# CITIZENS BUDGET GUIDE

## THE CITIZENS BUDGET GUIDE - A SNAPSHOT OF THE COOK ISLANDS NATIONAL BUDGET

**Kia Orana. The 2017/18 Budget has been developed to invest in our people, invest in our infrastructure and invest in our capacity as a nation. Despite these large investments this Government is still forecasting operating surpluses across the coming years. These operating surpluses will be channelled into capital projects that will directly improve the lives of the Cook Islands' people and help our economy develop.**

**Our Government is committed to improving the transparency of the budget by providing a high level of detail in our Budget Books and communicating our budget initiatives with the community. This enables both national and international scrutiny.**

**Full details of the 2017/18 Budget are online at www.mfem.gov.ck. Some highlights include:**

- **$2.3 million** to increase the **minimum wage** and provide **salary adjustments** for government employees within the government pay banding structure. An additional $400,000 is being provided to allow Agencies to provide performance-based pay increases to top performing staff.
- **$1.4 million** to increase the **Child Benefit payment** from $66 to $100 per month. The Child Benefit is also being extended to the age of 15 for children with disabilities.
- **$130,000** to remunerate teacher aides who provide **inclusive education** for special needs children.
- **$1.5 million** for the settlement of outstanding **land rent reviews** and land tagged for capital projects.
- **$500,000** to refund taxpayers for any tax penalties paid from 1 January to 31 July 2017 as part of the **Tax Amnesty**.
- **$600,000** for the **Social Impact Fund** which aims to assist NGOs in delivering services for women, youth, children and people with disabilities.
- **$85,000** for the development of a **Dental Health Therapy Certification** to train dental personnel to provide quality oral health care for our people in Rarotonga and the Pa Enua.

**Approximately $44 million will be invested in infrastructure for Rarotonga and the Pa Enua. Key infrastructure projects include:**

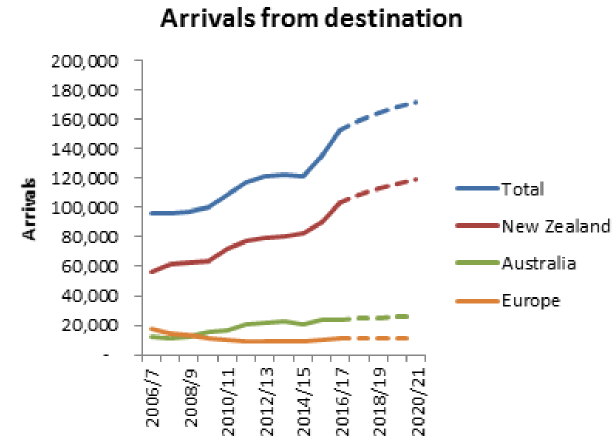
- **$2.8 million** for the **Aitutaki Renewable Energy Project.**
- **$10.9 million** for the **Manatua Polynesian Cable** to improve the speed and quality of our internet.
- **$300,000** for the construction of the **Apii Nikao** School.
- **$13 million** for Stage 2 of the **Te Mato Vai** project.
- **$2 million** for **Mei Te Vai Ki Te Vai** (Muri Sanitation).
- **$250,000** to purchase an **incinerator** for the Ministry of Health.
- **$150,000** to purchase an **ambulance** for the Ministry of Health.
- **$2.4 million** for the establishment of **cyclone shelters** in the Northern Group in 2017/18 and 2018/19.
- **$1 million** for the implementation of the **Financial Management Information System** over 3 years.
- **$1.5 million** for investment in **water projects** on Rarotonga and in the Outer Islands.
- **$3.4 million** for major **road projects** on Rarotonga and the Outer Islands.

Kia Manuia,

Hon. Mark Brown
Minister of Finance

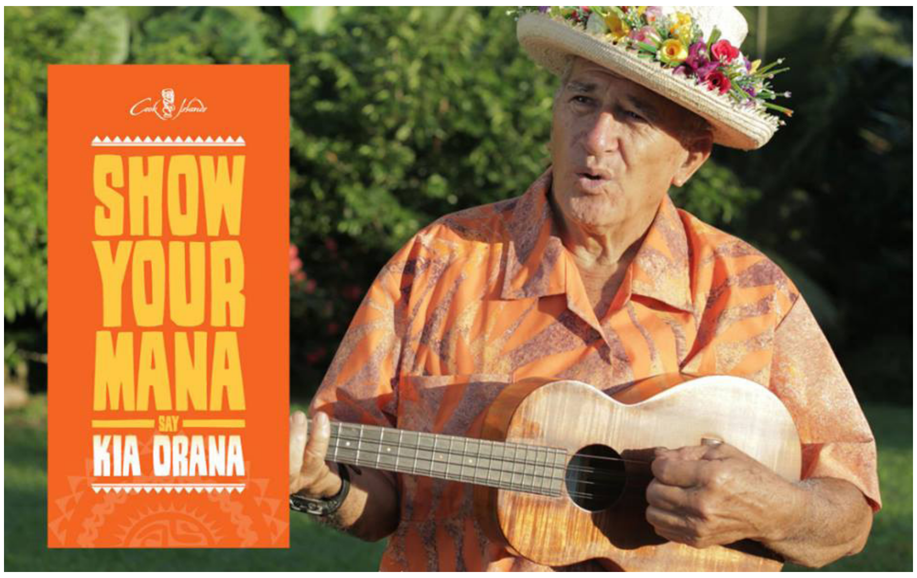
**ECONOMIC GROWTH IN 2016/17 WAS LARGELY DRIVEN BY STRONG TOURISM NUMBERS;** this is also starting to have an impact on other sectors of the economy, for example construction. High building approvals to date, and the Government's capital plan, are expected to maintain growth in construction going forward.

Economic growth is expected to remain positive, buoyed by continued growth in visitor numbers and capital spending. In 2017/18, economic growth is estimated to be 3.6 per cent. Key risks include a reduction in visitor arrivals, increases in oil prices and delays in the implementation of capital projects. If any of these occurred, economic growth may be lower than expected.




Strong growth in tourist arrivals in 2016/17 has ensured that tourism remains the centre of economic activity in the Cook Islands. The tourism market saw growth of 11 per cent in 2015/16 and 14.9 per cent in 2016/17, reaching 155,000 visitor arrivals. Visitor arrivals for 2017/18 are now estimated to reach just over 160,000, growth of around 5 per cent.

Despite the strong growth in tourism arrivals, the industry faces limits on the number of arrivals that it can cater for mainly due to the current standard of public infrastructure and historical limitations on the amount of accommodation available. To ensure that higher visitor levels are sustainable, further investment is needed in general and accommodation infrastructure development, particularly on Rarotonga, although some progress is being seen in this area.




**Cook Islands local inflation, as measure by consumer prices, is expected to remain low.** Prices were expected to be 0.0 per cent in 2016/17– very low by historical standards. Going forward, CPI growth is expected to increase slightly in 2017/18 to 1.3 per cent. Beyond that inflation is expected to hover between 1 and 1.5 per cent.

### OPERATING BALANCE (DO TODAY'S REVENUES MEET OUR DAY-TO-DAY COSTS?)

**A Healthy operating position**

In 2016/17 the Budget was in an operating surplus (revenue greater than expenditure) of an estimated $23.3 million. This was largely driven by higher than expected tourist arrivals which increased the Government's tax collections, relative to the 2016/17 Half Year Economic Fiscal Update (HYEFU).

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**Summary of Key Economic Indicators**

| | 2016/17 Est. Actual | 2017/18 Budget | 2018/19 Projection | 2019/20 Projection | 2020/21 Projection |
|---|---|---|---|---|---|
| **Economic Activity** | | | | | |
| Nominal GDP ($'000) | 431,589 | 447,269 | 458,222 | 468,854 | 479,591 |
| *Percentage change (YOY)* | *4.0* | *3.6* | *2.1* | *2.3* | *2.3* |
| Real GDP (at Constant 2006 Prices, $'000) | 343,660 | 352,691 | 360,868 | 364,056 | 367,698 |
| *Percentage change (YOY)* | *4.2* | *2.6* | *2.3* | *0.9* | *1.0* |
| **Inflation** | | | | | |
| *Percentage change (YOY)* | *0.0* | *1.3* | *1.0* | *1.5* | *1.4* |
| **Tourism arrivals** | | | | | |
| Visitor Arrivals | 155,230 | 162,000 | 167,000 | 170,000 | 172,000 |
| *Percentage change (YOY)* | *14.9* | *5.0* | *3.1* | *2.1* | *1.7* |
| Estimated Visitor Expenditures ($'000) | 315,233 | 329,238 | 342,763 | 355,158 | 366,299 |
| **External Sector** | | | | | |
| Total Trade Surplus ($'000) | 157,025 | 165,744 | 181,698 | 197,129 | 206,395 |
| **Financial Sector (at end of financial year)** | | | | | |
| Government Net Debt Position ($'000) | 111,400 | 130,300 | 123,800 | 116,700 | 110,700 |

In 2017/18, it is estimated that the operating surplus will be $4.2 million because of an expected increase in fishing revenue in 2017/18 and an increase in the total collection of taxes (despite decreases in some taxes collections due to the tax amnesty). Going forward, changes in expenditure and revenue estimates are predicted to result in an operating surplus of 2.1 per cent of GDP in 2018/19, which grows going forward.

### FISCAL BALANCE (DO TODAY'S REVENUES MEET OUR DAY-TO-DAY COSTS AND OUR INVESTMENT COSTS?)

#### A Capital investment Budget

2017/18 is an investment Budget, previous savings and future operating surpluses will be invested in capital projects over three years. As a result, the fiscal balance in 2017/18 is estimated to be a deficit of $27.9 million. This will be financed by a combination of concessional loans and the use of cash reserves.

The fiscal position is expected to improve in 2019/20 and 2020/21, as capital projects such as Te Mato Vai, Manatua Polynesian Cable and Mei Te Vai Ki Te Vai (Muri Water Sanitation) come to an end.

**Summary of Key Budget Indicators ($m)**

| Statement of Financial Performance | 2016/17 Estimate | 2017/18 Budget | 2018/19 Projection | 2019/20 Projection | 2020/21 Projection |
|---|---|---|---|---|---|
| **Total Operating Revenue** | **158.6** | **154.5** | **150.0** | **153.3** | **155.7** |
| *Of which: Taxation Revenue* | *119.9* | *118.4* | *121.8* | *125.1* | *127.7* |
| **Total Operating Expenditure** | **135.4** | **149.7** | **140.4** | **139.5** | **137.1** |
| *Of which: Personnel* | *53.5* | *58.9* | *57.0* | *57.2* | *56.6* |
| **Operating Balance** | **23.2** | **4.2** | **9.6** | **13.8** | **18.6** |
| *As a percentage of GDP* | *5.4* | *0.9* | *2.1* | *2.9* | *3.9* |
| Cook Islands Government Capital Expenditure | 26.7 | 44.9 | 40.7 | 24.6 | 16.1 |
| **Fiscal Balance surplus/deficit ($m) *** | **6.7** | **-27.9** | **-18.2** | **2.1** | **15.5** |
| *Percentage of GDP* | *1.5* | *-6.2* | *-4.0* | *0.4* | *3.2* |
| **Statement of Financial Position ($m)** | | | | | |
| Unallocated Cash & Equivalents ($m) | 46.4 | 23.8 | 9.6 | 5.7 | 13.6 |
| *Cash & Equivalents (months coverage)* | *4.5* | *2.1* | *0.9* | *0.5* | *1.3* |
| **Statement of Borrowings ($m)** | | | | | |
| Net Crown Debt, end of FY ($m) | 111.4 | 130.3 | 123.8 | 116.7 | 110.7 |
| *As a percentage of GDP* | *25.8* | *29.1* | *27.0* | *24.9* | *23.1* |
| Loan Repayment Reserves Held ($m) | 18.3 | 19.9 | 19.6 | 19.2 | 17.3 |
| **Development Partner Support ($m)** | | | | | |
| Grants ($m) | 65.9 | 69.4 | 32.0 | 15.3 | 0.42 |
| *As a percentage of GDP* | *15.3* | *15.5* | *7.0* | *3.3* | *0.1* |

### UNALLOCATED CASH AND EQUIVALENTS (HOW MUCH CASH IS NOT IN TRUST ACCOUNTS OR LOAN RESERVES?)

#### Prudent reserves on hand

Due to healthy operating surplus in 2016/17, unallocated cash reserves are estimated to be $23.8 million in 2017/18. These reserves are kept on hand as insurance in case of a catastrophe such as Disaster Risk Management (DRM) Facility of USD10 million and Pacific Catastrophe Insurance of USD2.7 million.

This cash reserve slowly declines to $5.7 million in 2019/20 due to the use of cash to pay for the Government's significant capital investment, but it is expected to recover going forward once capital spending slows.

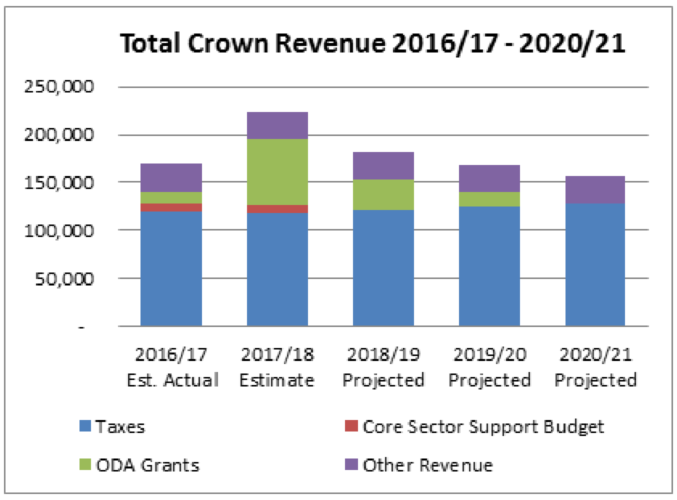
### DEBT, NET OF THE LOAN RESERVE (HOW MUCH DOES THE GOVERNMENT OWE, MINUS ANY PRE-PAYMENTS?)

#### Room to invest

The current level of debt after savings is estimated to be 29.1 per cent of GDP in 2017/18, with almost all of this debt being held by official creditors (the Asian Development Bank, China, and France). The debt to GDP ratio declines' moving forward, as debt is paid off every year and GDP continues to rise.

#### Revenue and grants

Total tax revenue is estimated to be $118.4 million in 2017/18. Of this, Value Added Tax is expected to make the largest contribution of $58.7 million, while income and company tax contribute $23.1 and $12.9 million respectively. In addition, $12.7 million is expected to be received from fishing revenues which is relatively new but an important source of revenue.




Government revenue is complemented by $7.8 million from the New Zealand Government for the Ministry of Health, Education and Cook Islands Tourism Corporation, as well as $69.9 million in other donor grants.

New Zealand is the largest development partner, with a total contribution of $40.3 million in 2017/18. China has become increasingly important as they contribute $11.6 million in 2017/18.

#### Expenditure

Total Government Expenditure is divided across numerous functions of Government. Economic affairs is by far the largest area of total public expenditure at 34 per cent. This is driven by tourism, energy and infrastructure expenditure by the Government and donor partners.

Education receives 11 per cent of Government expenditure. This is driven mainly by Government expenditure and funding made available by the Chinese and New Zealand Governments for the construction of Apii Nikao and Tereora.

Other major areas of spending are general public services at 26 per cent, housing and community amenities (which includes housing development, water supply and street lighting) at 10 per cent, social protection (social welfare) at 8 per cent and health at 6 per cent.