDP	1,383,062	69,193	90,000	90,000	0	0
NES	Global Environment Facility	Ridge to Reef	0	1,296,986	1,497,693	0	0	0
NES	Global Environment Facility	Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands	114,000	120,430	0	0	0	0
OPM	Asian Development Bank	E-Government TA Support	0	111,504	178,788	0	0	0
OPM	Global Environment Facility	Preparation of the Third National Communication under UN Framework Convention on Climate Change (UNFCCC)	67,090	142,967	0	0	0	0
OPM	Global Environment Facility	Fourth National Communications - UNFCCC	26,047	0	213,000	213,000	213,000	213,000
MFEM	Green Climate Fund	Green Climate Fund Readiness	2,062,288	383,128	720,000	350,000	0	0
MFEM	Green Climate Fund	MOH Building Resilient and healthy Cook Islands Communities - SAP	0	0	0	0	0	0
MFEM	UN Adaptation Fund	Pa Enua Action for Resilient Livelihoods (PEARL)	40,011	1,063,815	1,702,526	809,094	0	0
ICI	SPC	Accurately Positioning Cook Islands (Modernising Cook Islands Positioning Infrastructures)	243,412	0	25,000	25,000	25,000	25,000
ICI	SPC	Strengthening Water Security of Vulnerable Islands States	297,131	0	150,000	250,000	0	0

Agency	Development Partner	Programs/Projects by Agency	2018/19 Actual	2019/20 Actual	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget
OPM	SPC	GCCA + SUPA	103,467	0	847,458	0	0	0
ICI	SPC	ICI COOKGEO GeoPortal	0	0	50,000	0	0	0
NES	UNDP	6th National Report to the Convention Biologicial Diversity	0	0	70,000	0	0	0
REDCROSS	Global Environment Facility	GEF Small Grants Programme	1,059,663	302,527	303,030	0	0	0
MFEM	Asian Development Bank	Cook Islands Emergency Response to COVID-19	0	0	151,515	0	0	0
MFEM	Asian Development Bank	Technical Assistance Support on COVID-19	0	0	409,091	0	0	0
MFAI	New Zealand	PACER Plus Outreach and Consultation	0	0	40,377	0	0	0
INTAFF	ILO	COVID-19 Support to Social and Economic Effects	0	0	67,394	0	0	0
INTAFF	ILO	Workplace Health and Safety & Workers Compensation	0	0	15,000	0	0	0
MFEM		Small Projects Grant funding	0	0	11,714,997	982,031	889,880	50,000
		Total Recurrent ODA Expenditure	**11,853,367**	**5,670,693**	**23,770,968**	**4,530,867**	**2,939,622**	**824,742**
		Capital ODA Expenditure						
CIIC	China	Chinese Building Repairs	0	0	0	0	0	0
MFEM	Japan	Non Project Grant Aid - Palmerston Cyclone Centre	114,000	14,651	0	0	0	0
MFEM	New Zealand	Manatua Polynesian Cable Project	126,832	5,212,925	9,787,075	0	0	0
MFEM	New Zealand	Mei Te Vai Ki Te Vai (MTVKTV)	0	3,124,896	1,544,814	0	0	0
MMR	New Zealand	Mei Te Vai Ki Te Vai (MTVKTV) - Environmental Investigation	4,124,992	0	142,000	0	0	0
MFEM	European Union	Budget Support to the Sanitation Sector	935,116	0	2,000,000	287,326	0	0
OPM	Global Environment Facility	Renewable Energy Grant (Southern Group)	101,496	268,968	1,100,365	83,074	0	0
OPM	Green Climate Fund	Renewable Energy Grant (Southern Group)	14,877	7,258,734	5,238,661	1,055,880	0	0
OPM	EU-German Development Cooperation	Northern Water Project Phase 2	271,943	21,200	0	0	0	0
MFEM	Japan	Economic Social Development Programme 2018	0	606,511	929,090	227,273	227,273	227,273
ICI	Japan	Japan Grassroots Human Security - Resource Recovery Centre Upgrades	1,507,370	178,391	0	0	0	0
MFEM	Japan	JICA Purpose-built shipping vessel for inter-island services TA Support	81,110	0	0	0	0	0
MOH	Japan	COVID-19 Response Assistance	0	0	1,546,100	0	0	0
MFEM	New Zealand	Assets Management	483,480	8,196,057	4,500,000	0	0	0
MFEM	New Zealand	Cook Islands Infrastructure Trust Fund	0	0	3,500,000	0	0	0
MFEM	New Zealand	Cook Islands Infrastructure Trust Fund - Rarotonga Airport Refurbishment	0	0	6,500,000	0	0	0
AA	New Zealand	Rarotonga Airport Upgrade Designs	0	0	994,000	0	0	0
		Total Capital ODA Expenditure	**7,761,216**	**24,882,333**	**37,782,105**	**1,653,553**	**227,273**	**227,273**
		Total NZD Equivalent ODA Funding	**27,314,583**	**45,982,421**	**84,560,731**	**14,009,420**	**10,991,895**	**1,052,015**
		Total NZD Equivalent ODA Funding - (excluding General Budget Support)	**19,614,583**	**30,553,026**	**61,553,073**	**6,184,420**	**3,166,895**	**1,052,015**

10 Financial Statements

10.1 Statement of Financial Performance

Statement of Financial Performance	2019/20 Actual	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Revenue					
Taxation Revenues	148,281	81,276	110,494	149,575	165,610
Trading Revenue	3,690	3,703	4,697	4,902	4,902
Interest Revenue	2,969	909	391	395	399
Dividends	960	500	1,836	2,056	2,241
Core Sector Support	8,429	7,925	7,825	7,825	0
Other Revenue	31,185	37,461	18,202	15,468	12,104
Total Revenue	***195,516***	***131,775***	***143,446***	***180,221***	***185,256***
Expenditure					
Crown Appropriation	141,918	189,630	128,521	127,704	127,595
Depreciation	9,204	13,137	13,137	13,137	13,137
Payments on Behalf of Crown	27,007	29,568	28,177	28,667	28,784
Debt-servicing interest	1,426	2,936	3,607	2,805	2,628
Other expenditure	636	150	150	150	150
Total Expenditure	***180,191***	***235,421***	***173,591***	***172,463***	***172,294***
NET OPERATING SURPLUS / (SHORTFALL)	***15,324***	***-103,647***	***-30,146***	***7,759***	***12,962***
Grants					
Foreign Aid Revenue	7,761	34,414	1,654	227	227
Foreign Aid Expenses	7,761	34,414	1,654	227	227
Grant Balance	***0***	***0***	***0***	***0***	***0***
Net Operating Balance after Grants	***15,324***	***-103,647***	***-30,146***	***7,759***	***12,962***

10.2 Statement of Financial Position

	2019/20 Actual	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Assets					
Working Capital Fund	9,267	11,155	-48,258	-63,459	-71,826
Stablisation Fund	56,700	0	0	0	0
General Cash Reserves	65,967	11,155	-48,258	-63,459	-71,826
Loan Repayment Fund	20,458	9,549	9,740	9,934	10,133
Disaster Response Trust Fund	1,928	1,978	2,028	2,078	2,128
Other Trust Funds	61,190	49,190	49,190	49,190	49,190
Othe Assets	27,066	27,066	27,066	27,066	27,066
Advances to SOEs	41,775	49,260	49,260	48,301	47,295
Plant, property, and equipment	273,789	341,239	362,709	377,444	386,090
Total Assets	***492,173***	***489,436***	***451,735***	***450,554***	***450,077***
Liabilities					
Creditors and other payables	15,730	15,730	15,730	15,730	15,730
Trust liabilities	60,970	48,970	48,970	48,970	48,970
Borrowings	106,728	182,399	171,632	162,131	147,936
Total Liabilities	***183,428***	***247,099***	***236,332***	***226,831***	***212,636***
Net Crown Balance	***308,745***	***242,338***	***215,402***	***223,723***	***237,441***

10.3 Statement of Borrowings

	2019/20 Actual	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Total Gross Borrowing	***106,728***	***185,190***	***174,191***	***164,457***	***150,029***
Assets held against Borrowings					
Advances to Subsidiaries	41,775	49,260	49,260	48,301	47,295
Loan Repayment Fund (LRF)	20,458	9,549	9,740	9,934	10,133
Total Assets Held Against Borrowings	***47,818***	***58,809***	***59,000***	***58,236***	***57,428***
Total Net Borrowing	***64,784***	***126,381***	***115,192***	***106,222***	***92,601***

10.4 Statement of Cashflow

	2019/20 Actual	2020/21 HYEFU Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Cashflows from Operating Activities					
Cash provided from:					
Taxation Revenues	148,281	81,276	110,494	149,575	165,610
Trading Revenue	3,690	3,703	4,697	4,902	4,902
Interest Revenue	2,969	500	200	200	200
Foreign Aid Income	15,522	72,196	3,307	455	455
Core Sector Support	8,429	7,925	7,825	7,825	0
Other Revenue	31,185	37,461	18,202	15,468	12,104
	210,078	*203,062*	*144,726*	*178,425*	*183,271*
Cash applied to:					
Crown Appropriation	141,918	189,630	128,521	127,704	127,595
Depreciation	0	0	0	0	0
Payments on Behalf of the Crown	27,007	29,568	28,177	28,667	28,784
Foreign Aid Expense	7,761	34,414	1,654	227	227
Net Debt-Servicing Interest	0	0	0	0	0
Other Expenditure	636	150	150	150	150
	177,323	253,763	158,501	156,748	156,757
Net Cashflows from Operating Activities	***32,755***	***-50,701***	***-13,775***	***21,677***	***26,514***
Cashflows from Financing Activities					
Cash provided from:					
Subsidiary Loan Repayments	360	0	0	1,541	1,837
Other Investment Receipts	960	500	1,836	2,056	2,241
	1,320	***500***	***1,836***	***3,597***	***4,078***
Cash applied to:					
Capital expenditure	39,073	42,804	32,954	27,644	21,556
Capital expenditure - foreign aid	7,761	37,782	1,654	227	227
Advances to Subsidiaries	17,282	7,485	0	0	0
	64,116	***88,071***	***34,608***	***27,871***	***21,783***
Net Cashflows from Investing Activities	***-62,796***	***-87,571***	***-32,772***	***-24,275***	***-17,705***
Cashflows from Financing Activities					
Cash provided from:					
Loans Drawdown	17,282	83,510	0	0	0
Other Financing Receipts	0	0	0	0	0
	17,282	***83,510***	***0***	***0***	***0***
Cash applied to:					
Loan Repayment Fund	9,171	0	12,817	12,553	17,126
Other Reserves	50	50	50	50	50
Other Financing Payments	0	0	0	0	0
	9,221	***50***	***12,867***	***12,603***	***17,176***
Net Cashflows from Financing Activities	***8,061***	***83,460***	***-12,867***	***-12,603***	***-17,176***
Net cash movements	-21,980	-54,812	-59,413	-15,201	-8,367
Opening General Cash Balance	87,948	65,967	11,155	-48,258	-63,459
Closing General Cash Reserve	***65,967***	***11,155***	***-48,258***	***-63,459***	***-71,826***

10.5 Statement of Financial Risks

Quantifiable Contingent Liabilities	('000)
Guarantees and indemnities	50
Uncalled capital	2,500
Legal proceedings and disputes	8,800
Land Compensation	550
Vested interests	14,900
Total Quantifiable Contingent Liabilities	**26,800**

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.

10.5.1.1 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 $0.5 million as security for loans associated with the Pearl Production Credit Scheme. The full guarantee has been included as a contingent liability.

10.5.1.2 Uncalled Capital

Uncalled capital relates to shares in the Asian Development Bank – Coo k Islands Government Property Corporation owns 88 uncalled shares with a par value of US$13,500 each.

10.5.1.3 Legal Proceedings and Disputes

Total quantifiable risk to the Crown under legal proceedings and disputes is $4.1 million.

10.5.1.4 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.

11 Statement of Accounting Policies

There have been no changes since the Fiscal Update 2020/2021. There are no major changes to accounting policies anticipated in the foreseeable future.

11.1 Basis of Preparation

11.1.1 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

11.1.2 Statement of Compliance

These financial statements in Chapter 10 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).

11.1.3 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.

11.2 Significant Accounting Policies

The following accounting policies, which significantly affect the measurement of financial performance, financial position and cash flows have been applied.

11.2.1 Recent Standards

Of significant relevance to the Crown is the current development of new standards at the IPSAS Board. No new standards have been issued for the 2014/15 period by the board.

STANDARDS	EFFECTIVE DATE
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

11.2.2 Basis of Consolidation

The Government Ministries, Public Enterprises and Other Authorities (including State Owned Enterprises (SOE's)) 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.

11.2.3 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.

11.2.4 Revenue

Revenue is measured at fair value of the consideration received or receivable.

11.2.4.1 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 revenue is 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 is recognised as revenue
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.

11.2.5 Revenue Earned Through Operations

Revenue from sales of goods is recognised when the product is sold to the customer.

11.2.5.1 Fines

Fines are economic benefits or services potentially 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.

11.2.5.2 Investment Income

Investment income is earned from the leasing or rental of Crown assets to third parties that is neither a Crown entity nor a Crown related party. Investment income is recognised in the period in which it is earned.

11.2.5.3 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.

11.2.5.4 Dividends

Dividends are recognised when the right to receive the payment has been established.

11.2.5.5 Aid (Development Partners) Revenue

Revenue is recognised when donor funds are expensed on approved projects and upon receipt of aid donated assets.

11.2.6 Expenses

Expenses are recognised when incurred and are reported in the financial period to which they relate.

11.2.6.1 Welfare Benefits

Welfare benefits are recognised in the period to which the payment of these benefits relates to.

11.2.6.2 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.

11.2.6.3 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.

11.2.6.4 Foreign Currencies

Transactions in foreign currencies are translated into New Zealand dollar (NZD) 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 Comprehensive Revenue and Expenses.

Any monetary assets and monetary liabilities held at year end are translated at the exchange rate at the balance sheet date.

11.2.6.5 Aid Expenses

Expenses are recognised when incurred on approved projects and are reported in the financial period to which they relate.

11.2.6.6 Depreciation

Each part of an item of plant. Property, and equipment with a cost 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 value over their estimated useful lives. Typically, the estimated useful lives for various asset types are follows:

Asset Type	Useful Life
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	20 - 40 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
Plant and equipment tools	4 – 5 years
Marine equipment	5 years
Specialised buildings and other buildings	15 years

11.2.7 Non-Current Assets

11.2.7.1 Plant, Property, and Equipment

Plant, property and equipment is 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.

11.2.7.2 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 Comprehensive Revenue and Expenses.

11.2.7.3 Impairment

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Statement of Comprehensive Revenue and Expenses.

11.2.7.4 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.

11.2.7.5 Work in Progress

Work in Progress is recognised as cost less impairment and is not depreciated.

11.2.7.6 Infrastructure Assets

Infrastructure assets are recorded at cost less accumulated depreciation.

Infrastructure assets are accounted for the same way as property, plant and equipment

Infrastructure assets include: road networks, water networks, power distribution networks, coastal protection systems, harbour and ports structures, waste management and airport assets. When an infrastructure asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Comprehensive Revenue and Expenses.

11.2.7.7 Intangible Assets

Intangible assets are software acquisition costs and are recorded at cost less accumulated amortisation and accumulated impairment losses.

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 Comprehensive Revenue and Expenses.

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:

Asset Type	Useful Life
Software, databases	3 - 5 years

11.2.7.8 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. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

11.2.7.9 Debtors and other receivables

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 Comprehensive Revenue and Expenses.

Tax receivables have been calculated on a subsequent receipt bases. All tax revenue received in the years subsequent to 30 June 2015 has been disclosed as tax receivables at year end

11.2.7.10 Inventories

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis are 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.

11.2.7.11 Investments

Investments in associates are accounted for in the consolidated financial statements using the equity method. That is, investments in associates are 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.

11.2.7.12 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.

11.2.7.13 Provision for doubtful debts

Provision is made for taxation debt where recovery is considered doubtful.

Provision is made for banking portfolio Investments (specific loans) where recovery is considered doubtful or they have become non-performing. The accounting policy relating to measuring the impairment of loans and advances requires the Bank to assess impairment at least at each reporting date. The credit provisions raised represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement and in accordance with the Financial Supervisory Commission's (FSC) guidelines. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability. Management regularly reviews and adjusts the estimates and methodologies as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of provision and impairment. 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.

11.2.7.14 Aid (Development Partner) Assets

Donor funds are deposited into bank accounts until expensed on approved assets. Where an asset is acquired at no cost, or is donated for use by the Crown or other Crown entity, it is recognised at fair value as at the date of acquisition.

11.2.8 Liabilities

11.2.8.1 Borrowings

Borrowing liabilities are accounted for at amortised cost on the Statement of Financial Position. Any changes are recognised in the Statement of Comprehensive Revenue and Expenses. Borrowings or the proportion of borrowings expected to be settled within 12 months of balance date are disclosed as current liabilities in the statement of the financial position. All other borrowings are disclosed as non-current liabilities.

11.2.8.2 Pension Liabilities

Pension liabilities, in respect of the contributory service of current and past Members of Parliament, are recorded at the latest (30 June 1997) actuarial value of the Crown's liability for pension payments. There are no pension liabilities accruing to the Crown as a result of Government employees' membership of the Government Superannuation Fund (New Zealand).

11.2.8.3 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 Comprehensive Revenue and Expenses as revenue.

11.2.8.4 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.

11.2.8.5 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 and is provided for on a pro-rata basis in the statement of financial position. Annual leave and long service leave to be settled within 12 months of the balance date, are classified as current liability. All other employee entitlements are classified as a non-current liability.

11.2.9 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. Included in the cash flow statement 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.

Operating activities identify 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. The direct cash flow method has been applied.

11.2.10 Leases

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incidental to the ownership of an 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. Operating leases are recognised as an expense in the Statement of Comprehensive Revenue and Expenses in the periods in which they are incurred.

The cost of leasehold improvements is capitalised and amortised over the lesser of the leasehold improvements useful life or the original lease term.

11.2.11 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.

11.2.12 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.

11.2.13 Changes in Accounting Policies

There have been no changes to the accounting policies. All policies were applied on a consistent basis with the prior year.