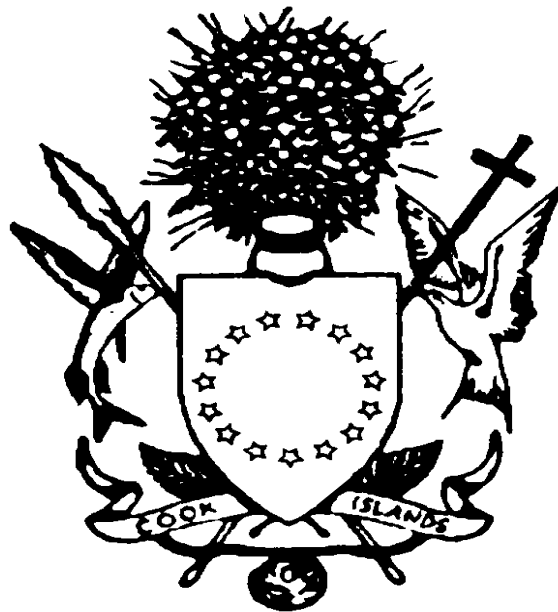

COOK ISLANDS GOVERNMENT BUDGET ESTIMATES

2019/20

Book 1 Appropriation Bill Appropriations and Commentary



Hon. Mark Brown
Minister of Finance
JUNE 2019

Table of Contents

| | | |
|----------|--|-----------|
| 1 | Statement of Responsibility | 1 |
| 2 | Appropriation Bill 2019 | 3 |
| 3 | Budget Overview | 10 |
| 3.1 | Summary | 10 |
| 3.2 | Economic performance and outlook | 10 |
| 3.3 | Fiscal performance and outlook | 11 |
| 4 | Fiscal Strategy..... | 13 |
| 4.1 | The Cook Islands Fiscal Framework 2019/20–2022/23 | 13 |
| 4.2 | Medium-term Fiscal Strategy..... | 14 |
| 4.3 | Performance against the fiscal rules..... | 15 |
| 4.4 | Establishment of reserve funds | 18 |
| 4.5 | Medium-term expenditure ceilings | 19 |
| 4.6 | Medium-term national priorities | 20 |
| 4.7 | Medium-term fiscal outlook | 23 |
| 4.8 | Fiscal update | 25 |
| 4.9 | Assumptions underlying the economic and fiscal projections | 31 |
| 4.10 | Economic and fiscal risks..... | 32 |
| 4.11 | Economic and fiscal sensitivity analysis..... | 36 |
| 5 | Economic Update..... | 42 |
| 5.1 | Summary | 42 |
| 5.2 | The global economy | 43 |
| 5.3 | Cook Islands Economic Output | 48 |
| 5.4 | Consumer price index | 51 |
| 5.5 | Tourism | 56 |
| 5.6 | Housing and construction | 62 |
| 5.7 | Marine resources | 64 |
| 5.8 | Agriculture | 69 |
| 5.9 | Goods imports and exports..... | 71 |
| 5.10 | Banking and finance..... | 75 |
| 5.11 | Financial services industry | 76 |
| 6 | Government Financial Statistics Statement..... | 80 |
| 6.1 | GFS Net Operating Balance | 81 |
| 6.2 | GFS Non-Operating Items | 83 |
| 6.3 | Classification of Functions of Government (COFOG)..... | 83 |
| 7 | Revenue | 86 |
| 7.1 | Total revenue | 86 |
| 7.2 | Revenue Initiatives for the 2019/20 – 2022/23 medium-term | 87 |
| 7.3 | Taxes | 87 |

| | | |
|-----------|--|------------|
| 8 | Expenditure | 96 |
| 8.1 | Operating expenditure..... | 96 |
| 8.2 | Changes to expenditure since the 2018/19 Supplementary Budget..... | 97 |
| 8.3 | Payments on Behalf of the Crown (POBOC) | 112 |
| 8.4 | Parliamentary Entitlements and House of Ariki..... | 112 |
| 8.5 | Welfare Payments..... | 115 |
| 9 | Cook Islands Capital Expenditure..... | 118 |
| 9.1 | Summary | 118 |
| 9.2 | Capital Spending by Agency | 120 |
| 10 | Tax Exemptions (Expenditure)..... | 132 |
| 10.1 | Introduction | 132 |
| 10.2 | Import duty | 132 |
| 10.3 | Income tax..... | 133 |
| 10.4 | Value-added tax | 134 |
| 11 | Crown Debt and Net Worth..... | 135 |
| 11.1 | The Loan Repayment Fund (LRF) | 135 |
| 11.2 | Gross Debt owed by the Crown | 136 |
| 11.3 | Gross Debt by Currency | 138 |
| 11.4 | Gross Debt by Lenders | 141 |
| 11.5 | Gross Debt by Source..... | 143 |
| 11.6 | Net Debt..... | 143 |
| 11.7 | Debt Headroom | 144 |
| 11.8 | Crown Debt Sensitivity Analysis..... | 146 |
| 11.9 | Long term debt projections and fiscal risks | 147 |
| 11.10 | State Owned Enterprise Debt | 147 |
| 11.11 | Net worth | 148 |
| 12 | National Sustainable Development Plan (NSDP) 2016-2020..... | 149 |
| 12.1 | Measuring our progress – a scorecard for development | 149 |
| 12.2 | Investment by NSDP goal priorities for the 2019/20 and the medium term | 152 |
| 12.3 | Expenditure by Budget Policy Statement 2019/20 goal | 154 |
| 13 | State-owned Enterprises..... | 163 |
| 13.1 | CIIC | 163 |
| 13.2 | Airport Authority..... | 163 |
| 13.3 | Avaroa Cable Limited (ACL)..... | 164 |
| 13.4 | Bank of the Cook Islands (BCI) | 164 |
| 13.5 | Ports Authority..... | 165 |
| 13.6 | Te Aponga Uira..... | 166 |
| 13.7 | To Tatou Vai Limited | 167 |
| 14 | Public Sector Staffing | 168 |
| 14.1 | Introduction | 168 |
| 14.2 | Public sector employee numbers..... | 170 |
| 14.3 | Public sector age profile..... | 173 |
| 14.4 | 3.3 Public sector remuneration profile | 173 |
| 14.5 | Public sector strengthening – Our journey to excellence | 174 |
| 14.6 | Introduction | 174 |

| | | |
|-----------|---|------------|
| 15 | The Pa Enea | 176 |
| 15.1 | The Pa Enea Funding Model | 176 |
| 15.2 | 2019/20 Pa Enea Funding Model results | 178 |
| 15.3 | Other agency support targeting the Pa Enea | 179 |
| 15.4 | The Pa Enea economic context | 183 |
| 16 | Official Development Assistance | 187 |
| 16.1 | Summary | 187 |
| 16.2 | Cook Islands ODA Budget by development partner | 189 |
| 16.3 | Ministry of Finance and Economic Management | 191 |
| 16.4 | Ministry of Health | 198 |
| 16.5 | Ministry of Marine Resources | 199 |
| 16.6 | National Environment Services | 200 |
| 16.7 | Infrastructure Cook Islands | 200 |
| 16.8 | Office of the Prime Minister (OPM) | 201 |
| 16.9 | Cook Islands Red Cross Society | 202 |
| 17 | Schedules | 203 |
| 17.2 | Schedule 1 – Agency Budget Appropriations | 205 |
| 17.3 | Schedule 2 – Payments on Behalf of the crown (POBOCs) | 207 |
| 17.4 | Schedule 3 – Cook Islands Capital Spending | 207 |
| 17.5 | Schedule 4 – Official Development Assistance | 208 |
| 17.6 | Schedule 5a – Other Expenses and Financing Transactions | 208 |
| 17.7 | Schedule 5b – Loan Repayment Fund Appropriation | 208 |
| 17.8 | Summary | 208 |
| 17.9 | Schedule 6 – Capital Schedule | 209 |
| 17.10 | Schedule 7 – Revenues on Behalf of the Crown (ROBOCs) | 213 |
| 17.11 | Schedule 8a – Administered Payments | 215 |
| 17.12 | Schedule 8b – Payments on Behalf of Crown (POBOCs) | 219 |
| 17.13 | Schedule 9a – Debt Servicing Schedule (\$'000) | 220 |
| 17.14 | Schedule 9b – Loan Repayment Fund (LRF) Schedule (\$'000) | 220 |
| 17.15 | Schedule 10 – Official Development Assistance Schedule | 221 |
| 17.16 | Schedule 11 – Comparative Analysis of Ministry Appropriations | 223 |
| 17.17 | Schedule 12 – Output Analysis | 225 |
| 18 | Financial Statements | 232 |
| 18.1 | Statement of Financial Performance | 232 |
| 18.2 | Statement of Financial Position | 233 |
| 18.3 | Statement of Cashflows | 234 |
| 18.4 | Statement of Borrowings | 235 |
| 19 | Statement of Accounting Policies | 236 |
| 19.1 | Basis of preparation | 236 |
| 19.2 | Significant accounting policies | 236 |

List of Tables

| | |
|---|----|
| Table 3-1 Summary fiscal statement, 2019/20 to 2022/23 | 12 |
| Table 3-2 Fiscal rules performance | 12 |
| Table 4-1 Expenditure profile performance | 19 |
| Table 4-2 Aggregate ceiling breakdown, \$ million..... | 20 |
| Table 4-3 Summary of Operating and Capital Initiatives (\$000's) | 22 |
| Table 4-4 Fiscal Indicators Summary | 25 |
| Table 4-5 Reconciliation of Operating Statement (\$000) | 27 |
| Table 4-6 Operating revenue, 2017/18 to 2022/23 (\$'000) | 28 |
| Table 4-7 Operating expenditure, 2017/18 to 2022/23(\$'000)..... | 29 |
| Table 4-8 CI&G Capital expenditure, 2017/18 to 2022/23 (\$'000) | 30 |
| Table 4-9 Significant cyclones in the Cook Islands..... | 34 |
| Table 4-10 Quantifiable contingent liabilities, as at 30 June | 35 |
| Table 4-11 Low revenue shock | 37 |
| Table 4-12 High revenue shock..... | 37 |
| Table 4-13 Higher OpEx shock | 38 |
| Table 4-14 Lower capex shock | 38 |
| Table 4-15 Lower GDP shock | 39 |
| Table 4-16 Lower arrivals shock..... | 39 |
| Table 4-17 Base exchange rates assumptions used in 2019/20 Budget, +/- 10 per cent..... | 39 |
| Table 5-1 Summary of Economic Indicators | 43 |
| Table 5-2 Annual GDP growth summary..... | 51 |
| Table 5-3 Annual CPI forecast summary..... | 56 |
| Table 5-4 Estimated total arrivals, quarterly, 2018/19 to 2022/23..... | 58 |
| Table 5-5 Forecast total tourism numbers, by major market, 2018/19 to 2022/23 | 59 |
| Table 5-6 Fishery catches in the Cook Islands EEZ by species (MT)..... | 66 |
| Table 5-7 Number of active fishing vessels..... | 66 |
| Table 5-8 Catch landed at Avatiu Port (MT)..... | 66 |
| Table 6-1 GFS Statement | 80 |
| Table 6-2 Total GFS expenditure from 2018/19 to 2022/23 (\$'000) | 82 |
| Table 6-3 Classification of Functions of Cook Island Government 2019/20 Budget | 84 |
| Table 7-1 Total Crown Revenue 2019/20 to 2022/23 (\$'000) | 86 |
| Table 7-2 Changes to Revenue Estimates 2019/20 – 2022/23 (\$'000)..... | 87 |
| Table 7-3 Total direct taxation 2018/19 to 2022/23 (\$'000) | 88 |
| Table 7-4 Total indirect taxation 2018/19 to 2022/23(\$'000) | 90 |

| | |
|---|-----|
| Table 7-5 Social contributions 2018/19 to 2022/23 (\$'000)..... | 90 |
| Table 7-6 Grants 2018/19 to 2022/23 (\$'000) | 91 |
| Table 7-7 Total interest 2018/19 to 2022/23 (\$'000) | 91 |
| Table 7-8 Total dividends 2018/19 to 2022/23 (\$'000) | 92 |
| Table 7-9 Administrative fees 2018/19 to 2022/23 (\$'000) | 93 |
| Table 7-10 Incidental sales by non-market establishments 2018/19 to 2022/23 (\$'000)..... | 95 |
| Table 7-11 Fines, Penalties and forfeits 2018/19 to 2022/23 (\$'000) | 95 |
| Table 7-12 Miscellaneous and Unidentified revenue 2018/19 to 2022/23 (\$'000) | 95 |
| Table 8-1 Total operating expenditure 2018/19 to 2022/23 (\$'000) | 97 |
| Table 8-2 Expenditure changes since the 2018/19 Supplementary (\$'000)..... | 97 |
| Table 8-3 Pa Enua Funding Adjustments (\$000's) | 111 |
| Table 8-4 POBOC Summary 2019/20 – 2022/23 (\$000) | 112 |
| Table 8-5 Civil List | 113 |
| Table 8-6 Parliamentary Superannuation..... | 113 |
| Table 8-7 House of Ariki Funding | 113 |
| Table 8-8 Subsidies to State-owned Enterprises (SOE's) | 113 |
| Table 8-9 Welfare Payments..... | 114 |
| Table 8-10 Welfare Benefits (POBOC and Administered)..... | 114 |
| Table 8-11 Details on Welfare Payments..... | 114 |
| Table 9-1 Total Capital Expenditure 2019/20 to 2022/23 (\$ million)..... | 118 |
| Table 9-2 Total Capital Expenditure by Funding Source, (\$ million)..... | 119 |
| Table 9-3 Capital projects, MOE (\$) | 122 |
| Table 9-4 Capital projects, MOH (\$)..... | 123 |
| Table 9-5 Capital projects, ICI (\$) | 124 |
| Table 9-6 Capital projects, Internal Affairs (\$) | 128 |
| Table 9-7 Capital projects, MFEM (\$)..... | 129 |
| Table 9-8 Capital projects, OPM (\$) | 130 |
| Table 9-9 Capital projects, MOE (\$) | 130 |
| Table 9-10 Capital projects, MOE (\$) | 131 |
| Table 11-1 Loan Repayment Fund Statement (NZD '000) | 135 |
| Table 11-2 Gross Debt by Crown estimated to 30 June 2020 (\$ million) | 136 |
| Table 11-3 Status of Government loans to 30 June 2020..... | 137 |
| Table 11-4 Exchange Rate Assumptions – 2019/20 – 2023/24 | 138 |
| Table 11-5 Net Debt..... | 143 |
| Table 11-6 Current Borrowing Statement (\$ million) | 144 |
| Table 11-7 Base exchange rates assumptions used in 2019/20 Budget with +/- 10 per cent..... | 146 |

| | |
|---|-----|
| Table 11-8 Net Worth 2019/20 to 2022/23, (\$000) | 148 |
| Table 12-1 National Sustainable Development Plan Status (2017) | 150 |
| Table 12-2 Medium-term NSDP Goal Priorities 2019/20-2022/23..... | 153 |
| Table 12-3 Goal 1 total expenditure, 2019/20 to 2022/23..... | 154 |
| Table 12-4 Goal 2 total expenditure, 2019/20 to 2022/23..... | 155 |
| Table 12-5 Goal 4 total expenditure, 2019/20 to 2022/23..... | 156 |
| Table 12-6 Goal 5 total expenditure, 2019/20 to 2022/23..... | 157 |
| Table 12-7 Goal 6 total expenditure, 2019/20 to 2022/23..... | 157 |
| Table 12-8 Goal 7 total expenditure 20/19 to 2022/23..... | 158 |
| Table 12-9 Goal 8 total expenditure, 2019/20 to 2022/23..... | 158 |
| Table 12-10 Goal 9 total expenditure, 2019/20 to 2022/23..... | 159 |
| Table 12-11 Goal 10 total expenditure, 2019/20 to 2022/23..... | 159 |
| Table 12-12 Goal 11 total expenditure 2019/20 to 2022/23..... | 160 |
| Table 12-13 Goal 12 total expenditure, 2019/20 to 2022/23..... | 160 |
| Table 12-14 Goal 13 total expenditure 2019/20 to 2022/23..... | 160 |
| Table 12-15 Goal 14 total expenditure, 2019/20 to 2022/23..... | 161 |
| Table 12-16 Goal 15 total expenditure, 2019/20 to 2022/23..... | 161 |
| Table 12-17 Goal 16 total expenditure 2018/19 to 2022/23..... | 162 |
| Table 13-1 Social contribution costs | 164 |
| Table 13-2 Social contribution costs and dividends..... | 165 |
| Table 13-3 Community Service Obligations | 165 |
| Table 13-4 Cook Islands Ports Authority operating summary | 165 |
| Table 13-5 Social contributions costs and dividends | 167 |
| Table 14-1 Public Sector Agencies | 169 |
| Table 14-2 Employee summary by groupings..... | 170 |
| Table 14-3 Employees by Agency and Gender..... | 171 |
| Table 14-4 Public sector age profile..... | 173 |
| Table 14-5 Remuneration | 173 |
| Table 15-1 Cost factors of the Pa Enua Funding Model..... | 177 |
| Table 15-2 Pa Enua Funding Model results for 2019/20 (\$) | 178 |
| Table 15-3 Estimated agency expenditure in the Pa Enua (\$'000) | 179 |
| Table 15-4 Estimated ICI capital projects in the Pa Enua (\$'000) | 180 |
| Table 15-5 Estimated Social Welfare Payments in the Pa Enua for 2019/20 (\$'000)..... | 181 |
| Table 15-6 Estimated CIIC capital projects in the Pa Enua (\$'000) | 182 |
| Table 15-7 Total Central Government expenditure in the Pa Enua (\$'000) | 183 |
| Table 16-1 Cook Islands ODA Budget by development partner 2019/20 – 2022/23 (\$)..... | 190 |

List of Figures

| | |
|--|----|
| Figure 3-1 Real GDP growth, annual percentage change | 11 |
| Figure 3-2 Fiscal performance and outlook (\$'000)..... | 11 |
| Figure 4-1 Framework elements | 13 |
| Figure 4-2 MTFS rule structure | 15 |
| Figure 4-3 Net debt to GDP ratio, 2016/17 to 2022/23..... | 16 |
| Figure 4-4 Fiscal balance to GDP, 2018/19 to 2022/23 | 17 |
| Figure 4-5 Expenditure growth, 2019/20 to 2022/23..... | 17 |
| Figure 4-6 Cash reserves to operating expenditure, 2018/19 to 2022/23 | 18 |
| Figure 4-7 Medium-term NSDP goal priorities | 21 |
| Figure 4-8 Summary of Expenditure by 2019/20 goals, 2019/20 – 2022/23..... | 22 |
| Figure 4-9 Medium-term fiscal outlook (\$'000)..... | 24 |
| Figure 4-10 Sensitivity of Direct Crown Gross Debt to NZD movements | 40 |
| Figure 4-11 Sensitivity of Crown Debt Servicing Costs to NZD movements | 40 |
| Figure 5-1 US dollar exchange rate, New Zealand and Australia..... | 45 |
| Figure 5-2 IMF GDP growth estimates, selected countries | 46 |
| Figure 5-3 IMF inflation estimates, selected groupings and countries..... | 47 |
| Figure 5-4 IMF oil price estimates, 1992 to 2024, US\$/barrel..... | 47 |
| Figure 5-5 Real GDP growth, annual percentage change | 48 |
| Figure 5-6 Cook Islands economy by industry, 2017/18..... | 49 |
| Figure 5-7 Contribution to 2017/18 real growth (percentage point) | 49 |
| Figure 5-8 Observed and forecast real GDP, financial year (\$m)..... | 50 |
| Figure 5-9 Annual change in real GDP (percentage)..... | 50 |
| Figure 5-10 Annual change in nominal GDP (percentage)..... | 51 |
| Figure 5-11 CPI, year average, 2005/06 – 2017/18 (percentage change) | 52 |
| Figure 5-12 Contribution to 2017/18 average inflation (percentage point)..... | 52 |
| Figure 5-13 CPI, year to March, annual percentage change..... | 53 |
| Figure 5-14 Contribution to year to March 2019 inflation (percentage point) | 53 |
| Figure 5-15 Daily oil spot price, 1992 to 2019, US\$/barrel..... | 54 |
| Figure 5-16 Nominal output gap, univariate Kalman filter forecast..... | 55 |
| Figure 5-17 CPI, quarterly index, 2007 to 2023 | 55 |
| Figure 5-18 Annual average change in CPI (percentage) | 56 |
| Figure 5-19 Visitor arrivals, country of residence (annual percentage change)..... | 57 |
| Figure 5-20 Total visitor arrivals, quarterly, 2008 to 2023 | 57 |
| Figure 5-21 Tourism capacity utilisation, monthly, 2016 to 2023 | 58 |

| | |
|---|-----|
| Figure 5-22 New Zealand Pacific resident arrivals, by main country visited | 59 |
| Figure 5-23 New Zealand arrivals, quarterly, 2008 to 2023 | 60 |
| Figure 5-24 Australia arrivals, quarterly, 2008 to 2023 | 61 |
| Figure 5-25 Other major markets arrivals, 2013/14 to 2022/23 | 61 |
| Figure 5-26 Building approvals, \$'000, 2013 to 2018 | 62 |
| Figure 5-27 Construction sector contribution to real GDP, 2008/09 to 2017/18 (\$'000) | 62 |
| Figure 5-28 Value of building approvals, 2006/07 to 2022/23 (\$'000) | 63 |
| Figure 5-29 Construction sector forecast, 2006 to 2023 (\$ million real)..... | 63 |
| Figure 5-30 Fishery catch in the Cook Islands EEZ (MT) | 65 |
| Figure 5-31 Pearl exports, 2012/13 -2021/22 (\$'000) | 68 |
| Figure 5-32 Fisheries contribution to GDP, annual, 2008/09 to 2022/23 (\$m real)..... | 68 |
| Figure 5-33 Agriculture exports 2013/14 to 2022/23 (\$'000) | 69 |
| Figure 5-34 Agriculture contribution to GDP, quarterly, 200/07 to 2022/23 (\$ million real) | 71 |
| Figure 5-35 Import value by country of origin, year to December (\$'000)..... | 72 |
| Figure 5-36 Value of total goods imports, quarterly, 2007 to 2023 (\$'000)..... | 72 |
| Figure 5-37 Value of total imports, annual, 2008/09 to 2022/23 (\$'000) | 73 |
| Figure 5-38 Major goods exports, 2017 to 2018 (\$'000) | 73 |
| Figure 5-39 Total goods exports 2015/16 to 2022/23 (\$'000) | 74 |
| Figure 5-40 Merchandise balance of trade, 2014 to 2018 (\$'000) | 74 |
| Figure 5-41 Total value of bank deposits, March 2011 to December 2018 (\$'000) | 75 |
| Figure 5-42 Total value of bank loans, March 2011 to December 2018 (\$'000) | 76 |
| Figure 5-43 Finance and insurance contribution to real GDP, 2013/14 to 2017/18 (\$'000) | 78 |
| Figure 5-44 Finance and insurance sector forecast, 2006 to 2023 (\$ million real) | 78 |
| Figure 6-1 GFS operating revenue, 2019/20 (percentage) | 81 |
| Figure 6-2 GFS operating expenditure, 2019/20 (percentage)..... | 82 |
| Figure 6-3 Classification of Functions of Cook Island Government 2019/20 Budget | 85 |
| Figure 7-1 Total Crown Revenue 2019/20 to 2022/23 | 86 |
| Figure 7-2 Historical total tax revenue, accrued vs cash, 2013/14 to 2018/19 (\$'000) | 88 |
| Figure 7-3 Total Direct Taxation 2018/19 2022/23 | 89 |
| Figure 7-4 Total Indirect Taxation 2018/19 to 2022/23 | 90 |
| Figure 8-1 Historical and forecast operating expenditure, 2015/16 to 2022/23 (\$'000) | 96 |
| Figure 8-2 POBOC Summary for 2019/20 | 112 |
| Figure 9-1 Cook Islands Government Total Annual Capital Expenditure..... | 119 |
| Figure 9-2 Total Capital Expenditure by Funding Source, (\$ million) | 120 |
| Figure 9-3 Capital projects, CIIC (\$)..... | 120 |
| Figure 11-1 LRF Smoothing Effect..... | 136 |

| | |
|--|-----|
| Figure 11-2 Cook Islands overall debt burden | 138 |
| Figure 11-3 Assumed Changes in Major Exchange Rates (indices – 2018/19 = 100) | 139 |
| Figure 11-4 Overall Debt by Currency June 2020 | 139 |
| Figure 11-5 Projected Composition of Direct Crown Debt at 30 June 2020 by Currency | 140 |
| Figure 11-6 Projected Composition of SOE Debt at 30 June 2020 by Currency | 140 |
| Figure 11-7 Gross Crown Debt Estimates by Lender | 141 |
| Figure 11-8 Gross Direct Crown Debt Estimates by Lender..... | 142 |
| Figure 11-9 SOE Debt Estimates by Lender..... | 142 |
| Figure 11-10 Gross Crown Debt Estimates by Source (\$million) | 143 |
| Figure 11-11 Regional Comparison of public debt profiles | 144 |
| Figure 11-12 Net Debt to GDP target to June 2020 | 145 |
| Figure 11-13 Net debt servicing to total revenue target to June 2020 | 145 |
| Figure 11-14: Sensitivity of Direct Crown Gross Debt to NZD movements | 146 |
| Figure 11-15 Sensitivity of Crown Debt Servicing Costs to NZD movements | 147 |
| Figure 14-1 Cook Islands Public Sector | 169 |
| Figure 15-1 Allocation of total funding across Island Governments | 178 |
| Figure 16-1 Cook Islands ODA actual and estimated expenditure, 2014/15 – 2020/21 | 187 |
| Figure 16-2 ODA Budget by development partner, 2018/19 budget vs actual | 190 |
| Figure 16-3 Cook Islands ODA Budget by Development Partner Budget 2019/2020..... | 191 |



**GOVERNMENT OF THE COOK ISLANDS
OFFICE OF THE MINISTER OF FINANCE**

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Tuesday, 4 June 2019

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the Budget Appropriation 2019/20.

The economic and fiscal information included in the Budget is based on the best professional judgement that we have at this time.

I accept the overall responsibility for the integrity of the Budget Appropriation 2019/20 and the compliance with the *Ministry of Finance and Economic Management Act 1995/96*.

A handwritten signature in black ink, appearing to read 'Mark Brown', with a long horizontal stroke extending to the right.

Honourable Mark Brown
Minister of Finance



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

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Tuesday, 4 June 2019

STATEMENT OF RESPONSIBILITY

The Budget Appropriation 2019/20 has been produced in accordance with the *Ministry of Finance and Economic Management Act 1995/96* (the Act).

The 2019/20 Budget process involved the annual publication of the Budget Policy Statement in December 2018 which was available on the mfem.gov.ck website, and the establishment of the Budget Support Group which was commissioned to review agency budget proposals prior to Cabinet consideration and approval.

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

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

Cabinet, as required under Section 24 (2) of the Act, returned to the Ministry a fiscally responsible budget in accordance with the principles outlined in the Act.

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

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

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

Kia Manuia,

A handwritten signature in black ink, appearing to read 'Garth Henderson'.

Garth Henderson
Financial Secretary



PARLIAMENT OF THE COOK ISLANDS

APPROPRIATION BILL

EXPLANATORY NOTE

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

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

- Clause 1** provides that, on enactment, the Bill will be called the Appropriation Act 2019.
- Clause 2** is the application provision, which specifies the financial year to which the Bill relates. In this case it is the financial year ending 30th June 2020.
- Clause 3** authorises expenditure out of the Cook Islands Government Account of the amounts not exceeding those set out in the Schedules to the Bill, for the several votes specified therein.
- Subsection 5 limits any expenditure which may be charged to the 2019/20 appropriation to actual expenditure incurred in the period 1 July 2019 to 30 June 2020.
- Subsections 6-7 limits any expenditure which may be charged to the 2018/19 appropriation to actual expenditure incurred up to 30 June 2019.
- Subsection 8 limits any expenditure which may be charged to appropriations from years prior to 2018/19 to actual expenditure incurred up to 30 June 2019.
- Note:** Budget Books numbered 1 and 2 will be available with the Bill. The breakdown of items and amounts, to justify the figures in the Bill, are presented in those Books.
-

Hon. Mark Brown

Appropriation Bill 2019

Contents

| | | |
|---|--|---|
| 1 | Title | 4 |
| 2 | Application | 4 |
| 3 | Grant and appropriation out of the Cook Islands Government Account | 4 |

| | |
|--------------------|--|
| Schedule 1 | Agency Budget Appropriations |
| Schedule 2 | Payments on Behalf of Crown (POBOC) |
| Schedule 3 | Cook Islands Capital Spending |
| Schedule 4 | Official Development Assistance |
| Schedule 5a | Other Expenses and Financing Transactions |
| Schedule 5b | Loan Repayment Fund (LRF) Appropriations |
| Summary | |

An Act to appropriate certain sums of money out of the Cook Islands Government Account to the services of the year ending on the thirtieth day of June 2020 and to appropriate the supplies granted in this period

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

1 Title

This Act is the Appropriation Act 2019.

2 Application

This Act applies to the year ending on the thirtieth day of June 2020 ("the year").

3 Grant and appropriation out of the Cook Islands Government Account

- (1) The Minister responsible for Finance may authorise the incurrence of expenses or expenditure and may issue and apply out of the Cook Islands Government Account, towards making good the supplies granted to Her Majesty for the services of the year, any sums which in total do not exceed the sum of **\$275,940,536**.
- (2) Subject to subsection (3) the sums authorised to be supplied are appropriated for the services set out in the votes specified in the Schedules to this Act.
- (3) The votes identified in Schedule 4 to this Act as being funded through loans from financing partners or from grants by development partners are further limited to the lesser of the votes specified in those Schedules and the loan proceeds or grants received for the purpose of financing the expense or expenditure in relation to those votes.
- (4) Notwithstanding Section 37 of the Ministry of Finance and Economic Management Act 1995-96, the appropriations made under this Act will lapse on 30 June 2020.

- (5) Payments that may be charged against any appropriation made by this Act after 30 June 2020 are limited to—
 - (a) self-balancing journal entries to correct posting errors during the year ended 30 June 2020; or
 - (b) expenses incurred or payments due during the year ended 30 June 2019 for which a valid invoice was submitted before 30 June 2019, but for which a payment or payments to extinguish that liability in relation to that invoice had not been made by 30 June 2020.
- (6) The appropriations made in the Appropriation Act 2018 will lapse on 30 June 2019.
- (7) Payments that may be charged after 30 June 2019 against any appropriation that lapses under the provisions of subsection (6) are limited to—
 - (a) self-balancing journal entries to correct posting errors during the year ended 30 June 2019; or
 - (b) Expenses incurred or payments due during the year ended 30 June 2019 for which a valid invoice was submitted before 30 June 2019, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2019.
- (8) Where in the period ended 30 June 2019, the Financial Secretary appointed under section 4 of the Ministry of Finance and Economic Management Act 1995-96 had directed that an unexpended appropriation from an Appropriation Act for a previous year be available for expenditure in the year ended 30 June 2019, those appropriations will also lapse on 30 June 2019.
- (9) Payments that may be charged after 30 June 2019 against any appropriation that lapses under the provisions of subsection (8) are limited to—
 - (a) self-balancing journal entries to correct posting errors during the year ended 30 June 2019; or
 - (b) expenses incurred or payments due during the year ended 30 June 2019 for which a valid invoice was submitted before 30 June 2019, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2019.

Schedule 1
Agency Budget Appropriations

| Agency | Personnel | Operating | Administered Payments | Depreciation | Gross Current Appropriation | Trading Revenue | Net Current Appropriation |
|---|-------------------|-------------------|--------------------------|------------------|--------------------------------|--------------------|------------------------------|
| Agriculture | 1,006,072 | 315,509 | 0 | 22,181 | 1,343,762 | 90,535 | 1,253,227 |
| Audit (PERCA) | 993,854 | 114,300 | 0 | 21,000 | 1,129,154 | 60,700 | 1,068,454 |
| Crown Law | 769,756 | 181,319 | 300,000 | 6,000 | 1,257,075 | 0 | 1,257,075 |
| Cultural Development | 740,850 | 164,502 | 977,500 | 93,655 | 1,976,507 | 150,000 | 1,826,507 |
| Business Trade and Investment Board | 432,796 | 344,866 | 0 | 4,500 | 782,162 | 28,000 | 754,162 |
| Education | 11,366,964 | 3,275,358 | 4,612,289 | 641,000 | 19,895,611 | 0 | 19,895,611 |
| Environment | 971,843 | 351,952 | 332,241 | 30,381 | 1,686,417 | 35,000 | 1,651,417 |
| Finance and Economic Management | 5,024,219 | 926,483 | 14,914,371 | 358,344 | 21,223,417 | 954,341 | 20,269,076 |
| Financial Services Development Authority | 242,797 | 277,906 | 0 | 9,868 | 530,571 | 0 | 530,571 |
| Foreign Affairs | 1,815,692 | 868,103 | 15,000 | 77,726 | 2,776,521 | 28,000 | 2,748,521 |
| Head Of State | 162,503 | 43,603 | 36,000 | 8,057 | 250,163 | 0 | 250,163 |
| Health | 11,643,618 | 2,842,444 | 2,146,870 | 886,614 | 17,519,546 | 350,000 | 17,169,546 |
| Infrastructure Cook Islands | 2,399,009 | 444,564 | 3,200,000 | 241,596 | 6,285,169 | 300,000 | 5,985,169 |
| Internal Affairs | 1,195,725 | 277,199 | 2,978,309 | 20,113 | 4,471,346 | 6,000 | 4,465,346 |
| <i>of which: Welfare Payments - Allowances</i> | | | <i>1,291,309</i> | | | | |
| Justice | 1,930,495 | 377,805 | 460,000 | 87,463 | 2,855,763 | 550,000 | 2,305,763 |
| Corrective Services | 1,105,842 | 190,115 | 0 | 43,984 | 1,339,941 | 100,000 | 1,239,941 |
| Marine Resources | 1,231,685 | 745,933 | 300,000 | 95,000 | 2,372,618 | 28,000 | 2,344,618 |
| Ombudsman | 256,350 | 68,226 | 0 | 5,822 | 330,398 | 0 | 330,398 |
| Parliamentary Services | 557,267 | 71,835 | 110,000 | 19,579 | 758,681 | 0 | 758,681 |
| Police | 3,518,527 | 541,724 | 305,000 | 1,009,948 | 5,375,199 | 201,783 | 5,173,416 |
| Prime Minister's Office | 1,393,400 | 396,447 | 873,000 | 59,039 | 2,721,886 | 0 | 2,721,886 |
| Public Service Commission | 375,149 | 285,616 | 1,741,645 | 21,200 | 2,423,610 | 0 | 2,423,610 |
| Tourism Corporation | 1,918,191 | 2,398,471 | 4,922,000 | 36,000 | 9,274,662 | 150,000 | 9,124,662 |
| Transport | 899,951 | 208,034 | 0 | 52,247 | 1,160,232 | 36,000 | 1,124,232 |
| Cook Islands Investment Corporation | 1,507,476 | 1,353,014 | 5,380,000 | 50,000 | 8,290,490 | 753,831 | 7,536,659 |
| Cook Islands Seabed Minerals Authority | 196,778 | 89,127 | 0 | 9,387 | 295,292 | 0 | 295,292 |
| Total Ministries, Crown & Statutory Agencies | 53,656,809 | 17,154,454 | 43,604,225 | 3,910,704 | 118,326,192 | 3,822,190 | 114,504,002 |

Appropriation Bill 2019

| Agency | Personnel | Operating | Administered Payments | Depreciation | Gross Current Appropriation | Trading Revenue | Net Current Appropriation |
|--|-------------------|-------------------|-----------------------|------------------|-----------------------------|------------------|---------------------------|
| Ministerial Support | | | | | | | |
| Prime Minister | 301,696 | 109,773 | 0 | 11,100 | 422,569 | 0 | 422,569 |
| Deputy Prime Minister | 260,784 | 81,289 | 0 | 7,927 | 350,000 | 0 | 350,000 |
| Minister Vaine Mokoroa | 121,200 | 163,300 | 0 | 5,500 | 290,000 | 0 | 290,000 |
| Minister Vainetutai Toki-Brown | 181,000 | 97,838 | 0 | 11,162 | 290,000 | 0 | 290,000 |
| Minister Robert Tapaitau | 188,000 | 92,010 | 0 | 9,990 | 290,000 | 0 | 290,000 |
| Minister George Angene | 164,000 | 114,000 | 0 | 12,000 | 290,000 | 0 | 290,000 |
| 7th Minister Office | 180,000 | 108,000 | 0 | 2,000 | 290,000 | 0 | 290,000 |
| Leader Of Opposition | 115,160 | 168,040 | 0 | 6,800 | 290,000 | 0 | 290,000 |
| Total Ministerial Support Offices | 511,840 | 934,250 | - | 66,479 | 2,512,569 | - | 2,512,569 |
| Outer Islands | | | | | | | |
| Aitutaki | 1,209,626 | 416,495 | 0 | 434,365 | 2,060,486 | 67,828 | 1,992,658 |
| Atiu | 851,976 | 427,184 | 0 | 416,555 | 1,695,715 | 224,318 | 1,471,397 |
| Mangaia | 943,706 | 578,760 | 0 | 635,824 | 2,158,290 | 301,000 | 1,857,290 |
| Manihiki | 707,715 | 150,616 | 0 | 474,383 | 1,332,714 | 119,000 | 1,213,714 |
| Mauke | 730,255 | 212,655 | 0 | 417,034 | 1,359,944 | 113,853 | 1,246,091 |
| Mitiaro | 678,693 | 73,824 | 0 | 91,242 | 843,759 | 60,900 | 782,859 |
| Palmerston | 282,500 | 65,474 | 0 | 84,399 | 432,373 | 20,500 | 411,873 |
| Penrhyn | 599,964 | 163,309 | 0 | 138,881 | 902,154 | 74,000 | 828,154 |
| Pukapuka-Nassau | 906,017 | 142,706 | 0 | 213,381 | 1,262,104 | 73,695 | 1,188,409 |
| Rakahanga | 415,294 | 59,249 | 0 | 82,406 | 556,949 | 50,000 | 506,949 |
| Total Outer Islands | 7,325,746 | 2,290,272 | - | 2,988,470 | 12,604,488 | 1,105,094 | 11,499,394 |
| Gross Total | 62,494,395 | 20,378,976 | 43,604,225 | 6,965,653 | 133,443,249 | 4,927,284 | 128,515,965 |

Schedule 2
PAYMENTS ON BEHALF OF THE CROWN (POBOCs)

| Administering Ministry | POBOC | 2018/19 Supplementary Estimate | 2019/20 Budget Estimate | Variance |
|-------------------------------------|---|--------------------------------------|-------------------------------|------------------|
| Compensation of Employees | | | | |
| Finance & Economic Management | Parliamentary Superannuation | 180,000 | 180,000 | 0 |
| Audit | PERC Salaries and Administration Costs | 42,500 | 57,500 | 15,000 |
| Parliamentary Services | Civil List - Personnel | 2,267,961 | 2,901,961 | 634,000 |
| Parliamentary Services | House of Ariki | 228,420 | 348,420 | 120,000 |
| | Compensation of Employees POBOCs | 2,718,881 | 3,487,881 | 769,000 |
| Use of Goods and Services | | | | |
| Audit | Audit Fees | 95,600 | 95,600 | 0 |
| Prime Minister's Office | Local Government Election | 0 | 30,000 | 30,000 |
| Parliamentary Services | Civil List - Constituency Visits | 170,200 | 170,200 | 0 |
| Parliamentary Services | Parliamentary Sitting Expenses | 286,000 | 150,000 | 30,000 |
| Parliamentary Services | QR Travel and Allowances (local and overseas) | 109,000 | 109,000 | 0 |
| Parliamentary Services | MP Travel and Allowances (local and overseas) | 321,000 | 341,000 | 200,000 |
| Foreign Affairs | International Maritime Organisation - Maritime Cook Islands | 63,461 | 63,461 | 0 |
| | Use of Goods and Services POBOCs | 1,045,261 | 959,261 | 260,000 |
| Subsidies | | | | |
| Cook Islands Investment Corporation | Airport Authority subsidy | 2,047,997 | 2,047,997 | 0 |
| Cook Islands Investment Corporation | Bank of the Cook Islands - social assistance subsidy | 120,000 | 128,000 | 8,000 |
| Cook Islands Investment Corporation | Ports Authority - subsidy | 110,099 | 110,099 | 0 |
| Cook Islands Investment Corporation | Te Aponga Uira - social assistance subsidy | 380,000 | 380,000 | 0 |
| | Subsidies POBOCs | 2,658,096 | 2,666,096 | 8,000 |
| Social Assistance | | | | |
| Internal Affairs | Welfare Payments | 18,156,712 | 19,689,535 | 1,532,823 |
| | Social Assistance POBOCs | 18,156,712 | 19,689,535 | 1,532,823 |
| Other Expense | | | | |
| Finance & Economic Management | Pacific Catastrophe Risk Insurance | 120,694 | 120,694 | 0 |
| Finance & Economic Management | CIG Insurance | 100,000 | 100,000 | 0 |
| Finance & Economic Management | BEPS Subscription | 0 | 35,000 | 35,000 |
| Foreign Affairs | International Subscriptions | 673,717 | 687,967 | 14,250 |
| | Other Expenses POBOCs | 894,411 | 943,661 | 0 |
| Grand Total | | 25,473,361 | 27,746,434 | 2,569,823 |

Schedule 3
Cook Islands Capital Spending

| | 2018/19 Supplementary Estimate | 2019/20 Budget Estimate | Variance |
|--|--------------------------------------|-------------------------------|-------------------|
| Cook Islands Government Capital programs | 47,071,874 | 40,410,336 | -4,108,458 |
| Total Capital spending | 47,071,874 | 40,410,336 | -4,108,458 |

Schedule 4
Official Development Assistance¹

| | 2018/19 Supplementary Estimate | 2019/20 Budget Estimate | Variance |
|--|--------------------------------------|----------------------------|------------------|
| Operating or recurrent expenditure | 16,047,701 | 10,396,102 | - 5,651,599 |
| Capital Project Expenditure | 37,406,056 | 47,093,335 | 9,687,278 |
| Total Official Development Assistance | 53,453,757 | 57,489,437 | 4,035,680 |

Schedule 5a
Other Expenses and Financing Transactions

| Category of Expense | 2018/19 Supplementary Estimate | 2019/20 Budget Estimate | Variance |
|---|--------------------------------------|----------------------------|-------------------|
| Contingency Funds - Operating | 365,000 | 100,000 | -100,000 |
| Crown Infrastructure Depreciation | 4,602,500 | 4,602,500 | 0 |
| Provisional for Doubtful Debts | 0 | 0 | 0 |
| Transfer to Emergency Response Trust Fund | 50,000 | 50,000 | 0 |
| Transfer to Reserve Trust Fund | 740,767 | 0 | -740,767 |
| Depreciation Contingency Fund | 2,173,500 | 2,173,580 | -1,892,154 |
| Total Other Expenses | 7,931,767 | 6,926,080 | -2,732,921 |

Schedule 5b
Loan Repayment Fund (LRF) Appropriations

| Category of Appropriation | 2018/19 Supplementary Estimate | 2019/20 Budget Estimate | Variance |
|----------------------------------|--------------------------------------|----------------------------|----------------|
| Contribution to LRF - Principal | 6,995,000 | 7,696,000 | 701,000 |
| Contribution to LRF - Interest | 2,367,000 | 2,229,000 | -138,000 |
| Total Contribution to LRF | 9,362,000 | 9,925,000 | 563,000 |

Summary

| Category of Payment | 2018/19 Supplementary Estimate | 2019/20 Budget Estimate | Variance |
|---|--------------------------------------|----------------------------|------------------|
| Schedule 1 - Ministry Outputs (Gross Operating) | 130,938,191 | 133,443,249 | 6,657,691 |
| Schedule 2 - POBOCs | 25,473,361 | 27,746,434 | 2,619,073 |
| Schedule 3 - CIG Capital Expenditure | 47,071,874 | 40,410,336 | -4,108,458 |
| Schedule 4 - Official Development Assistance | 53,453,757 | 57,489,437 | 4,035,680 |
| Schedule 5a - Other Expenses and Financing Transactions | 7,931,767 | 6,926,080 | -2,732,921 |
| Schedule 5b - Loan Reserve Fund Appropriations | 9,362,000 | 9,925,000 | 563,000 |
| TOTAL APPROPRIATION | 274,230,950 | 275,940,536 | 7,034,065 |

This Act is administered by the Ministry of Finance and Economic Management.
Printed under the authority of the Cook Islands Parliament—2019.

¹Excluding Budget Support (Core Sector Support) and appropriated through agencies in Schedule 1.

3 Budget Overview

3.1 Summary

The 2019/20 Budget is the first year of the 2019/20–2022/23 Medium-term Fiscal Strategy (MTFS) and re-confirms the Government’s commitment to sound fiscal and economic management. The Budget signals adherence to the fiscal rules outlined in the MTFS, an improvement in the fiscal balance and a declining debt profile. This is in the context of strong economic growth, which is expected to stabilise over the forward budget period to 2022/23.

The Government’s focus in the 2019/20 Medium-term Budget is on improving the country’s productive capacity by:

- 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.
- Investing in the capabilities of Government Agencies to ensure they operate effectively and efficiently.

Key budget measures to meet these policy elements are increased funding for:

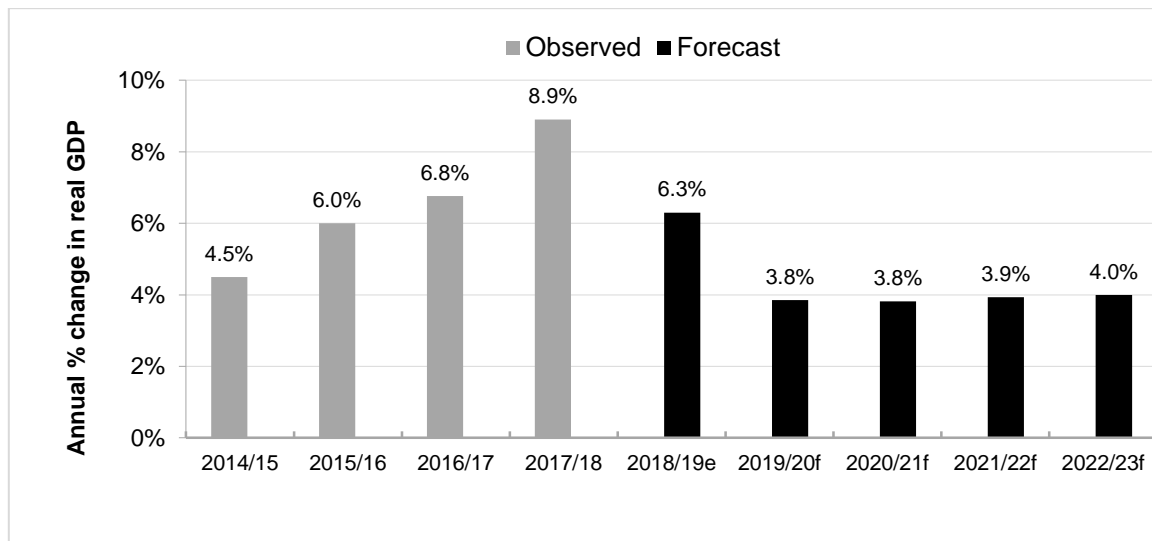
- Law and order – to ensure effective institutions, the backbone of a strong society.
- Health – to ensure that Cook Islanders have access to a strong health care system and are able to meet their productive potential.
- Roads and drainage – to create safe and efficient transport on Rarotonga and to facilitate sustainable tourism.
- Government salaries – to reflect the increased cost of living in Rarotonga and the need to attract returning highly skilled Cook Islanders.

The 2019/20 Budget is an investment in the future of the Cook Islands by ensuring essential services and infrastructure are available to support economic stability.

3.2 Economic performance and outlook

As shown in Figure 3-1, the Cook Islands experienced real Gross Domestic Product (GDP) growth of 8.9 per cent in 2017/18, rising from \$463.2 million to \$504.5 million. This performance continues a strong run of growth of 6.0 per cent in 2015/16 and 6.8 per cent in 2016/17. Growth is expected to remain robust in the coming years, albeit at slightly lower levels, due to continued but slower growth in tourism and investment, both public and private. A growth rate of 6.3 per cent is estimated in 2018/19, with growth forecast to fall to 3.8 per cent in 2019/20, with annual average growth over the 4-year forward forecast at 3.9 per cent.

Figure 3-1 Real GDP growth, annual percentage change



3.3 Fiscal performance and outlook

Strong economic growth is expected to result in a robust fiscal profile over the forward years. Revenue, having increased significantly since 2012/13, is expected to continue to grow, albeit at lower rates. Expenditure is expected to grow strongly against historical actuals, but only slightly against recent appropriations, with a focus on increasing the ability of Government agencies to complete projects appropriated in the Budget.

Figure 3-2 Fiscal performance and outlook (\$'000)

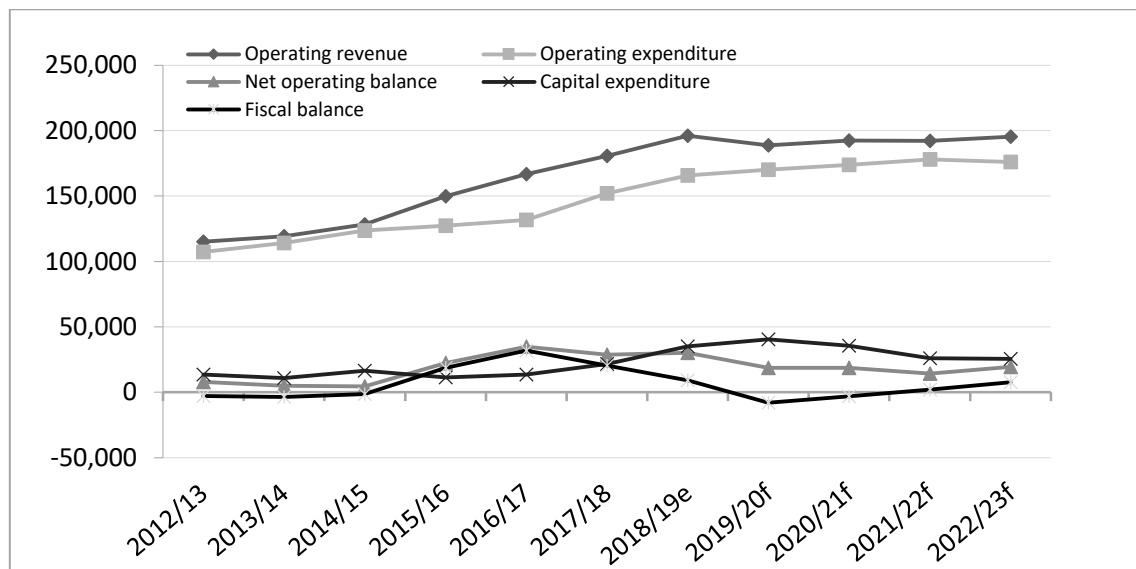


Table 3-1 Summary fiscal statement, 2019/20 to 2022/23

| \$ million | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--------------------------------|-------------------|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| Operating Balance | 28.7 | 30.3 | 18.6 | 18.6 | 14.4 | 19.4 |
| Fiscal Balance surplus/deficit | 20.4 | 9.2 | -8.1 | -3.2 | 2.0 | 7.6 |
| Working Capital | 125.9 | 130.5 | 58.8 | 47.8 | 41.3 | 39.9 |
| Stabilisation Account | 0.0 | 0.0 | 56.7 | 56.7 | 56.7 | 56.7 |
| Net Crown Debt, end of FY | 95.6 | 117.9 | 108.0 | 99.2 | 89.4 | 80.1 |

The fiscal rules have been met in the 2019/20 Budget, with a fiscal deficit of -1.4 per cent anticipated in 2019/20. This improves to a deficit in 2021/22 of -0.5 per cent. Debt levels are expected to improve over the forward estimates, and cash reserves are expected to remain stable.

Table 3-2 Fiscal rules performance

| Rules | Unit | Threshold | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---------------------------------|--------|-------------|---------|---------|---------|---------|
| Total Expenditure Growth | % | 4 | 1.4 | -0.7 | -2.5 | -1.2 |
| Net debt to GDP | % | 30 | 18.6 | 16.3 | 14.1 | 12.1 |
| Fiscal balance to GDP | % | -1.9 | -1.4 | -0.5 | 0.3 | 1.1 |
| Cash reserves | Months | 3 | 4.5 | 3.6 | 3.0 | 3.0 |

4 Fiscal Strategy

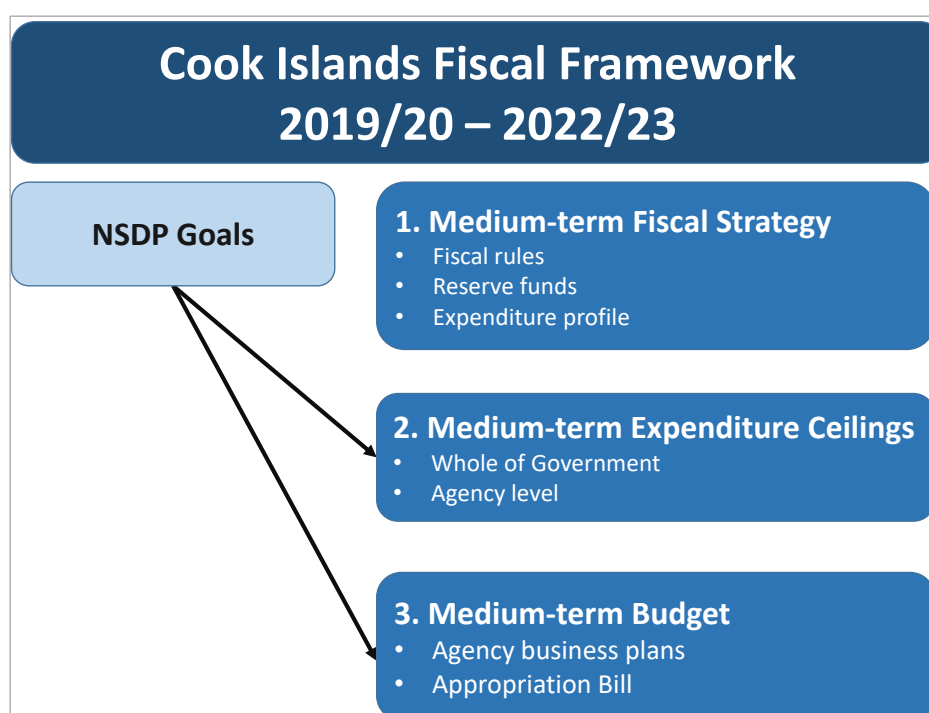
4.1 The Cook Islands Fiscal Framework 2019/20–2022/23

The Cook Islands Government launched its new medium-term fiscal planning and budget process, with the Cook Islands Fiscal Framework 2019/20–2022/23 (the Framework) in December 2018 in the 2018/19 Half-year Economic and Fiscal Update.²

The Framework is designed to strengthen the strategic focus of the Government’s expenditure and tax decisions by incorporating a more robust medium-term perspective that takes into account interactions with the economy. The Framework has been established to achieve the following outcomes:

- improved long-term fiscal sustainability through responsible fiscal management and debt sustainability; and
- improved medium-term fiscal planning nationally, and within each agency.

Figure 4-1 Framework elements



The Framework comprises three cascading, interlinked elements, shown in Figure 4-1, that together result in a fiscally-responsible 4-year budget that takes account of the economic cycle:

- **Medium-term Fiscal Strategy** – provides the basis for the fiscal rules, the establishment of reserve funds for economic downturns, natural disasters, and future generations, and a Government expenditure profile guided by the economic context.

² Available at: http://www.mfem.gov.ck/images/MFEM_Documents/Treasury_Docs/Budget_Documents/2018-19_Half_Year_Economic_and_Fiscal_Update.pdf.

- **Medium-term Expenditure Ceilings** – guided by the MTFS, whole of Government expenditure ceilings for each of the 4 years are then divided into Agency ceilings, taking into account National Sustainable Development Plan 2016–20 (NSDP) goals and Agency capacity requirements.
- **Medium-term Budget** – Agency business plans that reflect individual ceilings, along with tax and economic forecasts, are used to prepare the medium-term budget – the appropriation estimates for 2019/20, and forecasts for three forward years to 2022/23.

The Framework has been implemented for the first time in the 2019/20 budget cycle. The first two elements of the Framework, and their application in this budget cycle are discussed below, with the third element, the Medium-term Budget, set out in the remainder of this Budget Book.

4.2 Medium-term Fiscal Strategy

At the same time as the public launch of the Framework, the Ministry of Finance and Economic Management (MFEM) published a detailed paper on the Medium-term Fiscal Strategy (MTFS), which forms the base of the Framework.³

The MTFS aims to smooth Government expenditure over the course of the economic cycle. It sets out the Government's fiscal commitments over the medium-term, including the fiscal rules that the Government will aim to achieve, economic forecasts and in turn, the Government's expenditure profile.

The specific objective of the MTFS is to deliver fiscally sustainable budgets. To achieve this the Government has committed to:

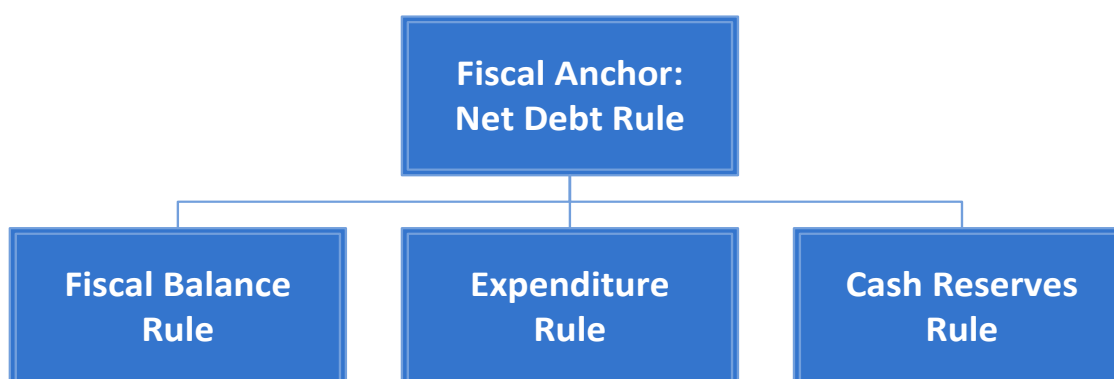
- Adhere to the fiscal rules on debt, fiscal balance, expenditure growth and cash reserves.
- The development of, and appropriation into, reserve funds (Stabilisation Account and Sovereign Wealth Fund) to improve economic resilience.
- An expenditure profile that is guided by the economic context.
- The Government's fiscal strategy is also underpinned by the following policy elements:
 - 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.
 - Investing in the capabilities of Government Agencies to ensure they operate effectively and efficiently.

The Government has committed to four MTFS fiscal rules, performance against which is publicly reported:

- **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.
- **Fiscal Balance Rule:** the fiscal balance cannot exceed a deficit of 1.9 per cent of nominal Gross Domestic Product (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.

³ Available at: http://www.mfem.gov.ck/images/CEO/Medium_term_Fiscal_Strategy_2019_23_-_Copy.pdf.

Figure 4-2 MTFS rule structure



The Government has also committed to a number of operational MTFS guides:

- *Personnel ratio* – expenditure on personnel less than 40 per cent of total Government revenue.
- *Requirement to spend cash* – no new debt commitments where the Government has sufficient cash to fund the relevant expenditure.
- *Cyclically-adjusted balance* – use of the cyclically-adjusted balance as a benchmark when developing the total expenditure ceiling to disconnect spending from cyclical revenues and allowing governments to maintain expenditure during downturns.
- *Stabilisation Account* – cash in excess of 4 months of operating expenditure at the end of the financial year transferred to the Stabilisation Account at the beginning of the next year. (An additional 1 month to the 3 months expenditure rule is retained as a buffer).

4.3 Performance against the fiscal rules

The 2019/20 budget meets all the fiscal rule thresholds over the 4-year period.

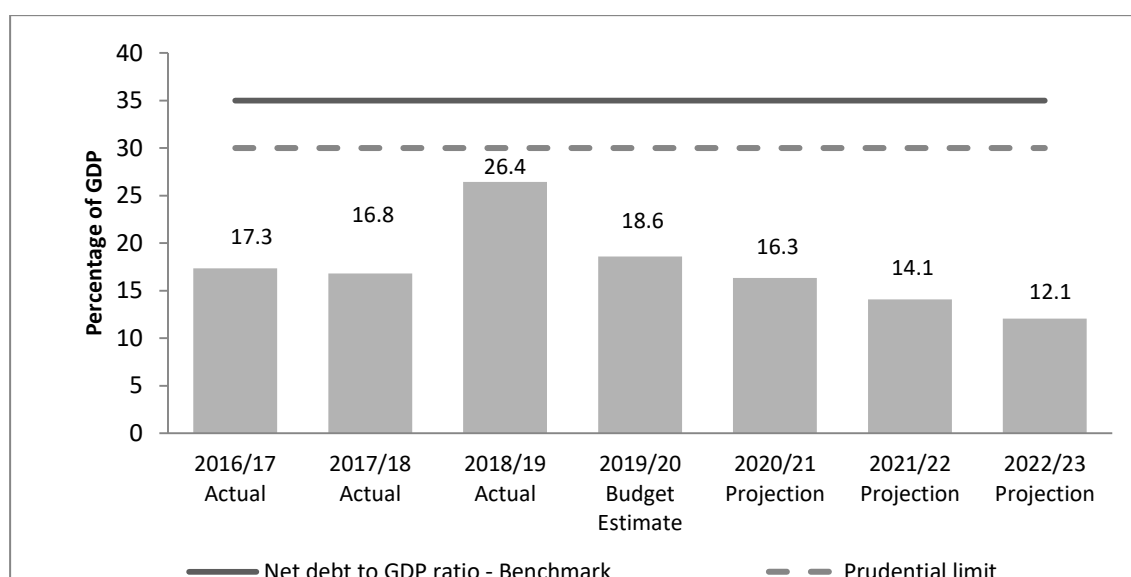
4.3.1 Net debt rule

Net debt (taken here to be gross debt obligations, net of the funds in the LRF) to GDP measures the level of debt relative to national income, and is intended to control the overall level of debt taken on by Government, including SOE's. The limit agreed to by Government is to maintain net debt within a hard target of 35 per cent of GDP. This would represent total borrowings of around \$204 million in 2019/20. The Government remains well within the net debt benchmark.

Figure 4-3 shows the 30 per cent soft debt target that the Government is committed to staying below, which is equivalent to approximately \$174 million in 2019/20. This ensures that there is at least 5 per cent of GDP available in debt financing should there ever be a major economic or natural disaster before the Government breaches the voluntary debt limit. As at June 2020, it is expected that Government will have a net debt ratio of approximately 18.6 per cent, well within the debt benchmarks.

Debt levels are expected to further improve over the forward estimates to 12.1 per cent of GDP by 2022/23.

Figure 4-3 Net debt to GDP ratio, 2016/17 to 2022/23



The Government does not consider these ratios in isolation. Any proposal to take on additional borrowing is assessed 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.

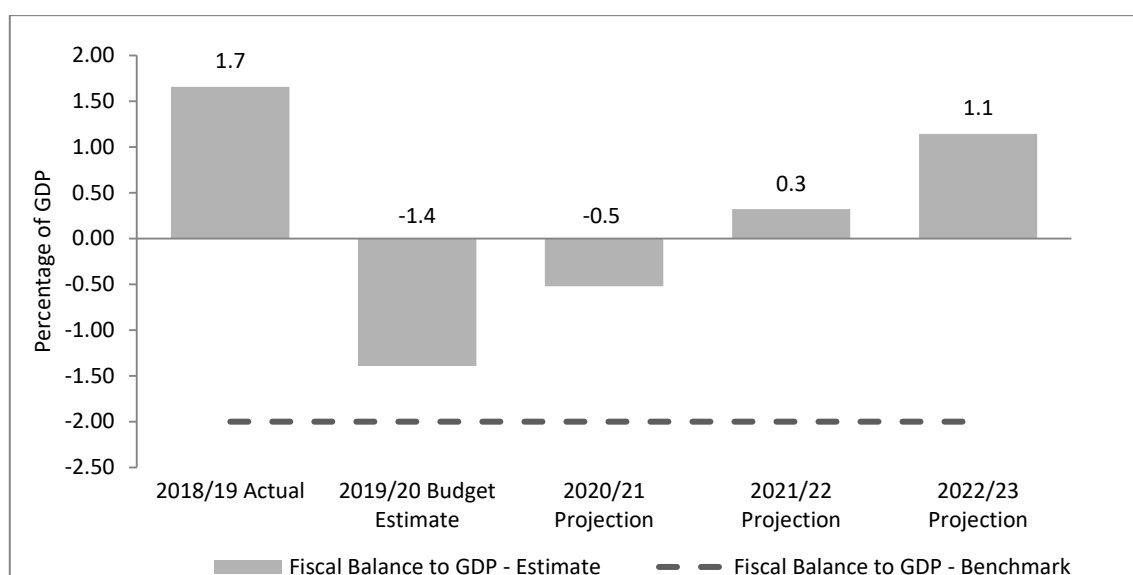
Proposals to take on new loans are treated under transparent processes as required by the MFEM Act 1995/96 and the LRF Act 2014. The LRF Act 2014 requires MFEM to analyse and report to the Parliament and the public on the impact of new borrowing in the context of the Government's lending policy, including the amortisation schedule, the impact on debt service burden of the Government over the life of the loan, and an assessment of the sustainability of aggregate Government debt. Reports are required to be made in advance of loan agreements being finalised.

4.3.2 Fiscal balance rule

The fiscal balance is the operating balance less net capital expenditure (total capital expenditure less depreciation). Where the fiscal balance is in deficit, it must be serviced through lending or a drawdown of reserve funds. The rule states that the fiscal balance cannot exceed a deficit of 1.9 percent of GDP to ensure that Government does not accumulate debt too quickly, and taken together with the net debt to GDP rule, ensures that debt is managed and taken on within sustainable levels.

As Figure 4-4 illustrates, the Government's expected fiscal balances for 2019/20 is a deficit of 1.4 per cent of GDP, well within the benchmark. The fiscal balance is expected to improve over forward estimates to a surplus of 1.1 per cent of GDP in 2022/23.

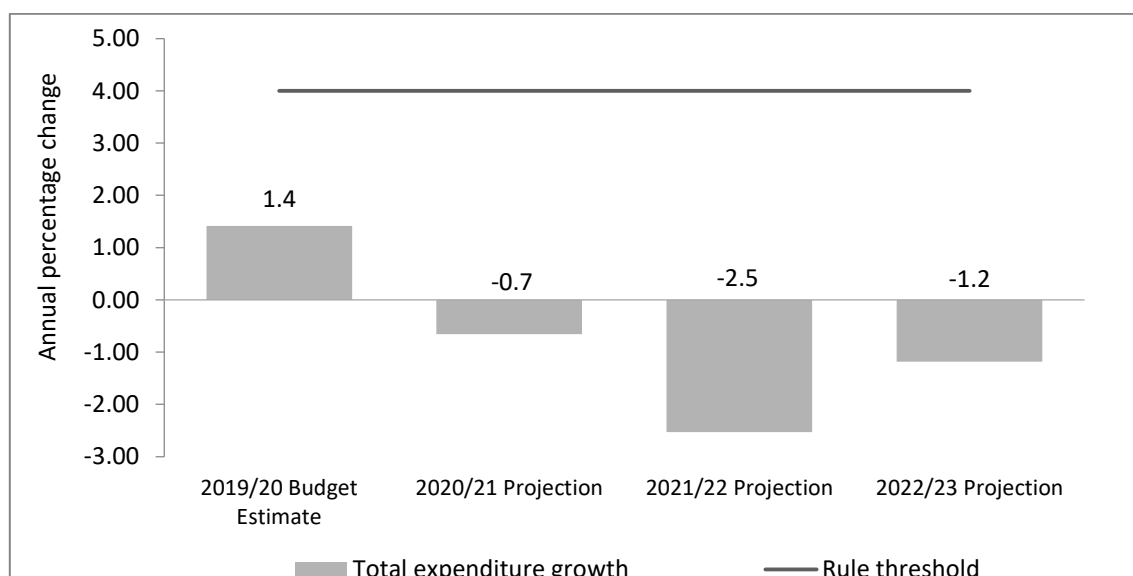
Figure 4-4 Fiscal balance to GDP, 2018/19 to 2022/23



4.3.3 Expenditure rule

The expenditure rule, introduced for the first time in the 2019/20 Budget, controls Government expenditure, operating and capital, by limiting year-on-year growth to a maximum of 4 per cent. As shown in Figure 4-5, the expenditure profile in 2019/20 and over the forward estimates is well within the threshold.

Figure 4-5 Expenditure growth, 2019/20 to 2022/23

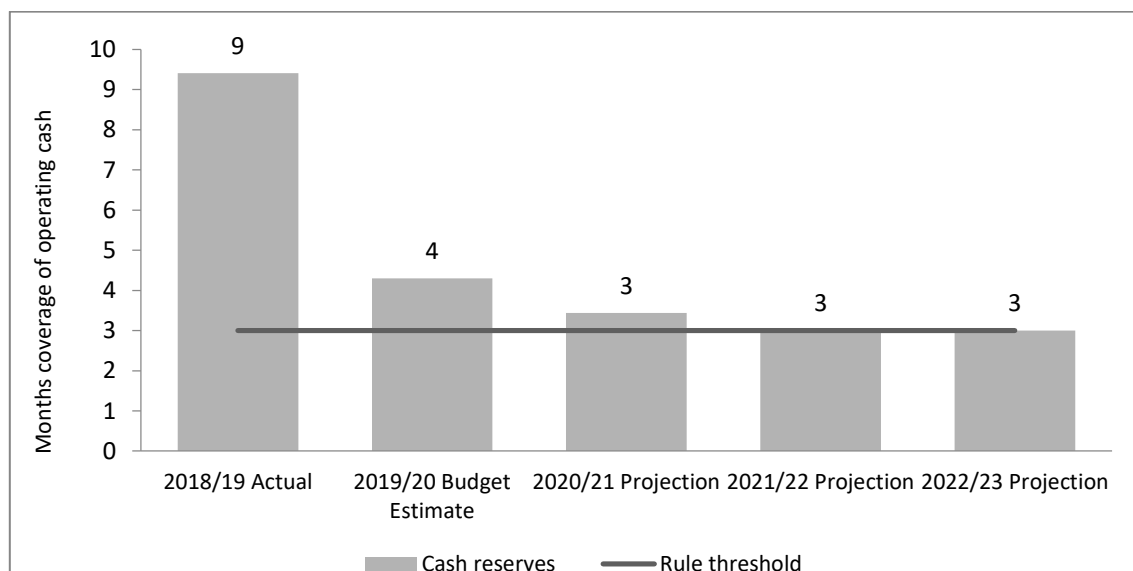


4.3.4 Cash reserves rule

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

Figure 4-6 shows that the Government is currently in a strong position to support any liquidity shortage should it be required.

Figure 4-6 Cash reserves to operating expenditure, 2018/19 to 2022/23



Sensitivity performance against the rules under a range of fiscal and economic scenarios, positive and negative, is analyzed in Chapter 4.11.

4.4 Establishment of reserve funds

With a view to improving the fiscal resilience of the Cook Islands against economic shocks and natural disasters, and collecting revenues from seabed minerals harvesting for future generations, the Government has committed to establishing two reserve funds under the MTFS.

Stabilisation Account

The first is the Stabilisation Account, which holds excess cash and will be used to make additional debt repayments in periods of strong economic growth, and to cover operational and capital expenditure during periods of economic contractions.

The Stabilisation Account has been set up in the 2019/20 budget, with \$56.7 million of the \$115.5 million unencumbered cash as at 1 July 2019.

To guide the administration of the account, MFEM has drafted a Stabilisation Account Policy. This sets out clear rules around transfers into and out of the account, along with investment strategies for managing the funds in the account.

Once a minimum balance, which will initially be set at \$25 million, has been reached in the Stabilisation Account, the funds can be used to make additional repayments on current debt during periods of real economic growth greater than 4 per cent per year. The decision to make additional repayments, as opposed to maintaining funds in the Stabilisation Account will be guided by a Debt Management Strategy to be developed in 2019.

During periods of real economic contraction, defined as growth less than 1 per cent per year, funds can be drawn from the Stabilisation Account to fund government operations and investment, however the use of the funds must not result in a breach of the MTFS fiscal rules.

Sovereign Wealth Fund

The second reserve fund is a Sovereign Wealth Fund which will capture the revenues expected in the future from seabed minerals harvesting for use by future generations. The fund will be scoped and established in concert with the development of the seabed minerals sector.

4.5 Medium-term expenditure ceilings

A medium-term expenditure profile, effectively a Government budget ceiling for each year of the 2019/20 budget cycle, that is both consistent with the fiscal rules and the economic context, was announced in the MTFS. Table 4-1 shows the profile, along with the fiscal space, indicating the amount of additional expenditure that the Government can undertake in each year compared to the respective forward estimates set out in the 2018/19 Budget.

Table 4-1 Expenditure profile performance

| \$ million | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|--------------|--------------|--------------|--------------|
| Total expenditure – MTFS planned | 206.3 | 204.8 | 205.2 | 205.2 |
| Fiscal space | 8 | 23 | 40 | 40 |
| Total expenditure – 2019/20 Budget | 210.7 | 209.3 | 204.0 | 201.6 |
| Under (+)/ Over (-) | 2% | 2% | 0% | -2% |

In determining the recommended expenditure profile for the MTFS, MFEM considered two fiscal space measures, both consistent with the MTFS fiscal rules: the structural deficit ceiling approach, which estimates the difference between the structural fiscal balance and nominal fiscal balance, and the cyclically-adjusted balance method, which accounts for the effects of business cycle fluctuations on revenue and expenditure. MFEM then adopted a ceiling which provided a fiscally responsible level of fiscal space, while acknowledging the investment needs of the country.

The total expenditure estimates contained in the 2019/20 Budget are slightly higher than the announced ceilings for 2019/20 and 2020/21, as shown in Table 4-1. This expenditure remains consistent with the fiscal rules, as shown in section 4.3, with the minor increase reflecting the need to invest in improving the productive capacity of both the economy and the Government over the next four years:

- investing in infrastructure that will ensure the sustainability of economic growth and the resilience of the economy to climate change; and
- investing in the capabilities of Government Agencies to ensure that they are operating effectively and efficiently.

To guide the development of medium-term expenditure ceilings for each Government Agency within the overall ceiling, MFEM commissioned a Government-wide public expenditure review (PER). The focus of the review was on the efficiency and effectiveness of Government Agencies in meeting their National Sustainable Development Plan goals. This information in turn informed the budget allocations for 2019/20 to 2022/23 that are presented in this Budget.

The resulting allocation of the budget ceiling is shown in Table 4-2. This highlights in particular the adjustments to baseline operating expenditure for Agencies, Ministerial support and the Pa Enua, Administered payments and Payments on behalf of the Crown (POBOC).

Table 4-2 Aggregate ceiling breakdown, \$ million

| Category | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-------------------------------------|--------------|--------------|--------------|--------------|
| Baseline* | | | | |
| Ministries | 106.1 | 104.2 | 104.2 | 104.2 |
| Pa Enua | 10.1 | 10.1 | 10.1 | 10.1 |
| Ministerial Support | 2.2 | 2.2 | 2.2 | 2.2 |
| Baseline - Total | 118.4 | 116.5 | 116.6 | 116.6 |
| Operating Adjustment | | | | |
| Ministries | 5.0 | 10.5 | 14.2 | 14.5 |
| Pa Enua | .6 | 1.3 | 1.3 | 1.3 |
| Ministerial Support | .3 | .3 | .3 | .3 |
| Depreciation | 2.1 | 2.1 | 2.1 | 2.1 |
| Administered Payments | 7.1 | 6.4 | 7.2 | 4.9 |
| Operating Adjustment - Total | 15.2 | 20.7 | 25.1 | 23.2 |
| New Total Operating Baseline | 133.5 | 137.2 | 141.7 | 139.7 |
| POBOC | | | | |
| Baseline | 26.2 | 26.2 | 26.2 | 26.2 |
| Adjustments | 1.5 | 1.7 | 1.6 | 1.7 |
| POBOC Total | 27.7 | 27.9 | 27.8 | 27.9 |
| Capital | 40.4 | 35.5 | 26.1 | 25.5 |
| Other | 9.1 | 8.8 | 8.6 | 8.6 |
| Total | 210.7 | 209.3 | 204.0 | 201.6 |



















* Includes Personnel, Operating, Administered Payments and Depreciation

4.6 Medium-term national priorities

The medium-term expenditure ceiling has been allocated across a range of National Sustainable Development Plan 2016–20 (NSDP) goals, as agreed by Government at the November 2018 Cabinet Retreat.

The priority goals for each year of the 2019/20 Budget and forward estimates is shown in Figure 4-7. The medium-term focus is on investing in infrastructure (Goal 5: Build resilient infrastructure and ICT to improve our standard of living) and climate change resilience (Goal 13: Strengthen resilience to combat the impacts of climate change and natural disasters). These two goals are priorities for 2019/20 and each of the forward estimate years

Figure 4-7 Medium-term NSDP goal priorities

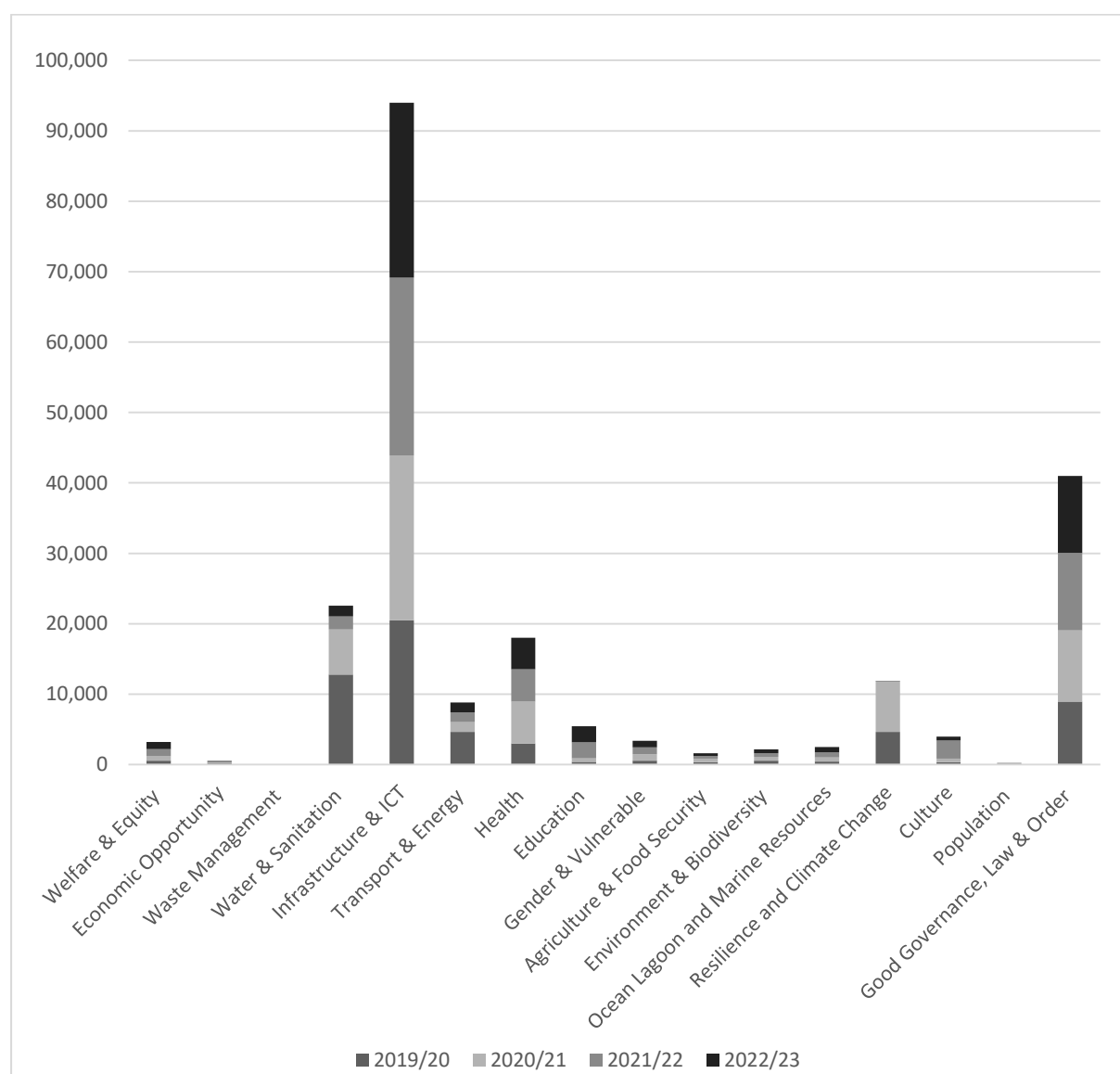
| 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|--|--|--|
| <div></div> <div>Goal 9: Gender & the Vulnerable</div> | <div></div> <div>Goal 8: Education</div> | <div></div> <div>Goal 3: Waste Management</div> | <div></div> <div>Goal 1: Welfare & Equity</div> |
| <div></div> <div>Goal 16: Good Governance, Law & Order</div> | | <div></div> <div>Goal 6: Transport & Energy</div> | <div></div> <div>Goal 2: Economic Opportunities</div> |
| <div></div> <div>Goal 7: Health</div> | | <div></div> <div>Goal 12: Ocean Lagoon and Marine Resources</div> | <div></div> <div>Goal 15: Population</div> |
| <div></div> <div>Goal 13: Resilience and Climate Change</div> | | | |
| <div></div> <div>Goal 11: Environment & Biodiversity</div> | <div></div> <div>Goal 10: Agriculture & Food Security</div> | <div></div> <div>Goal 14: Culture</div> | <div></div> <div>Goal 7: Health</div> |
| <div></div> <div>Goal 5: Infrastructure & ICT</div> | | | |
| <div></div> <div>Goal 4: Water & Sanitation</div> | | | <div></div> <div>Goal 8: Education</div> |

A summary of the new expenditure initiatives by priority goal for 2019/20 is outlined below in Table 4-3 and Figure 4-8. This covers all funding for capital projects and new funding allocated into operating (ie existing operating baselines are not considered here). A total of \$219 million is allocated towards capital and new operating funding initiatives across the medium-term. Areas of more substantial funding are further described below, and further detail is provided in Chapter 12.

Table 4-3 Summary of Operating and Capital Initiatives (\$000's)

| Goal | Summary of New Initiatives | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total | % |
|--------------|-----------------------------------|---------------|---------------|---------------|---------------|----------------|-------------|
| 1 | Welfare & Equity | 549 | 684 | 939 | 1,024 | 3,196 | 1.5% |
| 2 | Economic Opportunity | 200 | 100 | 111 | 111 | 522 | 0.2% |
| 3 | Waste Management | 0 | 0 | 0 | 0 | 0 | 0.0% |
| 4 | Water & Sanitation | 12,772 | 6,430 | 1,855 | 1,500 | 22,557 | 10.3% |
| 5 | Infrastructure & ICT | 20,474 | 23,415 | 25,265 | 24,815 | 93,969 | 42.9% |
| 6 | Transport & Energy | 4,616 | 1,396 | 1,396 | 1,396 | 8,805 | 4.0% |
| 7 | Health | 2,976 | 5,980 | 4,580 | 4,480 | 18,016 | 8.2% |
| 8 | Education | 390 | 510 | 2,269 | 2,269 | 5,437 | 2.5% |
| 9 | Gender & Vulnerable | 536 | 958 | 939 | 940 | 3,374 | 1.5% |
| 10 | Agriculture & Food Security | 340 | 490 | 390 | 390 | 1,610 | 0.7% |
| 11 | Environment & Biodiversity | 542 | 537 | 537 | 537 | 2,152 | 1.0% |
| 12 | Ocean Lagoon and Marine Resources | 400 | 590 | 740 | 740 | 2,470 | 1.1% |
| 13 | Resilience and Climate Change | 4,650 | 7,150 | 50 | 50 | 11,900 | 5.4% |
| 14 | Culture | 330 | 525 | 2,548 | 548 | 3,951 | 1.8% |
| 15 | Population | 50 | 50 | 50 | 50 | 200 | 0.1% |
| 16 | Good Governance, Law & Order | 8,955 | 10,093 | 11,008 | 10,913 | 40,969 | 18.7% |
| Total | | 57,779 | 58,908 | 52,677 | 49,763 | 219,128 | 100% |

Figure 4-8 Summary of Expenditure by 2019/20 goals, 2019/20 – 2022/23



Note that the allocation of funding into goals is quite subjective. Individual projects and funding initiatives will often have a benefit across multiple goals at any time, such an analysis is not practical here, hence projects and funding initiatives are assigned to a single goal in each case.

Goal 4 – Water and Sanitation - 10 per cent of the total, is largely the result of two legacy water and sewerage projects which are mid-construction or project planning; Te Mato Vai and Mei Te Vai Ki Te Vai.

Goal 5 – Infrastructure and ICT - 43 per cent of the total, include a significant ramp up in road and sea transport infrastructure and drainage capital projects.

Goal 7 – Health - Funding to enable hiring and retention of specialist medical staff and a CT Scanner to improve primary diagnosis and care within the Cook Islands.

Goal 13 – Resilience & Climate Change - Primarily composed of new Cyclone Centers for the Pa Enea.

Goal 16 – Governance, Law and Order - accounts for 19 per cent of the total spend. This includes substantial new operating funding for Ministry of Justice to increase personnel and thereby improve systemic efficiency, funding for the Cook Islands Police Service to improve wages and hiring capacity, and Ministry of Corrective Services to strengthen the prison and probation services. Operating shortfalls which have been restricting the ability of government agencies to deliver effectively have also been funded across the whole of government.

4.7 Medium-term fiscal outlook

The Cook Islands has continued the strong run of economic growth seen in recent years, generating a stream of Government revenue that has increased at a faster rate than Government expenditure, providing a sound fiscal basis for the 2019/20 Budget. A strong fiscal position makes the Cook Islands more resilient to future economic shocks and natural disasters.

Fiscal performance and outlook

Figure 4-9 shows a time series of general Government operating revenue and expenditure from 2012/13 to 2018/19, with forecast data included for the medium-term. The chart shows that, on average over the last six years, Government operating revenues have been rising at a slightly faster rate (9 per cent) than operating expenditure (8 per cent). From 2012/13 to 2014/15, the net operating balance averaged \$5.8 million. This compares to an average of \$29.1 million over the last four years, a 5-fold increase.

Figure 4-9 Medium-term fiscal outlook (\$'000)

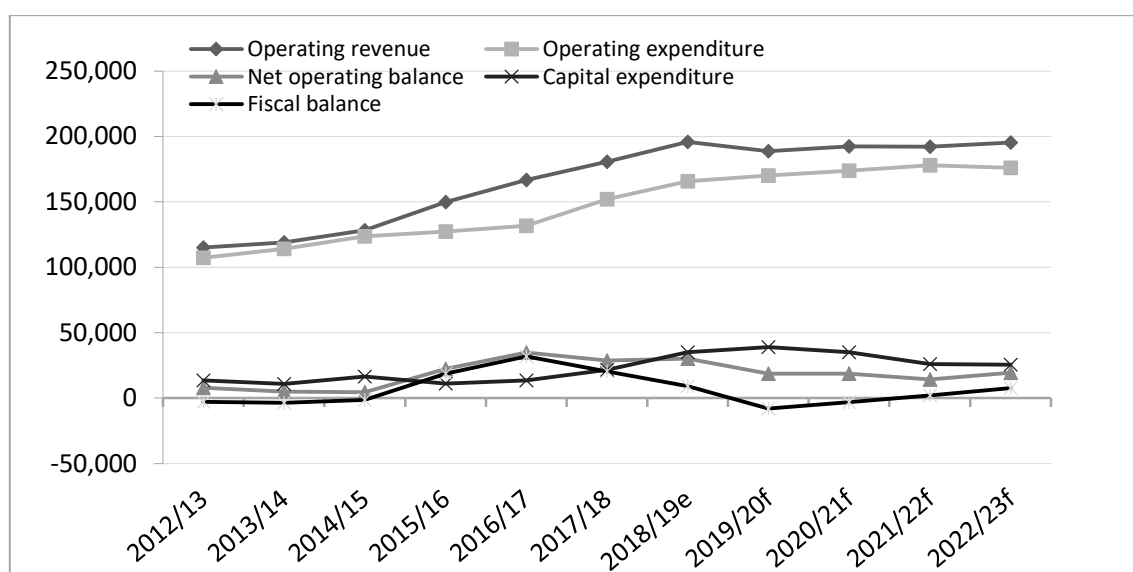


Figure 4-9 also shows capital expenditure and the Government's fiscal balance, which is the net operating balance minus capital expenditure plus depreciation. Expenditure on capital projects has risen, rising from an average of \$13.6 million from 2012/13 to 2014/15, to \$20.4 million over the last four years. This reflects expenditure on a number of large capital projects, such as renewable energy in the Pa Enua, Te Mato Vai and Tereora College.

The fiscal balance has risen from an average of -\$2.6 million from 2012/13 to 2014/15, to \$21.1 million over the last four years.

4.8 Fiscal update

4.8.1 Overview

Table 4-4 Fiscal Indicators Summary

| | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|---|-------------------|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| Statement of Financial Performance | | | | | | |
| Taxation Revenue (\$m) | 140.6 | 144.6 | 151.6 | 156.4 | 159.5 | 162.6 |
| Social Contributions (\$m) | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other Revenue (\$m) | 40.1 | 51.3 | 37.1 | 35.9 | 32.7 | 32.7 |
| Total Operating Revenue (\$m) | 180.7 | 196.0 | 188.8 | 192.4 | 192.3 | 195.4 |
| Total Operating Revenue Percentage of GDP | 35.0 | 35.1 | 32.5 | 31.7 | 30.3 | 29.4 |
| Tax Revenue Percentage of GDP | 27.2 | 25.9 | 26.1 | 25.7 | 25.1 | 24.5 |
| Total Cyclical Revenue (\$m) | 15.3 | 28.3 | 16.9 | 15.8 | 12.7 | 12.9 |
| Total Cyclical Revenue Percentage of GDP | 3.0 | 5.1 | 2.9 | 2.6 | 2.0 | 1.9 |
| Total Structural Revenue (\$m) | 165.3 | 167.7 | 171.9 | 176.6 | 179.6 | 182.5 |
| Total Structural Revenue Percentage of GDP | 32.0 | 30.1 | 29.6 | 29.1 | 28.3 | 27.5 |
| Personnel (\$m) | 55.7 | 62.0 | 69.6 | 74.5 | 77.9 | 78.3 |
| Percentage of Total Revenue | 30.8 | 31.6 | 36.8 | 38.7 | 40.5 | 40.1 |
| Percentage of Structural Revenue | 33.7 | 37.0 | 40.5 | 42.2 | 43.4 | 42.9 |
| Total Operating Expenditure (\$m) | 152.0 | 165.7 | 170.2 | 173.7 | 177.9 | 176.0 |
| Percentage of GDP | 29.4 | 29.7 | 29.3 | 28.6 | 28.0 | 26.5 |
| Percentage of Operating Revenue | 84.1 | 84.5 | 90.2 | 90.3 | 92.5 | 90.1 |
| Cash Operating Expenditure* | 138.6 | 151.5 | 155.8 | 159.6 | 164.0 | 162.2 |
| Operating Balance (\$m) | 28.7 | 30.3 | 18.6 | 18.6 | 14.4 | 19.4 |
| Percentage of GDP | 5.6 | 5.4 | 3.2 | 3.1 | 2.3 | 2.9 |
| Capital Expenditure | 21.6 | 35.2 | 40.4 | 35.5 | 26.1 | 25.5 |
| Depreciation | 13.3 | 14.2 | 13.7 | 13.7 | 13.7 | 13.7 |
| Non Operating Balance (\$m) | -20.5 | -40.4 | -87.2 | -39.0 | -35.1 | -34.5 |
| Fiscal Balance surplus/deficit (\$m) * | 20.4 | 9.2 | -8.1 | -3.2 | 2.0 | 7.6 |
| Percentage of GDP | 3.95 | 1.7 | -1.4 | -0.5 | 0.3 | 1.1 |
| Statement of Financial Position (\$m) | | | | | | |
| Assets (\$m) | 431.3 | 466.1 | 535.1 | 566.2 | 581.4 | 591.4 |
| Liabilities (\$m) | 155.0 | 152.0 | 166.9 | 156.4 | 133.5 | 121.9 |
| Crown Balance (\$m) | 276.3 | 314.1 | 368.2 | 409.8 | 447.9 | 469.4 |
| Percentage of GDP | 53.5 | 56.3 | 63.3 | 67.5 | 70.5 | 70.6 |
| Working Capital (\$m) | 125.9 | 130.5 | 58.8 | 47.8 | 41.3 | 39.9 |
| Working Capital (months coverage) | 10.9 | 10.3 | 4.5 | 3.6 | 3.0 | 3.0 |
| Statement of Borrowings (\$m) | | | | | | |
| Gross Debt end of FY (\$m) | 113.7 | 138.8 | 129.5 | 120.3 | 109.5 | 99.1 |
| Excluding Contingency Loan | 129.6 | 124.9 | 115.5 | 106.4 | 96.1 | 86.9 |
| Percentage of GDP | 22.0 | 31.1 | 22.3 | 19.8 | 17.2 | 14.9 |
| Net Crown Debt, end of FY (\$m) | 95.6 | 117.9 | 108.0 | 99.2 | 89.4 | 80.1 |
| Percentage of GDP | 16.8 | 26.4 | 18.6 | 16.3 | 14.1 | 12.1 |
| Loan Repayment Reserves Held (\$m) | 18.1 | 20.9 | 21.4 | 21.1 | 20.1 | 19.0 |
| Net Debt Servicing (\$m) | 10.3 | 7.3 | 7.1 | 8.0 | 9.3 | 9.7 |
| Percentage of Total Revenue | 5.8 | 3.9 | 3.8 | 4.1 | 4.8 | 4.9 |
| Percentage of Structural Revenue | 6.8 | 4.5 | 4.1 | 4.5 | 5.2 | 5.3 |
| Development Partner Support (\$m) | | | | | | |
| Grants (\$m) | 50.6 | -22.8 | -57.5 | -28.9 | -14.6 | -3.8 |
| Percentage of GDP | 9.8 | -4.1 | -9.9 | -4.8 | -2.3 | -0.6 |
| Memo item: Nominal GDP (\$m) | 516.3 | 557.9 | 581.4 | 607.4 | 635.2 | 664.5 |

The 2019/20 Budget has been developed in the context of continuing strong economic growth and similarly strong fiscal actuals in recent years, but with moderating future growth expectations. This Budget is mildly expansionary with minor growth in Government operating expenditures. Growth in operating revenues are expected to result in continued operating surpluses averaging \$18 million per year over the budget and forward years.

Total operating revenue as a percentage of GDP falls from 32.5 per cent in 2019/20 to 29.4 per cent in 2022/23. Operating expenditure is also expected to decrease, from 29.3 per cent of GDP in 2019/20 to 26.5 per cent in 2022/23. Expenditure on personnel is expected to rise as a percentage of total revenue over the forwards, from 36.8 per cent in 2019/20 to 40.1 per cent in 2022/23.

Capital expenditure increases to \$40.4 million in the 2019/20 Budget, and is expected to moderate in the forward years to \$25.5 million in 2022/23, noting that there are several potential large projects whose timing is yet to be determined. The fiscal balance is forecast to improve from a deficit of 1.4 per cent in 2019/20 to a fiscal surplus of 1.1 percent 2022/23.

With the introduction of the Stabilisation Account in 2019/20, the expected cash in excess of 4-months of operating expenditure at the end of 2019/20, about \$56.7 million, has been reserved into the account.

Due to the high cash levels, no new loans have been committed to in the 2019/20 Budget. Additionally, drawdowns of some existing commitments have been delayed due to project delays, resulting in a shift in the debt profile over the forward estimates. Net debt is now expected to have peaked at 26.4 per cent of GDP in 2018/19, before decreasing to 18.9 per cent in 2019/20 and falling further to 12.1 per cent by 2022/23.

In terms of fiscal policy and macroeconomic stability, the 2019/20 Budget reflects the fiscal responsibility principles as outlined in the MFEM Act:

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

4.8.2 Movements since the 2018/19 Supplementary Budget

The 2019/20 Budget classifies expenditure and revenue adjustments according to the following categories:

- Policy decisions leading to new initiatives undertaken by Government;
- Technical adjustments;
- Reclassification of expenses; 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 4-5 shows the movements from the 2018/19 Supplementary Budget (Supplementary) to the 2019/20 Budget, which are explained in greater detail below.

Table 4-5 Reconciliation of Operating Statement (\$000)

Reconciliation of Operating Revenue and Expense between 2018/19 Supplementary Budget and 2019/20 Budget

| Statement of Government Operations | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|----------------|----------------|----------------|----------------|----------------|
| Operating balance as at 2018/19 | | | | | |
| Supplementary | 19,182 | 36,749 | 44,634 | 51,306 | 51,306 |
| Revenue | | | | | |
| Revenue Parameter Changes | -3,518 | -2,656 | -3,717 | -6,125 | -3,002 |
| <i>Adjustments to:</i> | | | | | |
| Value Added Tax (VAT) | 1,468 | 354 | -819 | -3,102 | -1,703 |
| Income tax | -1,141 | -1,316 | -1,067 | -1,055 | -819 |
| Import levies | 573 | 311 | 325 | 340 | 442 |
| Company tax | -3,526 | -1,678 | -1,786 | -1,894 | -1,344 |
| Departure tax | 98 | 130 | 139 | 147 | 839 |
| Withholding tax | -989 | -457 | -510 | -561 | -417 |
| Other Revenue Changes | 14,350 | 1,155 | -144 | -4,323 | -4,313 |
| Other revenue | 14,350 | 2,874 | 1,573 | -2,626 | -2,616 |
| Trading Revenue | 0 | -1,719 | -1,717 | -1,697 | -1,697 |
| Dividend | 0 | 0 | 0 | 0 | 0 |
| Core Sector support | 0 | 0 | 0 | 0 | 0 |
| Total Revenue Changes to 2019/20 | | | | | |
| Budget | 10,832 | -1,501 | -3,862 | -10,448 | -7,315 |
| Expenditure | | | | | |
| Expenditure Decisions by Government | 0 | 15,048 | 20,576 | 24,940 | 23,071 |
| Technical adjustments | -281 | 1,619 | 1,569 | 1,545 | 1,548 |
| Reclassifications of expenditure | 0 | 0 | 0 | 0 | 0 |
| Parameter changes | 0 | 0 | 0 | 0 | 0 |
| Total Expenditure Changes to 2019/20 | | | | | |
| Budget | -281 | 16,667 | 22,145 | 26,485 | 24,619 |
| OPERATING BALANCE as at 2019/20 Budget | 30,295 | 18,581 | 18,627 | 14,373 | 19,372 |
| Capital Expenditure | 35,197 | 40,410 | 35,540 | 26,070 | 25,520 |
| Depreciation | 14,151 | 13,742 | 13,742 | 13,742 | 13,742 |
| FISCAL BALANCE - as at 2019/20 Budget | 9,248 | -8,088 | -3,171 | 2,045 | 7,593 |

Table 4-5 shows the change in estimates of operating revenue and expenditure since the 2018/19 Supplementary Budget (Supplementary).

For 2018/19 upward revisions have been made to Other Revenue estimates for 2018/19, principally due to increases to Fishing Licences (\$11.45 million), Fisheries Treaties (\$1.8 million) and dividends (\$450,000).

Upward revisions for 2019/20 also primarily consist of Fishing Licenses (\$1.5 million) and Fishing Treaties (\$0.5 million), and dividends (\$350,000).

Changes to Other Revenue forecasts reflect a drop in 2021/22 principally due to the expiry of contracts under Fishing Treaties. These values may change as new contracts are negotiated in coming years.

The Government increased its appropriation of operating expenditures since the Supplementary for the 2019/20 Budget and the forward estimates. Operating expenditure adjustments predominantly comprise of expenditure decisions by Government, peaking in 2021/22 at \$24.9 million.

Primary drivers for these changes are the minimum wage increases and government payroll adjustments in support of NSDP Goal 1 (Welfare & Equity), Goal 2 (Economic Opportunities), and Goal 16 (Good Governance, Law & Order). The \$15.8 million adjustment for 2019/20 primarily relates to revised baselines for all government agencies, covering shortfalls in operating and personnel, supporting Goal 16.

At the time of the last official update to the financial estimates in March 2019 for the Supplementary, it was anticipated that the 2018/19 operating balance would be in surplus of \$19.2 million. After updating revenue and economic forecasts, the estimated operating budget surplus has increased significantly to \$30.3 million for 2018/19. Operating surpluses have similarly been revised upwards for the forward estimates, showing a decreasing trend from \$18.6 million in 2019/20 towards \$14.4 million in 2021/22 (pending the above-mentioned Fishing Treaties, before returning to \$19.4 million.

4.8.3 Revenue

Total operating revenue in 2019/20 is estimated at \$188.8 million; consisting of \$151.6 million in tax revenue and \$37.1 million in non-tax revenue.

Total revenue changes are reflected in Table 4-6 Operating revenue, 2017/18 to 2022/23 (\$'000). Overall movements since the release of the Supplementary continue to indicate that tax revenue will increase over the forward years from 2019/20 to 2022/23.

Table 4-6 Operating revenue, 2017/18 to 2022/23 (\$'000)

| | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|-------------------------|-------------------|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| Taxation Revenue | | | | | | |
| Value Added Tax (VAT) | 63,509 | 69,592 | 72,759 | 75,557 | 76,957 | 78,356 |
| Income tax | 28,689 | 27,724 | 27,773 | 28,244 | 28,479 | 28,715 |
| Company tax | 21,760 | 19,664 | 22,170 | 22,720 | 23,270 | 23,820 |
| Import levies | 14,165 | 14,732 | 14,557 | 14,659 | 14,761 | 14,863 |
| Withholding tax | 1,842 | 1,518 | 2,247 | 2,391 | 2,536 | 2,680 |
| Departure tax | 10,623 | 11,405 | 12,120 | 12,813 | 13,505 | 14,197 |
| Other Revenue | 32,593 | 44,703 | 32,277 | 31,047 | 27,828 | 27,838 |

Income tax is expected to remain steady at \$28 million in 2019/20 and over the forward estimates. Company tax is estimated to increase to around \$23 million over the forward estimate from \$22 million in 2019/20. This too is expected to slowly increase over the forward estimates, as shown in Table 4-6.

VAT is expected to reach \$72.6 million in 2019/20. With continued economic growth, VAT is expected to continue to continue growing in-line with economic movements, reaching \$78.4 million in 2022/23.

Departure Tax estimates have been revised downwards slightly, however it is still expected to be higher than 2017/18 actuals, at \$11.4 million in 2018/19 with increases continuing over the forward estimates.

4.8.4 Expenditure

Changes in expenditure are made up of three broad types of changes, parameter changes, policy changes, reclassifications and technical changes. Following the Supplementary there have been significant changes in expenditures, predominantly expenditure decisions on behalf of the Government.

As shown in Table 4-7, total operating expenditure in 2019/20 is expected to reach \$171.1 million, an increase of \$4.8 million on 2018/19. This increase is largely the result of new spending initiatives in the 2019/20 Budget. The new expenditure initiatives being pursued by Government in the 2019/20 Budget aim to address the 2019/20 medium-term NSDP goals while continuing to build capacity within Government.

Government agency spending shortfalls have been identified and addressed in support of Goal 16 (Good Governance, Law & Order), and substantial additional increases in operating and administered funding focused on the improvement of both digital and physical infrastructure, including roads, the government IT network and digital infrastructure and Te Mato Vai. Additional funding for Personnel has been directed to the Pa Enua to support the Island Administrations and their staff.

Table 4-7 Operating expenditure, 2017/18 to 2022/23(\$'000)

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|------------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Actual | Estimate | Forecast | Forecast | Forecast | Forecast |
| Personnel | 50,437 | 56,241 | 62,493 | 67,383 | 71,065 | 71,422 |
| Operating | 20,199 | 21,153 | 20,380 | 21,691 | 21,702 | 21,710 |
| Administered Payments | 33,587 | 45,586 | 43,604 | 40,977 | 41,743 | 39,424 |
| Depreciation | 4,783 | 7,375 | 6,966 | 6,966 | 6,966 | 6,966 |
| POBOC | 24,850 | 25,473 | 27,746 | 27,884 | 27,827 | 27,912 |
| Other Operating Expense | 18,137 | 9,861 | 9,059 | 8,832 | 8,613 | 8,613 |
| Total Operating Expenditure | 151,993 | 166,273 | 171,055 | 174,521 | 178,700 | 176,835 |

Key expenditure areas are shown below, with greater detail of the funding provided against each goal in Chapter 12.

Law & Order

Shortfalls in Police personnel funding have been addressed to facilitate hiring and personnel retention, with the aim of strengthening the police force. Additional funding has been directed towards the Ministry of Justice to support the employment of additional staff, in order to better manage the existing workload. The 2019/20 Budget also finalizes the split of the Ministry of Corrective Services from the Ministry of Justice, with its own independent funding, which will increase over the next 4 years in order to strengthen the prison and probation services, with the aim of building a system that decreases recidivism.

Good Governance

In order to make some progress towards reducing the disparity in pay between the public and private sector, which in-turn affects the ability of the government to hire and retain quality staff and deliver on its programmes, the Government will undertake a phased increase to public-sector pay over the medium-term. This will result in improvements to compensation for existing personnel, and is expected to enable the government to hire staff with greater experience, skills and qualifications in order to strengthen the various agencies.

Welfare & Equity

Increased personnel funding is being made available to agencies impacted by the increases in the minimum wage commencing in 2019/20, particularly Island Administrations. This directly supports Goal 1 by improving equity within the Cook Islands.

The Old Aged Pension for those aged 70 and over has been increased as of 2019/20 to \$700 per month to provide greater financial support to this vulnerable group. Expenditure on the Pension is expected to increase over the medium-term as the population ages. The Care Givers allowance will also increase to \$200 per month as of July 1 2019 to provide greater funding to those who care for the vulnerable in our community.

Health

Ministry of Health has been allocated \$1.8 million in additional funding in 2019/20 to enable the ministry to retain and source necessary specialist staff, provide better services to the Pa Enua and to ensure that additional funding is available for the Patient Referral fund.

Pa Enua Funding

Since the implementation of the Pa Enua Funding Model, the total pool of funds has been increased once, in the 2018/19 Budget when Government increased the pool by \$280,000. In the 2019/20 budget this additional funding is extended by another \$400,000 beyond the funding formula and minimum wage adjustments with a focus on Island Administrations being able to employ sufficient personnel and increase productivity.

4.8.5 Capital budget

Total capital spending, from both the Cook Islands Government and donor sources in 2019/20 is estimated to reach \$87.5 million, including \$47.0 million from donors.

The Cook Islands' Government (CIG) funded capital expenditure will be funded by the Crown's cash reserves. CIG Capital expenditure is estimated to be \$40.41 million in 2019/20, as shown in Table 4-8. The Government has committed to a significant infrastructure program on Rarotonga and the Pa Enua. Projects include; water, renewable energy, roads, harbour rehabilitation, cyclone centers, and telecommunications infrastructure, all of which aim to improve the livelihoods of Cook Islanders.

Table 4-8 CIG Capital expenditure, 2017/18 to 2022/23 (\$'000)

| | 2018/19 Budget | 2019/20 Forecast | 2020/21 Forecast | 2021/22 Forecast | 2022/23 Forecast |
|----------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| CIG Capital Expenditure | 35,197,383 | 40,410,336 | 35,540,000 | 26,070,000 | 25,520,000 |
| Official Development Assistance | 18,265,475 | 47,093,335 | 21,154,309 | 12,000,000 | 2,000,000 |
| Total Capital Expenditure | 53,462,858 | 87,503,671 | 56,694,309 | 38,070,000 | 27,520,000 |

The Government is committed to improving the fiscal balance going forward. Capital estimates over the medium-term consider the local capacity to deliver and complete projects, reinforcing proper planning and improving the fiscal position of Government. The Government has provided additional support to relevant agencies to facilitate greater project management to aid this goal.

Refer to the capital expenditure chapter (Chapter 9) for a detailed analysis of all capital projects for 2019/20 to 2022/23, this includes all capital projects funded through the Cook Islands Government.

Physical Infrastructure, Water and Sanitation

Infrastructure Cook Islands is receiving substantial additional funding which will be directed primarily towards road maintenance and improvement, as well as bridges and drainage. On Rarotonga, existing asphalt road services are expected to be extended through to Tupapa, amongst others. The main bridge in Avarua is also to be replaced. Funding is also provided for road improvements in the Pa Enua.

Water security is a key focus of the Government. As such, funding has been allocated to facilitate water infrastructure projects both in the Pa Enua (Mitiaro, Aitutaki and various other water tanks which require replacement) as well as Rarotonga (Te Mato Vai).

Digital Infrastructure

In order to allow the government to utilise more efficient and effective technology to manage its finances and communication, funding has been allocated to strengthen the existing network infrastructure. This is expected to allow the government to successfully roll-out the Financial Management Information System (FMIS) across all government agencies over the next several years, as well as leverage the improved internet expected to be delivered by Avarua Cable Limited and the Manatua Cable.

Health

An amount of \$1.5 million (\$1.3 million in 2020/21, \$100,000 in 19/20 and 21/22) for the purchase of a CT Scanner which will facilitate better primary care in the Cook Islands.

4.9 Assumptions underlying the economic and fiscal projections

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

4.9.1 Economic

Introduction

The Cook Islands Statistics Office publishes current price and real price (2016 base year) estimates of GDP on quarterly basis, using the production approach. GDP production estimates are disaggregated by major industry classifications, including institutional sectors. The latest data from the Statistics Office is for the September Quarter 2018.

The Government has relied on an econometric time series model to forecast GDP, generating estimates of GDP production for 2018/19, and forecasts for the 4-year forward budget period from 2019/20 to 2022/23.

The aggregate and component outputs of the GDP model are presented in Chapter 5.

GDP production model

A time series ARIMA modelling approach was used to forecast aggregate GDP production, in real terms.⁴ A combination forecasting method has been adopted, utilising a range of quarterly time series models, multivariate and 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.⁵

The GDP forecasts assume historical trends in government expenditure, rather than current policy commitments.

⁴ 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).

⁵ Available at: <http://www.mfem.gov.ck/economics>.

Data

The key data sets used for the model are:

- Real and nominal GDP – quarterly data to September 2018;
- Trade, imports and exports – quarterly data to December 2018;
- CPI – quarterly index data to March 2019;
- International arrivals – Customs and Immigration monthly data to March 2019;
- Building approvals – quarterly data to December 2018;

Key economic indicator assumptions

Nominal GDP is expected to grow by (see Chapter 5 for more detail):

- 8.1 per cent in 2018/19.
- 4.2 per cent in 2019/20.
- 4.5 per cent in 2020/21.
- 4.6 per cent in 2021/22.
- 4.6 per cent in 2022/23.

Growth in prices, measured through movements in the CPI, and forecast using an econometric time series approach, is expected as follows (see Section 6.4 for more detail):

- 0.4 per cent in 2018/19.
- -0.4 per cent in 2019/20.
- 1.1 per cent in 2020/21.
- 1.6 per cent in 2021/22.
- 1.8 per cent in 2022/23

4.9.2 Fiscal

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

- operating revenues are forecast on the basis of recent trends in economic activity, the economic forecasts set out in Chapter 5, and one off considerations;
- operating expenditure movements reflect current Government policy commitments; and
- the level of Government borrowing is based on exchange rates from Consensus Economics forecasts.

4.10 Economic and fiscal risks

4.10.1 Introduction

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 liabilities – those defined by law or contract, such as debt guarantees; and

- implicit liabilities – moral or expected obligations for the Government, based on public expectations or pressures, such as bailouts of banks or public sector entities.⁶

The Government subscribes to the IMF's Public Expenditure and Financial Accountability (PEFA) program which provides a framework for strengthening public financial management systems using a range of quantitative indicators to measure performance.⁷

PEFA indicator 10 requires governments to monitor and report on the fiscal risks associated with:

- contingent liabilities and other general fiscal risks;
- public corporations – state-owned enterprises in the Cook Islands context; and
- sub-national governments – Island Governments of the Pa Enua.

4.10.2 Sources of risk

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.

Global economic risks

Should the current trade war escalate and cause a global economic downturn, or there is an economic recession in one of the Cook Islands main tourism markets, such as New Zealand, this could reduce the visitor arrivals assumptions that underpin the positive GDP forecasts over the forward budget period. Fewer tourists could impact on the Government's fiscal position by reducing expected tax revenue – for example, less VAT being collected than forecast.

The risk of the US dollar continuing to appreciate, should the Federal Reserve raise US interest rates further, could impact on inflation in the Cook Islands through increased costs of imports. An oil price shock would have a similar effect on inflation.

Exchange rate variations can also 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 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 below.

Domestic capacity risks

As discussed in Chapter 5, the evidence suggests that the Cook Islands economy is currently performing above its potential capacity – that is we are facing a positive output gap. There are already signs of capacity constraints appearing in the labour and housing markets. Should these constraints tighten over the forward period, thanks to higher than expected tourist arrivals, for example, this could impact on the economic and fiscal forecasts by constraining the Government's ability to execute its capital program due to the lack of skilled construction labour.

⁶ IMF (2009), *Fiscal risks: sources, disclosure, and management*. IMF Fiscal Affairs Department. See: <https://www.imf.org/external/pubs/ft/dp/2009/dp0901.pdf>.

⁷ See: <https://pefa.org/>. The Cook Islands Government was assessed in October 2015.

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, especially on Rarotonga. In addition, the heavy reliance on revenues from the tourism sector makes the economy vulnerable to the impact of disasters.

A destructive weather event, such as a cyclone, would have a significant impact on the outlook for Cook Islands economy, and severely impact our fiscal position. The ADB, in its 2016 report on a loan proposal for the Cook Islands Disaster Resilience Program, notes that the Cook Islands has periodically experienced major cyclones that have caused substantial economic damage and loss of life (see Table 4-9).⁸

Table 4-9 Significant cyclones in the Cook Islands

| Year | Name | Category | Estimated losses (\$m) | Estimated losses (% of GDP) |
|------|--------|----------|---------------------------|--------------------------------|
| 1987 | Sally | 2 | 24.6 | 51.6 |
| 1997 | Martin | 3 | 7.5 | 7.6 |
| 2005 | Meena | 4 | 10.0* | 5.5 |
| | Nancy | 4 | | |
| | Olaf | 5 | | |
| | Percy | 5 | | |
| 2010 | Pat | 2 | 7.8 | 3.2 |

* Combined estimated losses for all four cyclones in 2005.

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
- arranging a Disaster Recovery Mechanism loan from the Asian Development Bank (ADB) of \$13.5 million, which will only be triggered and drawn down in the event of a catastrophe.

Contingent liabilities

The Government's contingent liabilities as at 30 June 2019 are summarised in Table 4-10.

⁸ ADB (2016). *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan Cook Islands: Disaster Resilience Program*, Project Number: 50212-001. November 2016.

Table 4-10 Quantifiable contingent liabilities, as at 30 June

| Category | \$'000 |
|--------------------------------|---------------|
| Guarantees and indemnities | 500 |
| Uncalled capital | 1,755 |
| Legal proceedings and disputes | 40,000 |
| Total | 42,255 |

Guarantees and indemnities

Government has entered into a program under the New Zealand Aid Programme focused on Pearl Sector Support run by 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.

Uncalled capital

The Government holds \$1.7 million in the Asian Development Bank – Cook Islands Government Property Corporation. This takes the form of 88 uncalled shares with a par value of USD 13,500 each.

Legal proceedings and disputes

The total quantifiable risk to the Crown under legal proceedings and disputes is about \$40 million.

Financial liabilities relating to Island Governments

Currently, MFEM has not approved any of the Island Governments to take out any contract or security that could result in a potential liability for the Crown.

In terms of public liability or other indemnity, the Island Administrations are not treated differently to other Government agencies. The capacity for the Island Administrations to generate such liabilities is estimated to be low. No risk mitigation has been undertaken to ameliorate risk any more than for other Government bodies that are based in Rarotonga.

Unpaid invoices are a potential risk that would be difficult to mitigate without tighter financial controls than those imposed on other Government agencies. Island Administrations are fully covered by the MFEM Act, MFEM financial policies and procedures, and are accountable to the National Audit Office and the Cook Islands Parliament.

State-owned enterprises

The Cook Islands Government has a number of State-owned Enterprises (SOE's) under the management of the Cook Islands Investment Corporation (CIIC). The key SOE's are the Airport Authority, Bank of the Cook Islands, the Ports Authority and Te Aponga Uira (electricity). CIIC has also recently established two new subsidiary companies, To Tatou Vai Limited (water and sanitation) and Avaroa Cable Limited (Manatua cable project).

The key risk associated with SOE's concerns poor financial performance, and/or excessive borrowing that can result in central governments having to bail out failing enterprises, and potentially restructure their debt, often at substantial budgetary cost. Poor performance can result from a range of factors including:

- exogenous shocks – macroeconomic, for example;
- 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 has put in place a range of measures to mitigate against SOE fiscal risk. These include:

- placing all SOE's under the CIIC umbrella, with one its principal objectives being the efficient, profitable and professional management of SOE's;
- ensuring that SOE debt falls under the broader Government debt ceiling target; and
- providing for a portion of SOE debt repayments in the Loan Repayment Fund.

4.11 Economic and fiscal sensitivity analysis

4.11.1 Introduction

The Cook Islands Government has developed an analytical fiscal tool – the Cook Islands Fiscal Tool 2018 – to first calibrate, and then operationalise the new set of fiscal rules that form the core of the MTFS.

The fiscal tool, which is described in detail in a Technical Paper published on the MFEM website, comprises a number of interrelated elements:⁹

- the Calibration Model;
- the Fiscal & Macro Impact Model:
 - fiscal and macro shocks;
 - fiscal multiplier model; and
 - tax impact.

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 Crown's major trading currencies to assess the impact on gross debt and debt servicing requirements.

The following sections shows the potential impact of a selected range of fiscal and macroeconomic shocks on the 2019/20 Budget profile using the fiscal impact tool, and the impact of exchange rate fluctuations on Crown debt.

4.11.2 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

⁹ See: http://www.mfem.gov.ck/images/CEO/MTFS_Technical_paper_Fiscal_Tool_2018.pdf.

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 linear tax impact model.

Revenue shock

Two revenue shocks are applied: low and high, using the forecast 95 per cent low and high confidence intervals.

The low revenue case, with revenues falling by 14 to 26 per cent per year over the modelling period, is presented in Table 4-11. The fiscal balance breaches the -1.9 per cent of GDP rule in 2019/20 and all the forward years.

Table 4-11 Low revenue shock

| | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------------------|--------------|---------|---------|---------|---------|
| Change in opex (\$m) | | 0 | 0 | 0 | 0 |
| Change in capex (\$m) | | 0 | 0 | 0 | 0 |
| Change in Tax Revenue (\$m) | | -20.5 | -29.2 | -35.5 | -40.8 |
| Fiscal balance (% of GDP) | Base | -1.4 | -0.5 | 0.3 | 1.1 |
| | <i>Shock</i> | -4.9 | -5.3 | -5.2 | -5.0 |

The high revenue case, with revenues higher by 17 to 53 per cent per year over the modelling period, is presented in Table 4-12. The key result is a significant strengthening of the fiscal balance.

Table 4-12 High revenue shock

| | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------------------|--------------|---------|---------|---------|---------|
| Change in opex (\$m) | | 0 | 0 | 0 | 0 |
| Change in capex (\$m) | | 0 | 0 | 0 | 0 |
| Change in tax revenue (\$m) | | 26.4 | 42.5 | 62.2 | 84.8 |
| Fiscal balance (% of GDP) | Base | -1.4 | -0.5 | 0.3 | 1.1 |
| | <i>Shock</i> | 3.2 | 6.5 | 10.2 | 14.0 |

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 4-13. The fiscal balance breaches the -1.9 per cent of GDP rule in 2019/20 and 2020/21, before improving. There is a positive impact on GDP of about 2.5 per cent or \$17 million by 2022/23.

Table 4-13 Higher OpEx shock

| | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------------------|--------------|---------|---------|---------|---------|
| Change in opex (\$m) | | 17 | 17 | 18 | 18 |
| Change in capex (\$m) | | 0 | 0 | 0 | 0 |
| Change in tax revenue (\$m) | | 0.8 | 2.1 | 3.3 | 4.4 |
| Fiscal balance (% of GDP) | Base | -1.4 | -0.5 | 0.3 | 1.1 |
| | <i>Shock</i> | -4.1 | -3.0 | -1.9 | -0.8 |
| Change in nominal GDP | % | 1.0 | 2.1 | 2.6 | 2.5 |
| | \$m | 5.6 | 12.8 | 16.6 | 16.8 |

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 4-14. The negative impact on GDP of about \$16 million by 2022/23 has a knock on effect on revenue of about \$4 million. The net effect on the fiscal balance is positive, with the capital expenditure reduction outweighing the fall in revenue.

Table 4-14 Lower capex shock

| | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------------------|--------------|---------|---------|---------|---------|
| Change in opex (\$m) | | 0 | 0 | 0 | 0 |
| Change in capex (\$m) | | -8 | -7 | -5 | -5 |
| Change in tax revenue (\$m) | | -0.9 | -2.2 | -3.2 | -4.1 |
| Fiscal balance (% of GDP) | Base | -1.4 | -0.5 | 0.3 | 1.1 |
| | <i>Shock</i> | -0.2 | 0.3 | 0.6 | 1.3 |
| Change in nominal GDP | % | -1.1 | -2.2 | -2.5 | -2.4 |
| | \$m | -6.3 | -13.6 | -16.1 | -16.1 |

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 4-15. Tax revenue falls by \$4 to \$12 million per year by 2022/23, which causes the fiscal balance to fall enough to breach the -1.9 per cent of GDP rule in 2019/20, before improving. The cumulative GDP impact in 2022/23 is minus 8 per cent, or a reduction of \$52 million.

Table 4-15 Lower GDP shock

| | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------------------|--------------|---------|---------|---------|---------|
| Change in opex (\$m) | | 0 | 0 | 0 | 0 |
| Change in capex (\$m) | | 0 | 0 | 0 | 0 |
| Change in tax revenue (\$m) | | -4.0 | -7.2 | -10.0 | -12.3 |
| Fiscal balance (% of GDP) | Base | -1.4 | -0.5 | 0.3 | 1.1 |
| | <i>Shock</i> | -2.2 | -1.8 | -1.4 | -0.8 |
| Change in nominal GDP | % | -5.0 | -6.9 | -7.8 | -7.8 |
| | \$m | -29.1 | -42.0 | -49.7 | -52.0 |

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 4-16. Tax revenue falls by about \$11 million per year by 2022/23, which reduces the fiscal balance enough to breach the fiscal balance rule in 2019/20, before improving. The impact on GDP is substantial, with a 7 per cent reduction by 2022/23.

Table 4-16 Lower arrivals shock

| | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------------------|--------------|---------|---------|---------|---------|
| Change in opex (\$m) | | 0 | 0 | 0 | 0 |
| Change in capex (\$m) | | 0 | 0 | 0 | 0 |
| Change in tax revenue (\$m) | | -3.5 | -6.4 | -9.0 | -11.1 |
| Fiscal balance (% of GDP) | Base | -1.4 | -0.5 | 0.3 | 1.1 |
| | <i>Shock</i> | -2.1 | -1.7 | -1.2 | -0.6 |
| Change in nominal GDP | % | -4.4 | -6.1 | -6.9 | -7.0 |
| | \$m | -25.6 | -37.1 | -44.1 | -46.2 |

4.11.3 Crown debt sensitivity analysis

Introduction

Movements in the value of the New Zealand dollar against Crown's major trading currencies remains a risk. The sensitivity analysis demonstrates the impact of a 10 per cent appreciation or depreciation by the NZD to determine the impact on the gross borrowings and the debt servicing cost.

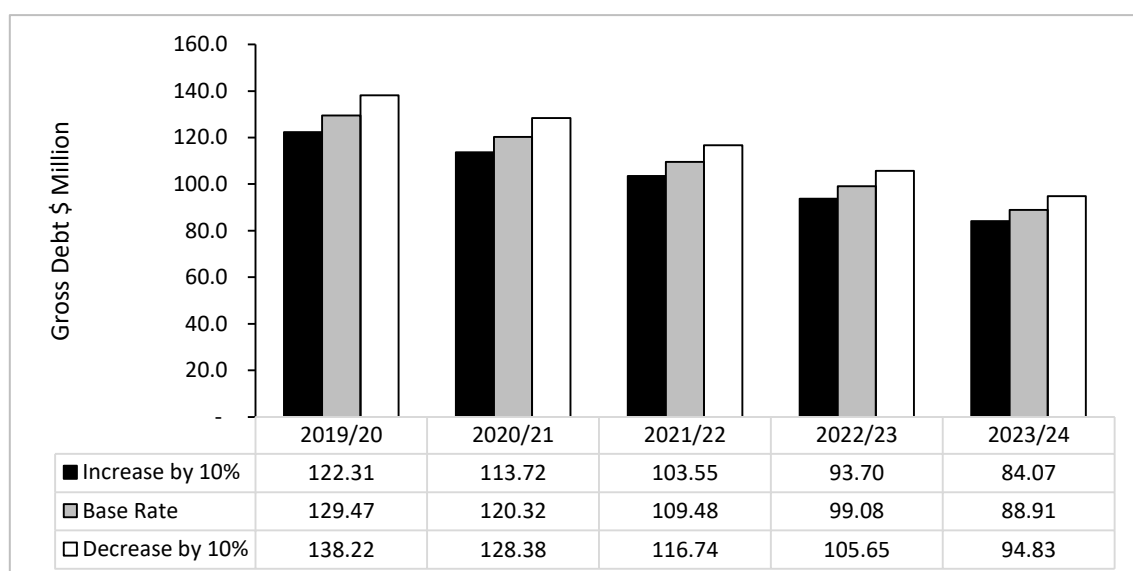
Table 4-17 Base exchange rates assumptions used in 2019/20 Budget, +/- 10 per cent

| Foreign Exchange Currency | Budget Assumption Rate | | |
|---------------------------|------------------------|--------|--------|
| | -10% | | +10% |
| EUR | 0.5221 | 0.5801 | 0.6381 |
| USD | 0.6093 | 0.6770 | 0.7447 |
| RMB | 4.1522 | 4.6136 | 5.0750 |
| SDR | 0.4308 | 0.4787 | 0.5266 |

Sensitivity of Current Debt Stock to Exchange Rate Movements

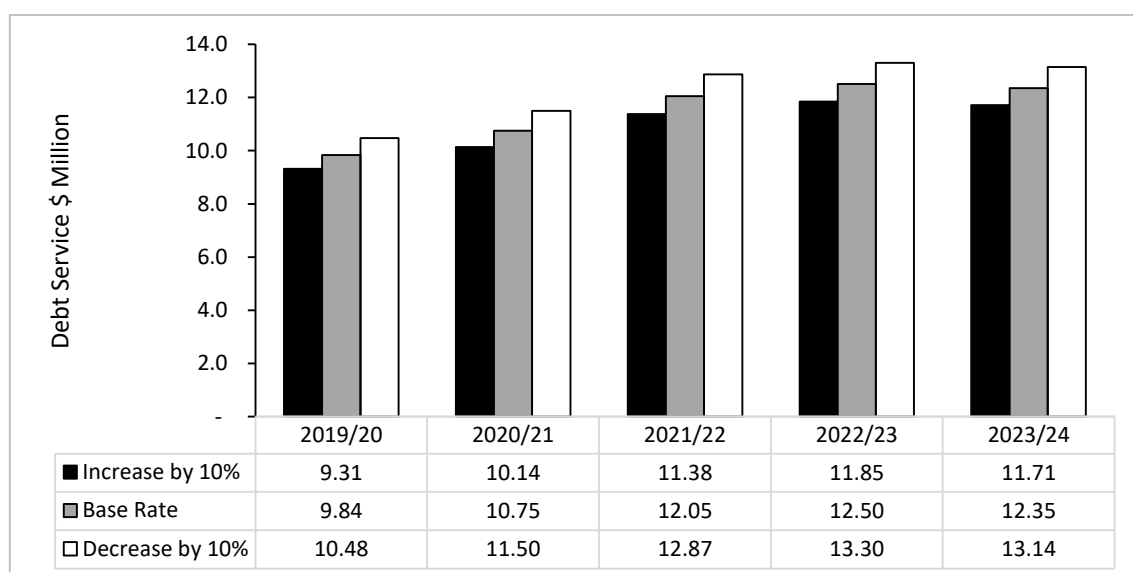
If the relevant NZD exchange rates were to depreciate by 10 per cent against trading foreign currencies, Crown debt estimated to the end of June 2020 would increase by an estimated \$8.75 million compared to a \$7.16 million if the NZD were to appreciate by 10 per cent. This demonstrates the Crown's gross debt level is more adversely sensitive to depreciation of the NZD.

Figure 4-10 Sensitivity of Direct Crown Gross Debt to NZD movements



A 10 per cent decrease in the foreign currency value of the NZD would increase debt servicing costs to the LRF by \$0.64 million in the 2019/20 year.

Figure 4-11 Sensitivity of Crown Debt Servicing Costs to NZD movements



Long term debt projections and fiscal risks

Government does not have any immediate plans to take on additional borrowing.

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

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

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 (2020: \$3.024 million). The estimate for 2019/20 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.

The Airport Authority is considering further borrowings in the next 24 months to expand the passenger terminal facility at Rarotonga International Airport. This is currently estimated to cost an additional \$16.0 million. Other projects totalling \$8.0 million include the work to complete the RESA project, the building of the new VIP Lounge and the runway slab replacement project.

Te Aponga Uira

The Te Aponga Uira (TAU) is estimated to spend \$22.9 million in 2019/20 on renewable energy projects funded largely by Grant of \$10.7 million with the balance of \$12.2 million being self-funded. TAU is also anticipating an additional \$25.0 million on capital spending in the next four years following 2019/20, of which replacing the Cross-Island Feeder cables network is a major component, in addition to the ongoing renewable energy projects. Funding the additional work has not been confirmed but it is likely that TAU will consider external financing to meet its capital plans.

Ports Authority

The Ports Authority is currently repaying its loan obligations to the ADB (2020: \$18.96 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. Taking on any further debt is not a feasible option given the high gearing position the Authority is already in.

5 Economic Update

5.1 Summary

5.1.1 Performance

The Cook Islands economy has continued the strong run of real economic growth it has experienced in recent years, averaging 4.4 per cent per year over the period 2011/12 to 2017/18, thanks to unprecedented tourism arrivals and higher levels of public and private capital investment. In 2017/18, real Gross Domestic Product (GDP) growth of 8.9 per cent was recorded, rising from \$463.2 million to \$504.5 million.

Over the last three years, tourist arrivals have risen by an average of nearly 11 per cent per year, from 121,772 in 2014/15 to 164,800 in 2017/18. July 2018 saw the most visitors the Cook Islands has ever seen, with 18,332 arrivals. More recent data shows the strong growth in tourist arrivals tailing off to more realistic levels. The tourism market only saw growth of 3 per cent in the year to March 2019, with visitor arrivals rising from 162,650 to 167,262 over this period.

The value of residential and commercial (commercial, tourism and community buildings) building approvals has also been much higher than trend in the three years to 2017/18. Despite more recent data showing a substantial decline, about 46 per cent, in the year to December 2018 compared to the year to December 2017, the value remains well above trend.

Residential approvals, most likely for holiday houses rather than residential living, driven by tourism growth, now dominate the total value, following the completion of a number of large community projects.

There are clear indications that this strong economic performance is likely to result in the graduation of the Cook Islands from the Organisation for Economic Cooperation and Development's (OECD) Official Development Assistance (ODA) eligibility list from January 2020. Work undertaken by the Statistics Office to develop comprehensive balance of payments data has been used to determine the Cook Islands' Gross National Income for the last three years. This data will be used by the Organisation of Economic Development and Cooperation (OECD) to determine whether the Cook Islands has reached the level of economic development required to graduate to 'high income status' at the July 2019 meeting of its Development Assistance Committee.

Further analysis by the Government suggests that the Cook Islands economy continues to perform above its potential level – that is the Cook Islands continues to face a positive output gap. While there is little sign of the economy overheating in the leading economic indicator, the Consumer Price Index, there are increasing signs of capacity constraints emerging in the labour and housing markets, and the construction sector.

5.1.2 Outlook

In summary, the outlook for Cook Islands economy is positive, albeit at lower levels than seen in recent years. Real growth of 6.3 per cent is estimated in 2018/19, falling to 3.8 per cent in 2019/20, with average annual growth over the 4-year forward period at 3.9 per cent. The slowdown is due to continued but much slower growth in tourism and investment, both public and private.

With a mildly expansionary fiscal stance over the forward budget period, the capacity constraints alluded to above are expected to tighten in the medium-term. Further pressure on the domestic housing market is likely, potentially with wage-price pressure flowing from an increasing shortage of skilled workers and an increase in the minimum wage in 2019/20 from \$7.25 to \$7.60 per hour. Along with imported inflation should the New Zealand dollar depreciate further, this is expected to result in inflation rising from an estimated minus 0.4 per cent in 2018/19 to 1.1 per cent in 2019/20 before rising further to about 1.8 per cent per year over the forward budget period.

Table 5-1 provides a summary of the key indicators for the budget appropriation year and the three forward years of the 2019/20 budget cycle.

Table 5-1 Summary of Economic Indicators

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|----------|----------|-----------|-----------|-----------|-----------|
| | Actual | Estimate | Projected | Projected | Projected | Projected |
| Economic activity | | | | | | |
| Nominal GDP (\$'000) | 516,316 | 557,913 | 581,385 | 607,445 | 635,233 | 664,524 |
| Percentage change (year on year) | 13.0 | 8.1 | 4.2 | 4.5 | 4.6 | 4.6 |
| Real GDP (at constant 2016 Prices, \$'000) | 504,453 | 536,225 | 556,858 | 578,103 | 600,852 | 624,870 |
| Percentage change (year on year) | 8.9 | 6.3 | 3.8 | 3.8 | 3.9 | 4.0 |
| Inflation (CPI) | | | | | | |
| Percentage change (average over) | 0.4 | -0.4 | 1.1 | 1.6 | 1.8 | 1.8 |
| Construction/capital investment | | | | | | |
| Commercial building approvals (\$'000) | 7,968 | 7,465 | 7,465 | 7,465 | 7,465 | 7,465 |
| Residential building approvals (\$'000) | 11,993 | 13,308 | 12,656 | 12,656 | 12,656 | 12,656 |
| Productive sector indicators | | | | | | |
| Visitor arrivals | 164,800 | 166,209 | 169,997 | 174,625 | 178,325 | 181,845 |
| Percentage change (YOY) | 6.2 | 0.9 | 2.3 | 2.7 | 2.1 | 2.0 |
| Agriculture value-added (\$'000) | 10,641 | 10,446 | 10,446 | 10,446 | 10,446 | 10,446 |
| Fisheries value-added (\$'000) | 1,484 | 1,529 | 1,529 | 1,529 | 1,529 | 1,529 |
| External sector | | | | | | |
| Merchandise trade balance (\$'000) | -190,678 | -196,722 | -200,560 | -205,286 | -209,419 | -209,419 |
| Exchange rate (USD/NZD average) | 0.71 | 0.66 | 0.67 | 0.68 | 0.70 | 0.71 |

5.2 The global economy

The Cook Islands is a small, open economy whose economic growth is heavily reliant on the export of goods and services to a number of key partner countries, New Zealand, Australia and the United States of America in particular. 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 its May 2019 Monetary Policy Statement, the Reserve Bank of New Zealand (RBNZ) reduced its official cash rate from 1.75 per cent to 1.5 per cent, citing a need for an easier monetary policy stance thanks to a more subdued outlook for employment growth along with low inflationary pressure.

The RBNZ noted that domestic growth has slowed from the second half of 2018, from 3.2 per cent in the June quarter to 2.3 per cent in the December quarter, as a result of slower growth in household spending due to lower population growth and continuing house price softness in some areas. In addition, the RBNZ identified ongoing low business sentiment, tighter profit margins, and competition for resources restraining investment. Moreover, although employment is close to its maximum sustainable level, the RBNZ reports that the outlook for employment growth is more subdued, with capacity pressure expected to ease slightly in 2019. Consequently, the RBNZ expects inflationary pressure to rise only slowly.

The RBNZ also cited concerns about slowing global economic growth since mid-2018, easing demand for New Zealand's goods and services, along with uncertainty about the global outlook.

Australia

In its May 2019 Statement on Monetary Policy, Reserve Bank of Australia (RBA) chose to leave the cash rate unchanged at 1.5 per cent, where it has been since August 2016.

The RBA reports that Australian GDP growth is expected to be around 2¾ per cent over both 2019 and 2020, lower than previously forecast, reflecting subdued growth in household consumption spending and dwelling activity. Stronger growth in exports and, further out, work on new mining investment projects are expected to support growth. The RBA expects inflation to be lower than previously forecast, at around 1¾ per cent over 2019, increasing gradually to 2 per cent in 2020 and a touch above 2 per cent by early 2021.

Conditions in the Australian housing market have continued to ease. The RBA reports that established housing prices in Sydney, Melbourne and Perth are down by around 3 per cent since the February 2019 Monetary Policy Statement and are around 10 per cent lower over the past year. To put this in context, the RBA noted that capital city housing prices have now retraced to mid-2016 levels but remain 15 per cent higher than five years ago.

Looking forward, the RBA highlighted concerns for global growth resulting from trade growth remaining subdued due to the decline in Chinese domestic demand growth and increasing levels of trade protectionism, particularly for trade-exposed economies. The RBA warned that although global financial conditions have become more accommodative since the start of the year, increasing trade tensions and other political risks could lead to tighter financial conditions.

May 2019 saw the latest round in the bilateral trade war between the United States and China with the United States more than doubling tariffs on US\$200 billion of Chinese imports. The Chinese Government responded by announcing it will raise tariffs on US\$60 billion of United States goods from 1 June 2019.

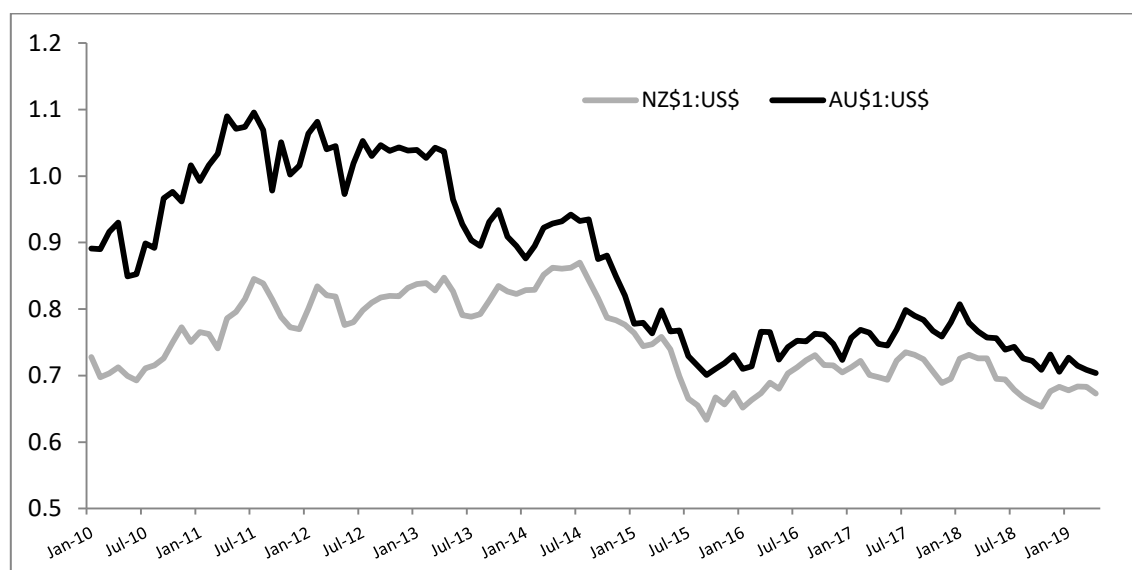
United States

The International Monetary Fund's (IMF) World Economic Outlook April 2019 expects United States' GDP growth to fall from 2.9 per cent in 2018 to 2.3 per cent in 2019, before moderating slightly to 1.9 per cent in 2020 with the unwinding of fiscal stimulus. The downward revision to 2019 growth reflects the impact of the government shutdown and lower fiscal spending than previously anticipated, while the modest upward revision for 2020 reflects a more accommodative stance of monetary policy than in the IMF's October 2018 forecast. Despite the downward revision, the IMF notes that the projected pace of expansion for 2019 is above the US economy's estimated potential growth rate.

In May 2018, the US Federal Reserve (the Fed) maintained its target benchmark rate of 2¼ to 2½ per cent on the basis that this will enable the sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 per cent objective. The Fed also indicated that in light of global economic and financial developments and muted inflation pressures, it will take a cautious approach to any future adjustments to the target range.

The higher US interest rates have led to a broad-based appreciation of the US dollar, including against commodity currencies such as the Australian and New Zealand dollars. Figure 5-1 shows the steep decline in the New Zealand dollar from 73.1 cents in February 2018 to 65.3 cents in October 2018, followed by a rally to 67.3 cents by April 2019.

Figure 5-1 US dollar exchange rate, New Zealand and Australia



Asia Pacific

The Asian Development Bank (ADB), in its April 2019 Asian Development Outlook, expects regional GDP growth to soften to 5.7 per cent in 2019 and 5.6 per cent in 2020. Following inflation rising in 2018 thanks to oil prices rising and Asian currencies depreciating, the ADB expects inflation to remain subdued at 2.5 per cent in both 2019 and 2020 as a result of stable commodity prices.

The ADB notes that risks remain tilted to the downside, citing the trade conflict between the US and China, uncertainties stemming from US fiscal policy and a possible disorderly Brexit, potentially undermining investment and growth in developing Asia. The ADB also highlighted the perennial disaster risk from natural hazards, recommending that Governments integrate disaster risk reduction into national development and investment plans.

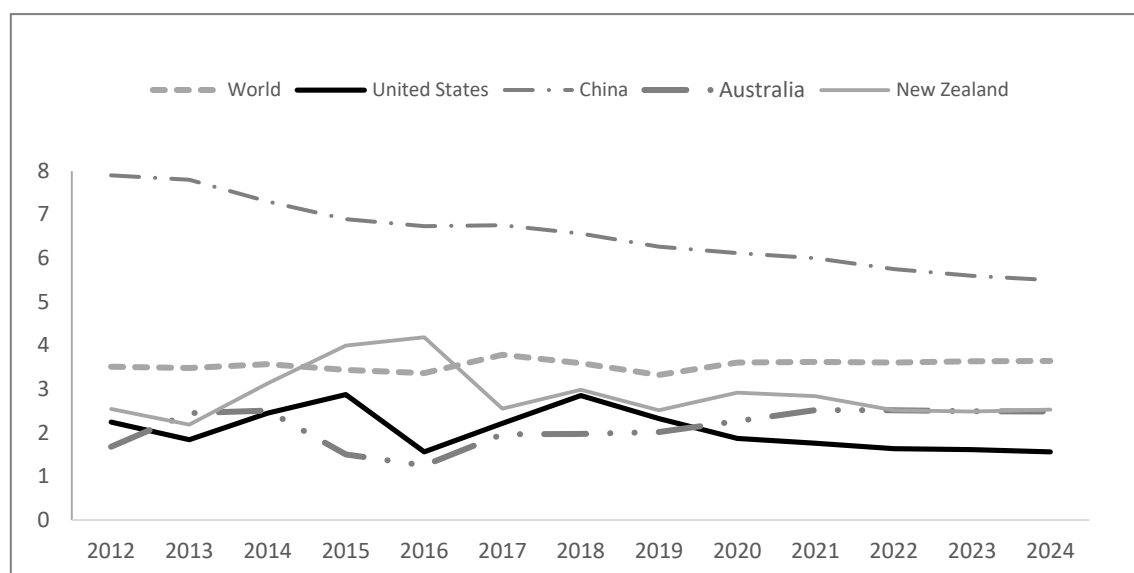
The ADB expects economic growth in the Pacific to rebound from 0.9 per cent in 2018 to 3.5 per cent in 2019 as liquefied natural gas production in Papua New Guinea, the sub-region's dominant economy, returns to full capacity following the 2018 earthquake. The ADB projects economic growth of 6.0 per cent in 2019 and 4.5 per cent in 2020 for the Cook Islands.

Global

The International Monetary Fund's (IMF) World Economic Outlook April 2019 cites the escalation of US-China trade tensions, macroeconomic stress in Argentina and Turkey, disruptions to the auto sector in Germany, tighter credit policies in China, and financial tightening alongside the normalisation of monetary policy in the larger advanced economies as contributing to a significantly weakened global expansion, especially in the second half of 2018. The IMF expects this weakness to persist, projecting that global growth, which peaked at close to 4 per cent in 2017, softened to 3.6 percent in 2018, will decline further to 3.3 per cent in 2019.

With improvements expected in the second half of 2019, the IMF projects global economic growth in 2020 to return to 3.6 percent, predicated on a rebound in Argentina and Turkey and some improvement in a set of other stressed emerging market and developing economies. The projections are therefore subject to considerable uncertainty. Beyond 2020, the IMF expects growth to stabilise at around 3½ percent, bolstered mainly by growth in China and India and their increasing weights in world income (see Figure 5-2).

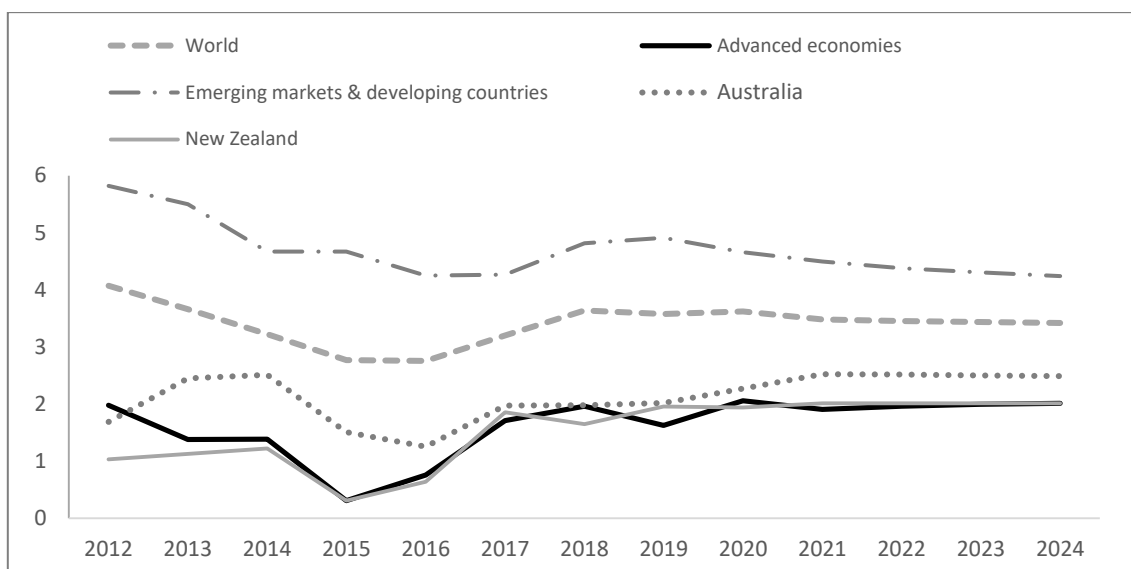
Figure 5-2 IMF GDP growth estimates, selected countries



The IMF notes that while the overall outlook remains benign, there are many downside risks. This includes trade policy tensions that could play out in other areas, such as the automotive industry, with large disruptions to global supply chains. Growth in China could also surprise on the downside, and the risks surrounding Brexit remain heightened.

Bearing in mind these downside risks, while the outlook for return to 3.6 per cent growth in 2020 is positive news for the Cook Islands' economy given its reliance on tourism, it does pose a risk of increased inflation. Consistent with the softer outlook for commodity prices and the expected moderation in growth, the IMF expects inflation to decline to 1.6 per cent in 2019 in advanced economies, from 2.0 per cent in 2018. Inflation in emerging market and developing economies excluding Venezuela, while stable across most regions, is nonetheless expected to firm to 4.9 per cent in 2019 from 4.8 percent in 2018, reflecting developments in a few economies. Inflation is then set to moderate to about 4 per cent over the medium term (see Figure 5-3).

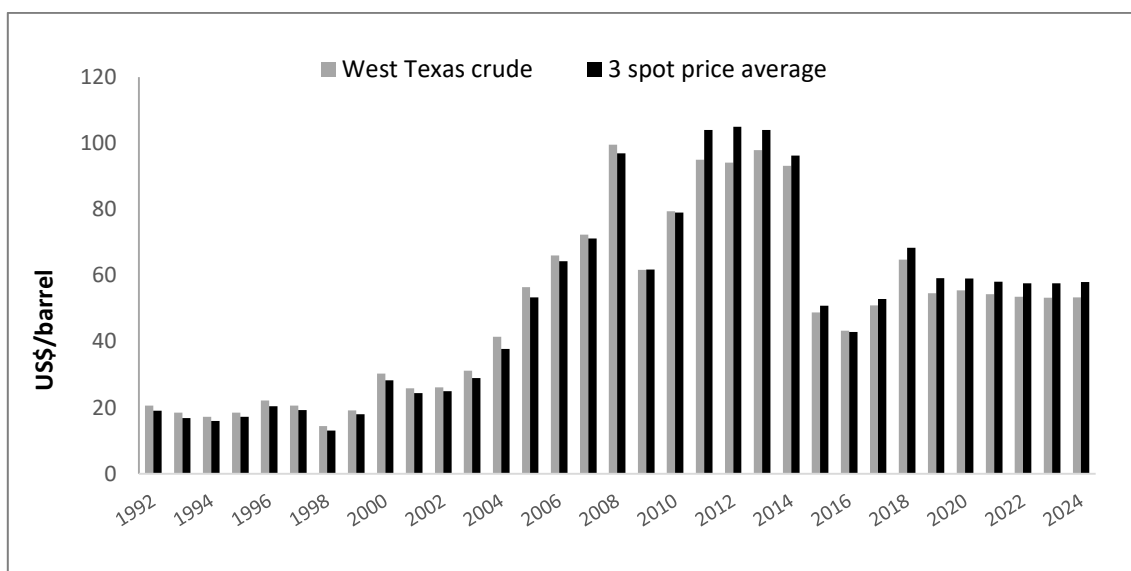
Figure 5-3 IMF inflation estimates, selected groupings and countries



The IMF notes that oil prices increased to more than US\$80 a barrel in early October 2018, attaining their highest level since November 2014 as United States sanctions against oil imports from Iran loomed. In the last months of 2018, however, oil prices declined sharply as a result of record production growth in the United States and the issuance of waivers for most of the countries that import oil from Iran.

Based on oil futures contracts, the IMF projects average oil prices at US\$59.20 in 2019 and US\$59.0 in 2020. Oil prices are expected to remain in that range, reaching about \$60 a barrel by 2023, consistent with subdued medium-term demand prospects and offsetting production adjustments that avoid large excess supply (see Figure 5-4).

Figure 5-4 IMF oil price estimates, 1992 to 2024, US\$/barrel



5.3 Cook Islands Economic Output

5.3.1 Performance

As shown in Figure 5-5, the Cook Islands experienced real Gross Domestic Product (GDP) growth of 8.9 per cent in 2017/18, rising from \$463.2 million to \$504.5 million. This compares to the estimate of 9.0 per cent for 2017/18 presented in the 2018/19 HYEPU. This performance continues a strong run of growth of 6.0 per cent in 2015/16 and 6.8 per cent in 2016/17.

Figure 5-5 Real GDP growth, annual percentage change

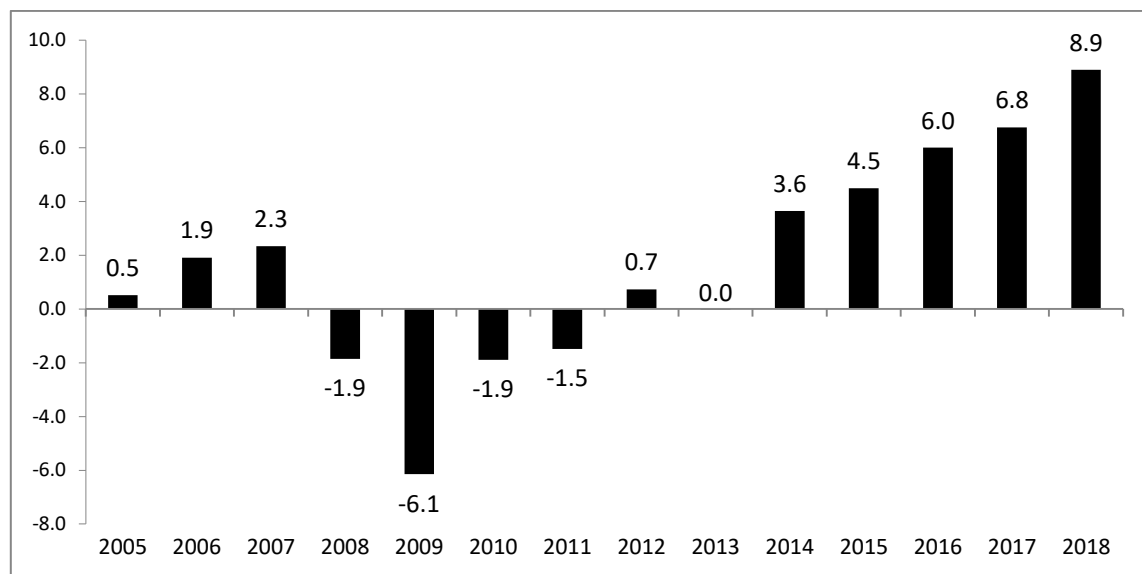
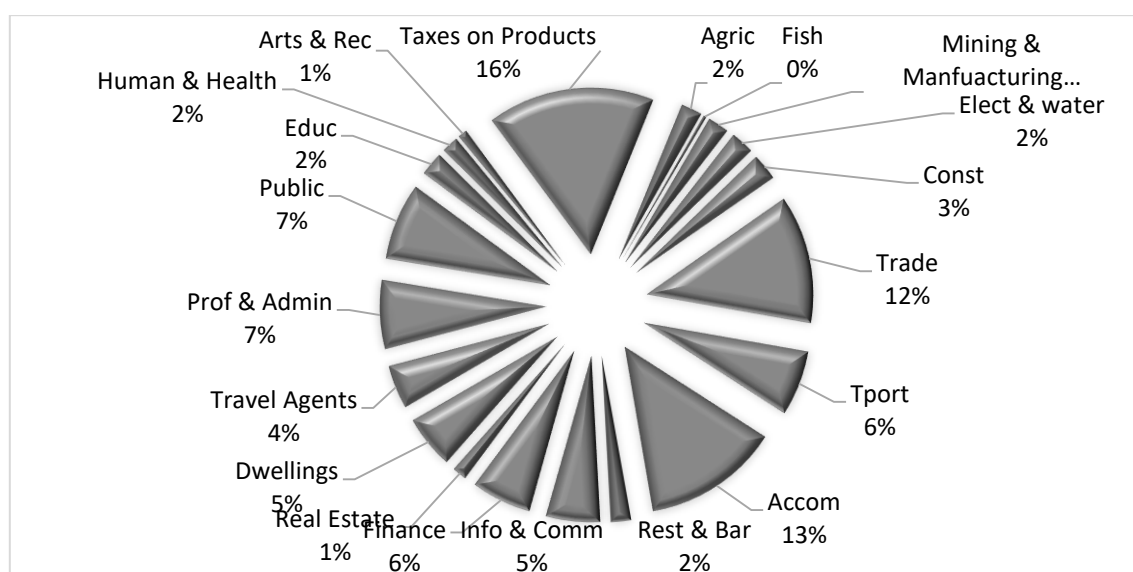


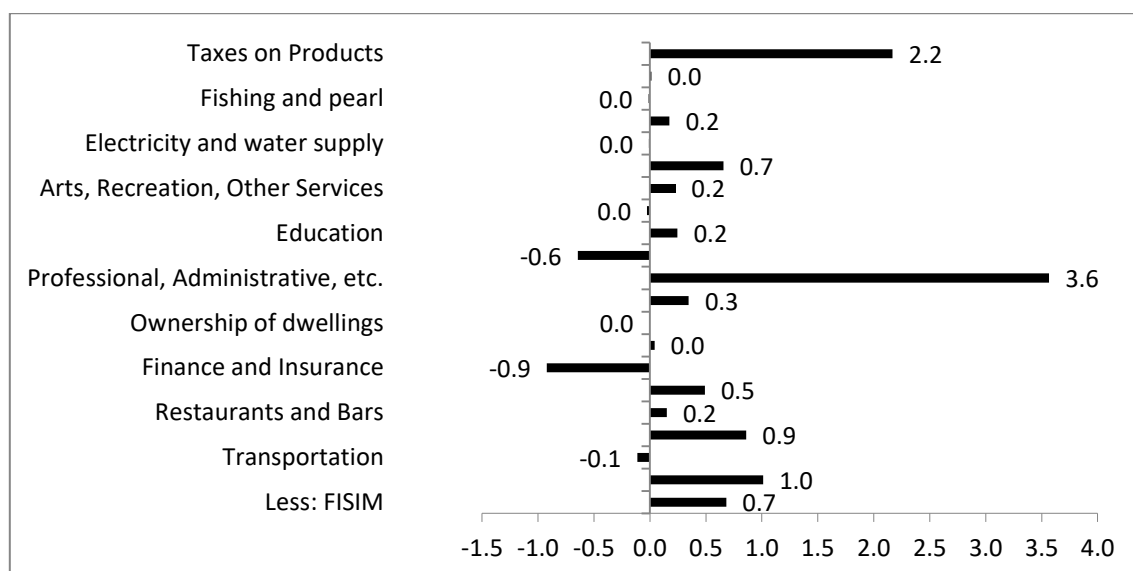
Figure 5-6 shows the breakdown of the Cook Islands economy by industry in 2017/18. The economy is dominated by the tertiary or services sector, accounting for about 77 per cent of the total economy in 2017/18, with the two largest tertiary industries, trade and accommodation services accounting for more than a quarter of total economic output.

Figure 5-6 Cook Islands economy by industry, 2017/18



In 2017/18, high tourist arrivals drove strong growth in the economy along with Government use of professional consulting services, with the tertiary sector contributing 5.2 percentage points to real economic growth (see Figure 5-7). The strongest industry contributions were from professional and administrative services (3.6 percentage points) and trade (1 percentage points). During this period, professional and administrative services grew by 91 per cent from \$18.2 million to \$34.7 million and trade rose by 7.8 per cent from \$60.3 million to \$65.0 million. A number of industries contracted in 2017/18, including finance and insurance and public administration.

Figure 5-7 Contribution to 2017/18 real growth (percentage point)

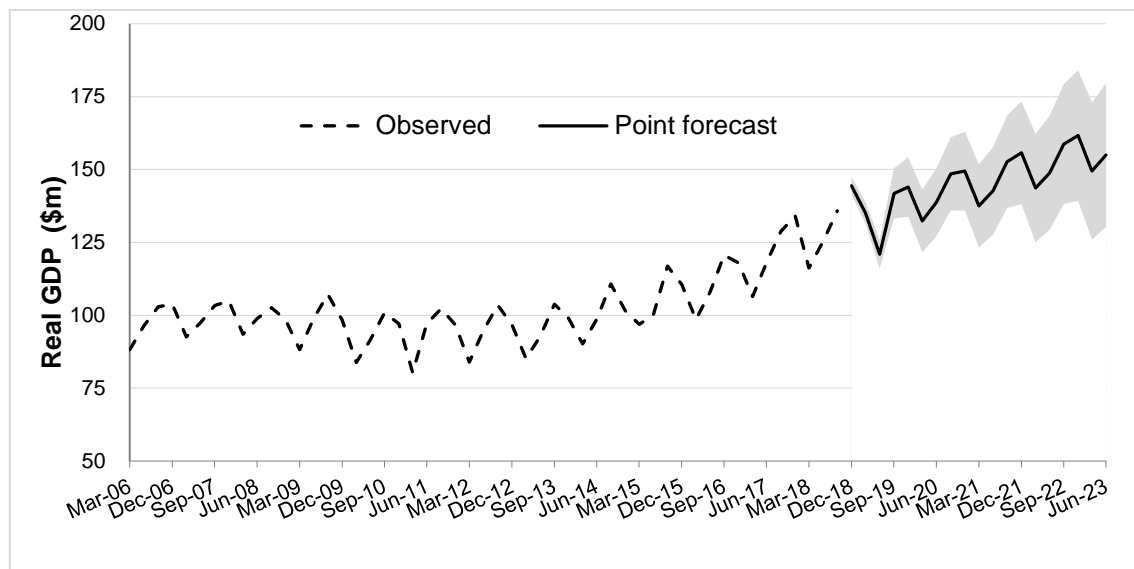


The secondary sector, which includes construction, electricity and manufacturing, contributed 0.8 percentage points to growth, while the primary sector, agriculture and fishing made no contribution.

5.3.2 Outlook

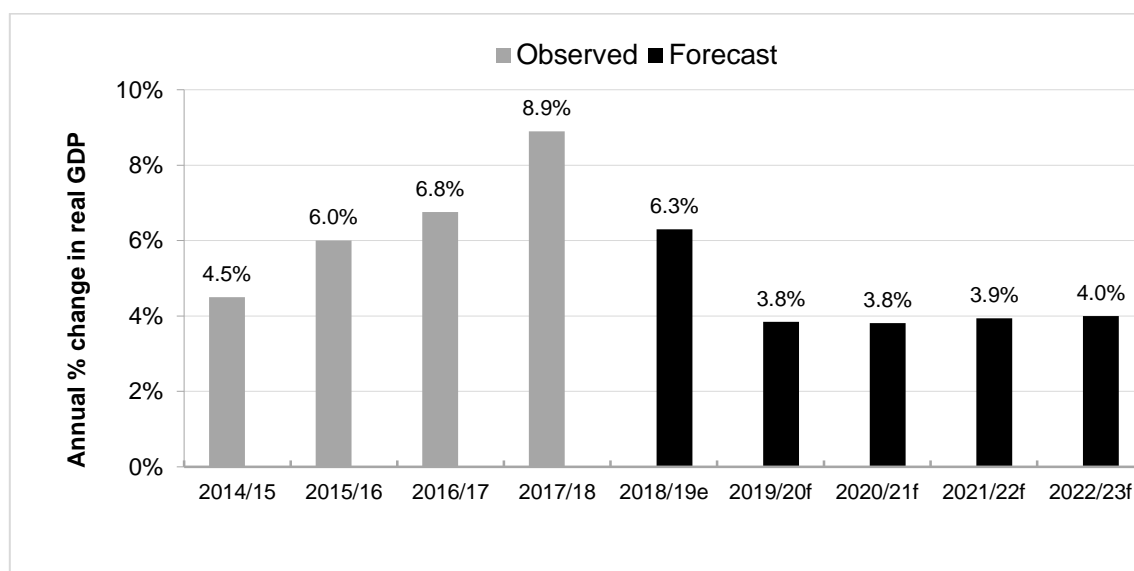
Observed and forecast real GDP from 2006/07 to 2022/23 is shown in Figure 5-8. A 95 per cent high and low confidence interval has also been computed and is displayed as the shaded area either side of the forecast time series.

Figure 5-8 Observed and forecast real GDP, financial year (\$m)



The forecast percentage change over the forward budget period compared to recent years is shown in Figure 5-9. A growth rate of 6.3 per cent is estimated in 2018/19, with growth forecast to fall to 3.8 per cent in 2019/20, with annual average growth over the 4-year forward forecast at 3.9 per cent.

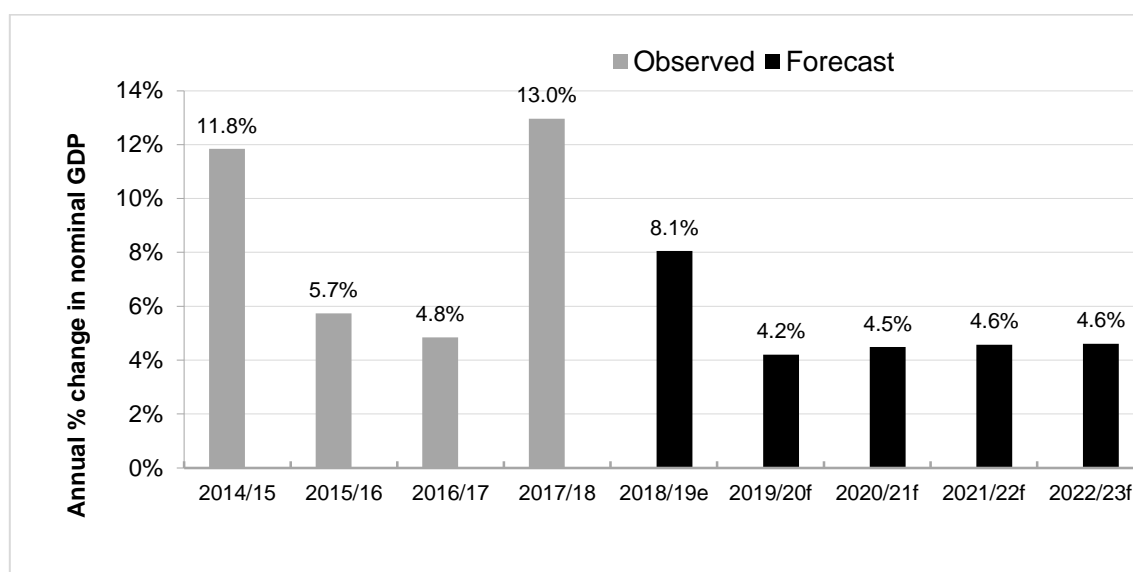
Figure 5-9 Annual change in real GDP (percentage)



The economic forecasts presented above are lower than the annual average growth forecast of 5.4 per year presented in the 2018/19 Half-year Economic and Fiscal Update (HYEFU) published in December 2018. This reflects lower forecast growth for visitor arrivals on the back of a weaker global outlook.

Figure 5-10 shows the forecast percentage change for nominal GDP. A growth rate of 8.1 per cent is estimated in 2018/19, with growth forecast to fall to 4.2 per cent in 2019/20, averaging 4.5 per cent per year over the 4-year forward period.

Figure 5-10 Annual change in nominal GDP (percentage)



In summary, as shown in Table 5-2, nominal and real GDP growth is expected to remain robust in the coming years, albeit at lower levels than in the recent past, due to continued but slower growth in tourism and investment, both public and private.

Table 5-2 Annual GDP growth summary

| | 2017/18 | 2018/19e | 2019/20f | 2020/21f | 2021/22f | 2022/23 |
|------------------------|---------|----------|----------|----------|----------|---------|
| Nominal GDP growth (%) | 13.0 | 8.1 | 4.2 | 4.5 | 4.6 | 4.6 |
| Real GDP growth (%) | 8.9 | 6.3 | 3.8 | 3.8 | 3.9 | 4.0 |
| Implicit GDP deflator | 102.4 | 104.0 | 104.4 | 105.1 | 105.7 | 106.3 |

5.4 Consumer price index

5.4.1 Annual average performance to 2017/18

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 about 2011/12, from 2.8 per cent per year then, to minus 0.1 per cent in 2016/17. In 2017/18, CPI rose slightly to an average of 0.4 per cent over the year (Figure 5-11).

Figure 5-11 CPI, year average, 2005/06 – 2017/18 (percentage change)

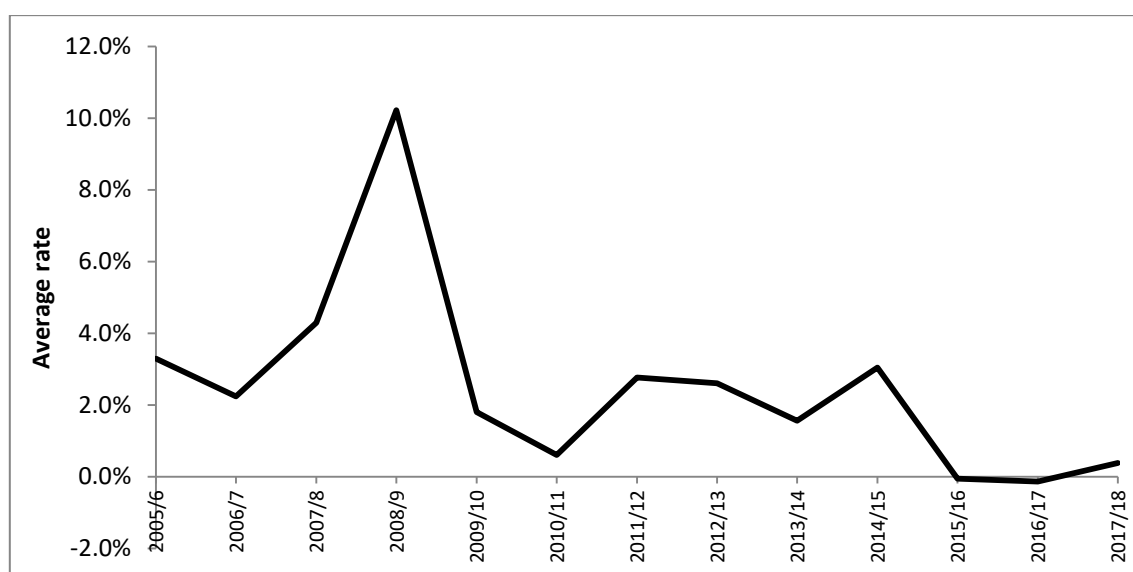
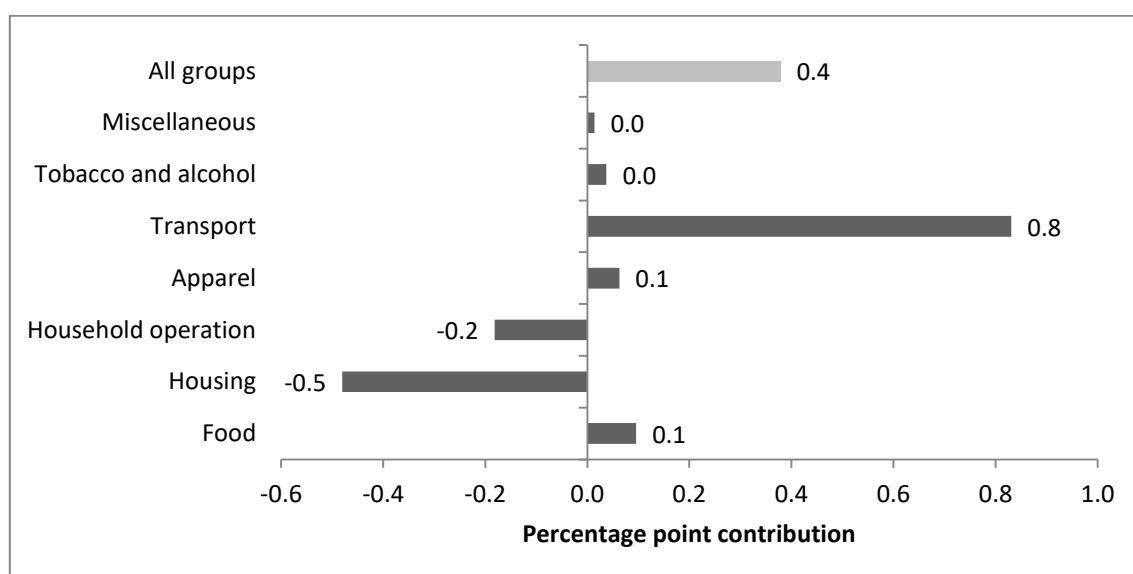


Figure 5-12 shows the contribution to aggregate inflation in 2017/18 by major category. The key driver of the increase was the transport category at 0.8 percentage points, with the household operation and housing categories partially offsetting this rise with falls of -0.2 and -0.5 percentage points, respectively.

Figure 5-12 Contribution to 2017/18 average inflation (percentage point)



5.4.2 Year to March 2019 performance

The CPI for the March quarter 2019, the most recent data available, shows a decrease of 0.56 per cent compared to the March quarter 2018, as shown in Figure 5-13.¹⁰ Over this period, rises in the transport, apparel and food groups were more than offset by falls in the housing, household operations and tobacco and alcohol groups.

¹⁰ Note that when comparing the March quarter 2019 to the March 2018 quarter, this is a year on year rather than average across the year measure.

Figure 5-13 CPI, year to March, annual percentage change

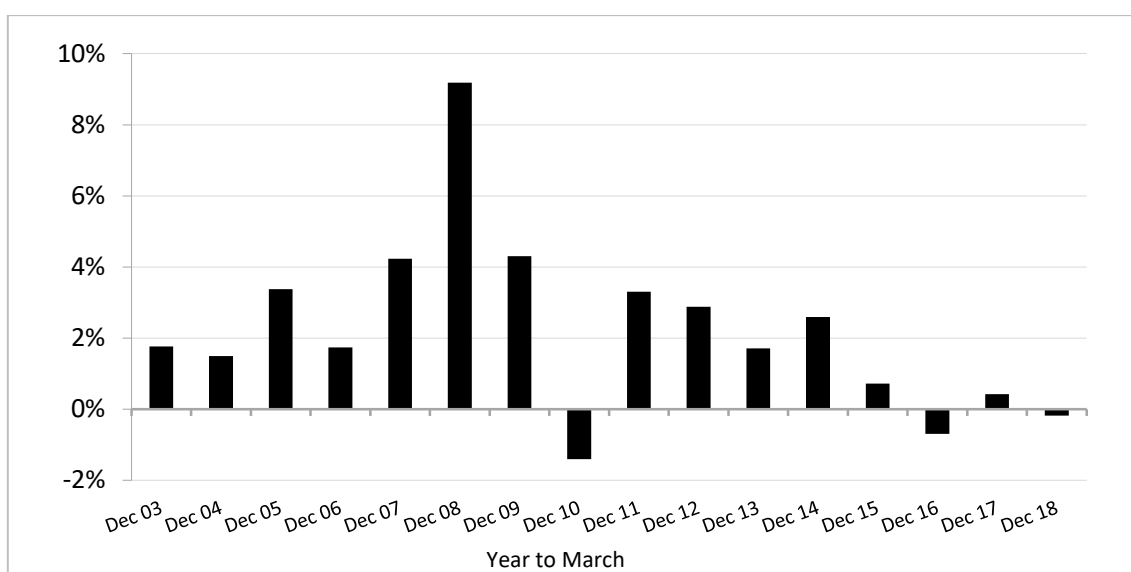
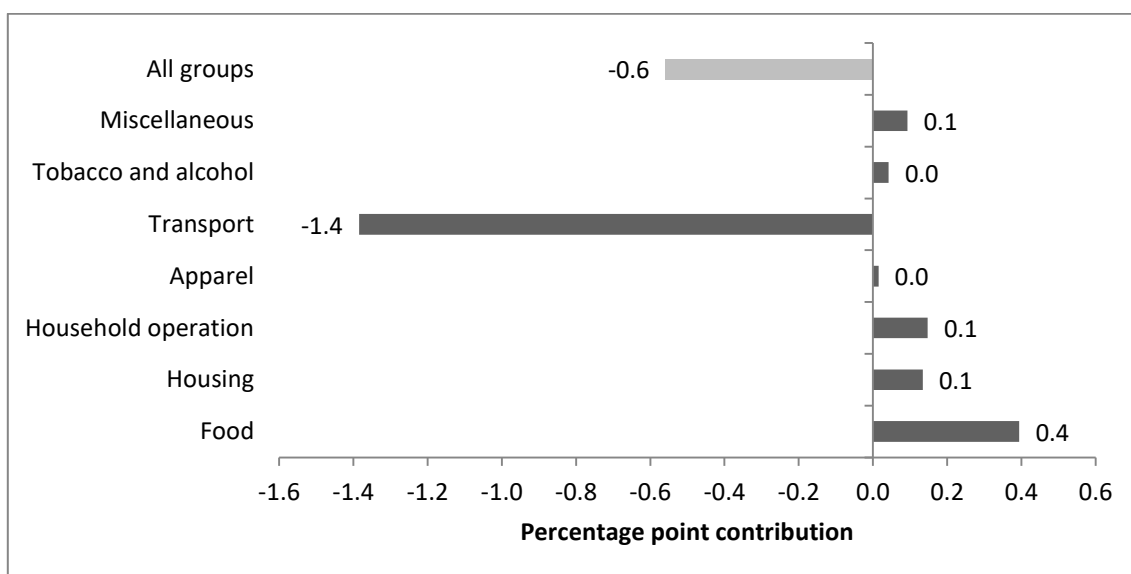


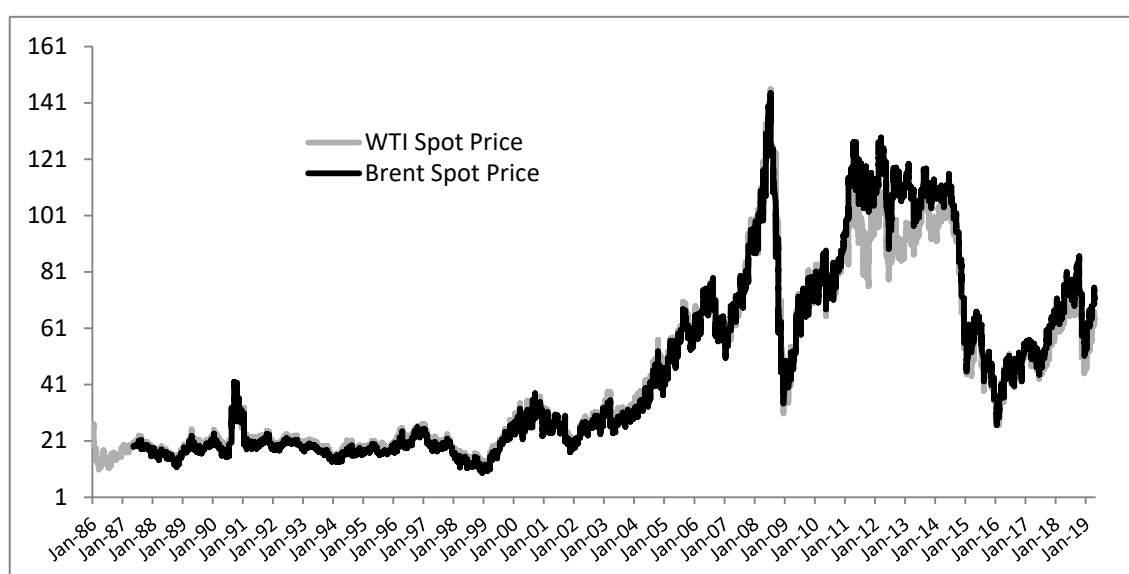
Figure 5-14 shows the contribution to aggregate inflation in the year to March 2019 by major category. The key driver of the decrease was the transport category at minus 1.4 percentage points, with the food category in particular partially offsetting this fall with a rise of 0.4 percentage points.

Figure 5-14 Contribution to year to March 2019 inflation (percentage point)



The fall in transport costs, entirely driven by the overseas travel sub-component of the transport category is consistent with the fall in spot price of oil over the year to March 2019, as shown in Figure 5-15. Over this period, the spot price of West Texas Intermediate crude fell by 7 per cent from US\$64.9 per barrel to US\$60.2 per barrel.

Figure 5-15 Daily oil spot price, 1992 to 2019, US\$/barrel



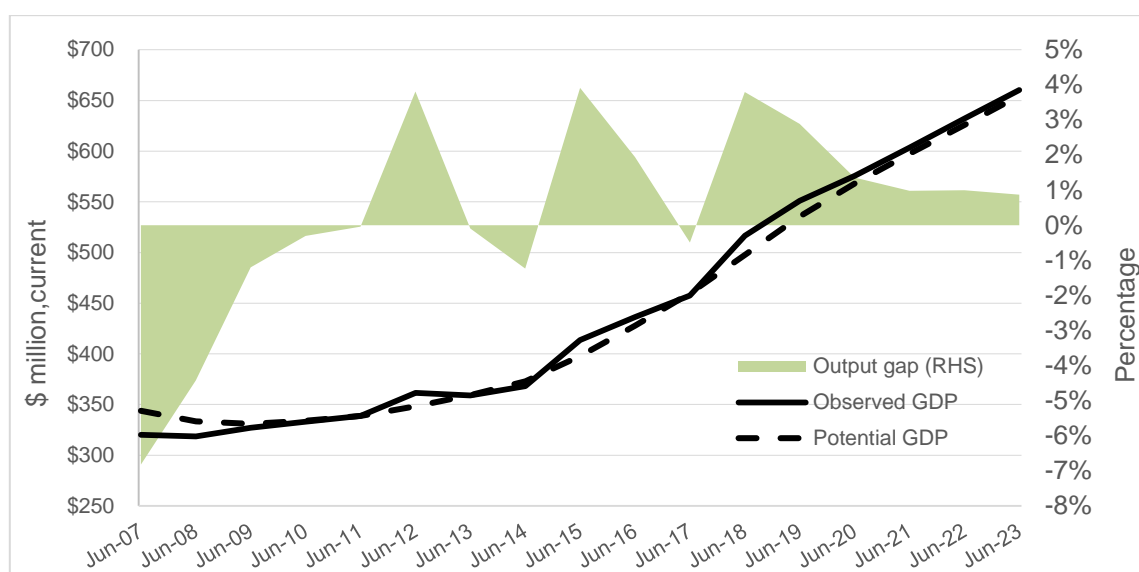
5.4.3 Inflation forecasts

The IMF April 2019 World Economic Outlook noted that in the United States, the market-implied path of expected policy rates remains below the Fed's projections, raising the possibility of a market reassessment of the expected policy path if US economic data remain strong. The IMF advised that this could result in higher US interest rates, and renewed dollar appreciation. Should this eventuate, the value of the New Zealand dollar would decrease somewhat over the forward period, which could in turn push domestic inflation up over the medium-term through increased costs of imports.

Analysis of the Cook Islands real output gap, using a multivariate Kalman filter approach, suggests that the Cook Islands is currently confronting a positive output gap.¹¹ While there is no evidence of overheating showing up in the Consumer Price Index (CPI) data at present, should the positive output gap 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 positive gap will persist over the forward budget period, but decline in magnitude over time.

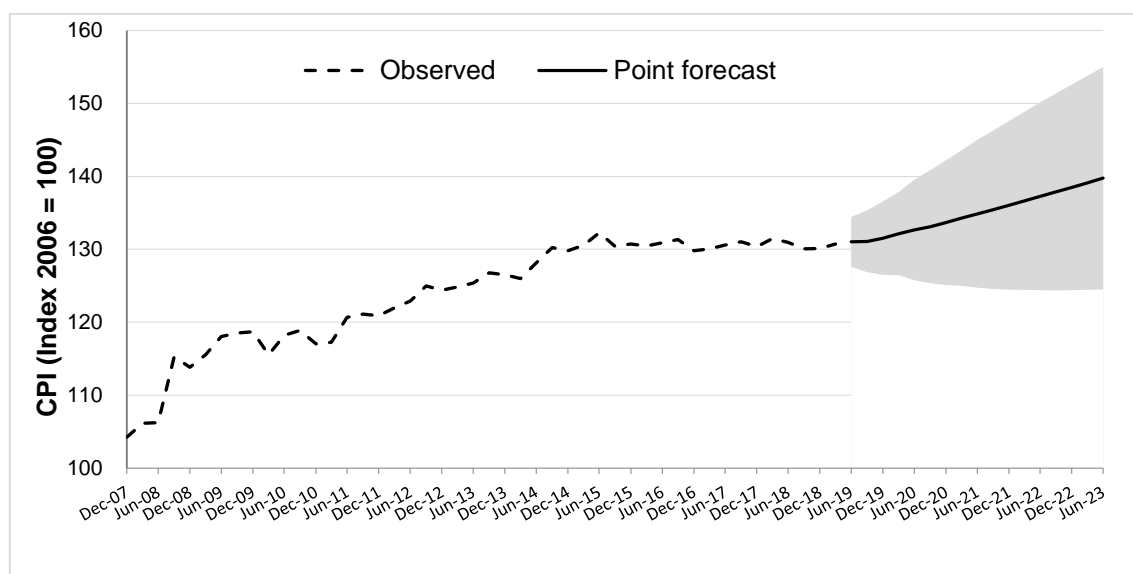
¹¹ For more information, see *Estimating the output gap in the Cook Islands – preliminary analysis: Working Paper No. 18/2*, available at: <http://www.mfem.gov.ck/economics>.

Figure 5-16 Nominal output gap, univariate Kalman filter forecast



Observed and forecast quarterly CPI from December 2007 to June 2023 is shown in Figure 5-17. 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.

Figure 5-17 CPI, quarterly index, 2007 to 2023



Overall, as shown in Figure 5-18 and Table 5-3, inflation is estimated at minus 0.4 per cent in 2018/19, and forecast to pick up to 1.1 per cent in 2019/20 before rising further to about 1.8 per cent per year over the forward budget period.

Figure 5-18 Annual average change in CPI (percentage)

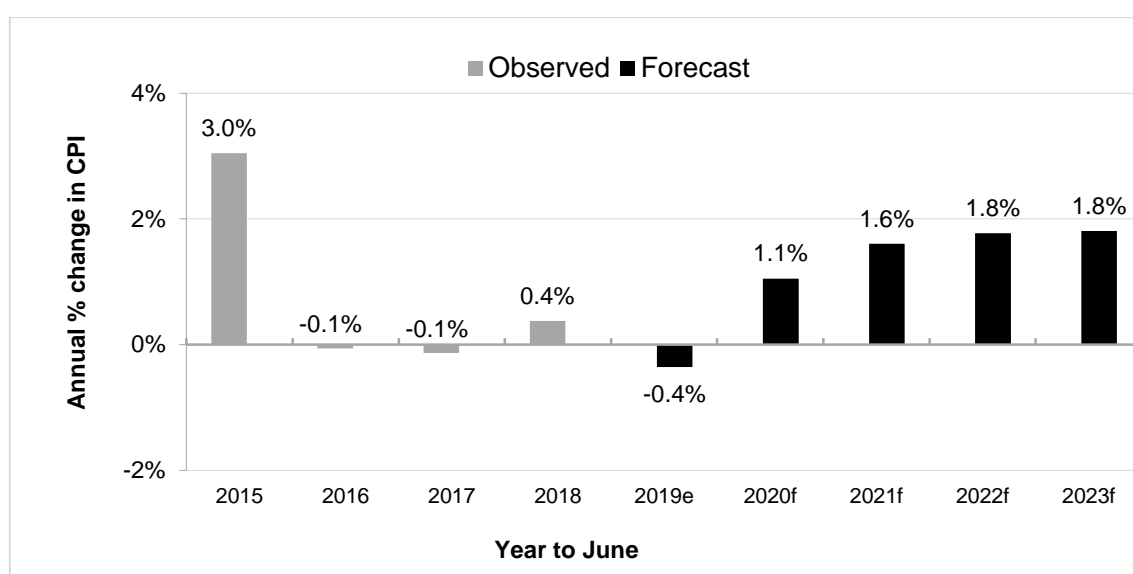


Table 5-3 Annual CPI forecast summary

| | 2017/18 | 2018/19e | 2019/20f | 2020/21f | 2021/22f | 2022/23f |
|--------------------------------------|---------|----------|----------|----------|----------|----------|
| CPI average annual index | 130.9 | 130.5 | 131.9 | 134.0 | 136.3 | 138.8 |
| CPI average annual percentage change | 0.4 | -0.4 | 1.1 | 1.6 | 1.8 | 1.8 |

5.5 Tourism

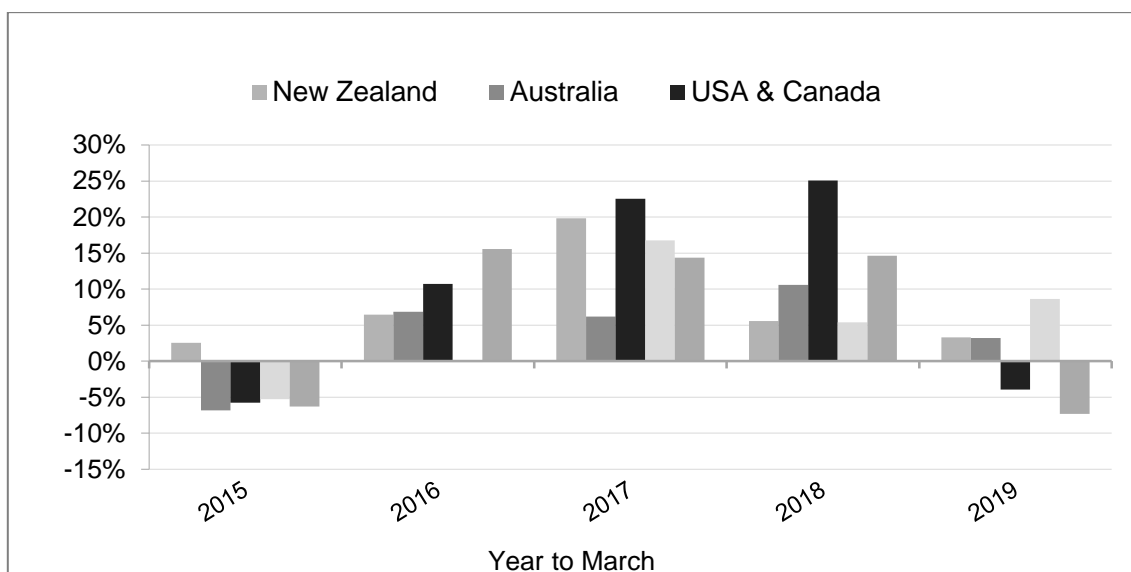
5.5.1 Aggregate visitor activity

Aggregate tourist arrivals

The year to March 2019, the most recent data available, shows the recent strong growth in tourist arrivals tailing off to more realistic levels. The tourism market saw growth of 8 per cent in the year to 2018, falling to 3 per cent in the year to March 2019. Total visitor arrivals rose from 162,650 to 167,262 over this period.

While New Zealand visitors still dominate the raw numbers, visitors from Europe recorded the highest visitor growth rate in the year to March 2019, with a 9 per cent rise on the previous year's 11,626 visitors to 12,269 (see Figure 5-19). In contrast, tourist arrivals from the United States and Canada fell by 4 per cent from 11,545 to 11,089.

Figure 5-19 Visitor arrivals, country of residence (annual percentage change)



Total arrivals for the 2018/19 financial year are estimated at 166,209, 1 per cent higher than the 164,800 seen in 2017/18. As shown in Figure 5-20 and

Table 5-4, growth is expected to pick up to 2.3 per cent in 2019/20, averaging about 2.3 per cent per year over the forward period to 2022/23, with 181,845 visitors forecast.

Figure 5-20 Total visitor arrivals, quarterly, 2008 to 2023

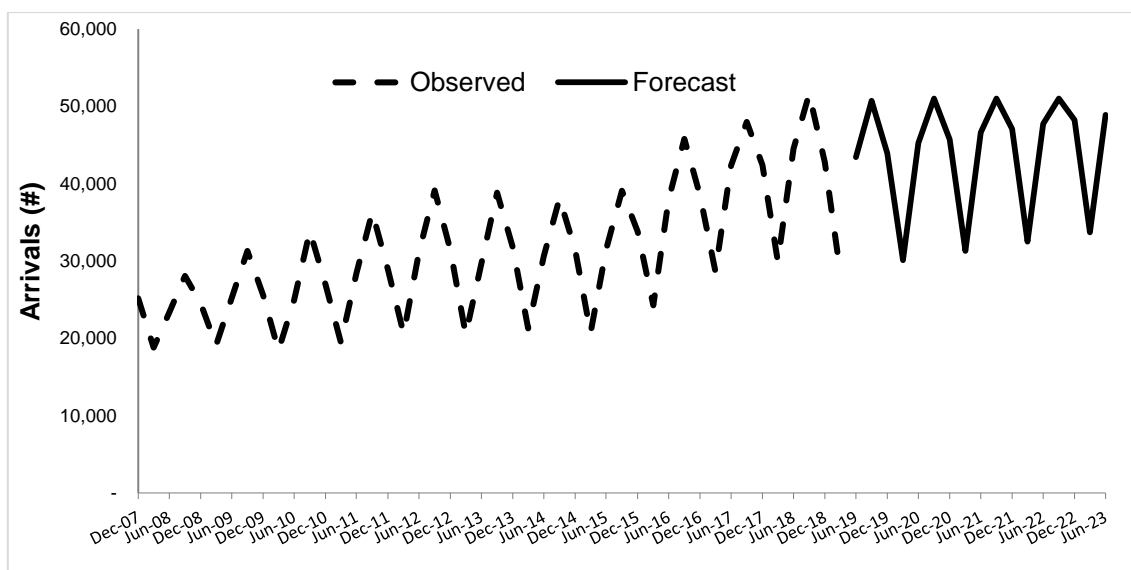


Table 5-4 Estimated total arrivals, quarterly, 2018/19 to 2022/23

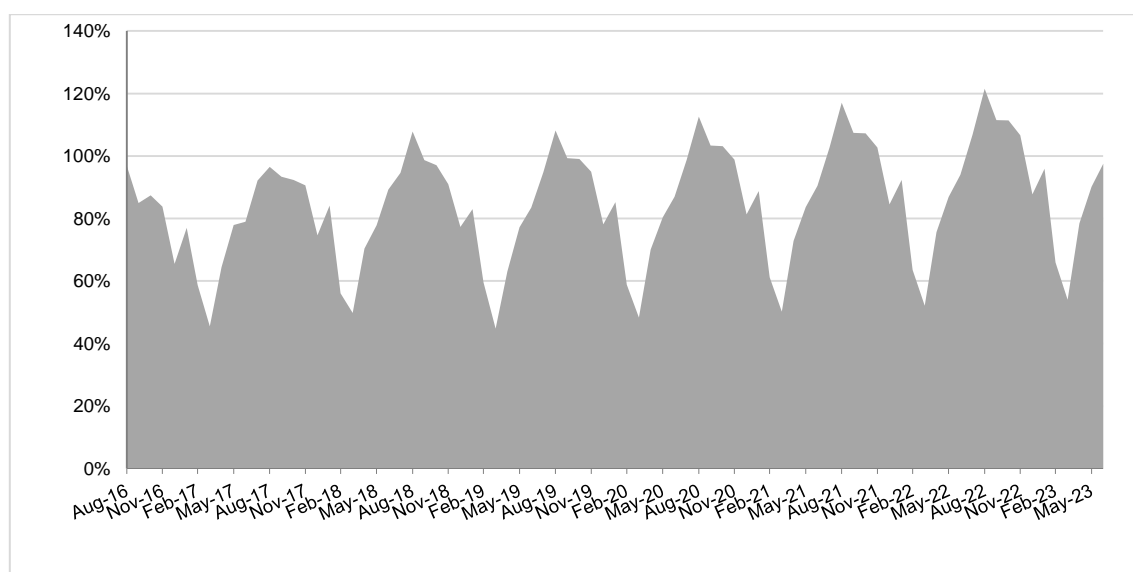
| Quarters | 2017/18 | 2018/19e | 2019/20f | 2020/21f | 2021/22f | 2022/23f |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| September | 47,977 | 51,608 | 50,722 | 51,000 | 51,000 | 51,000 |
| December | 42,389 | 42,718 | 43,916 | 45,718 | 47,064 | 48,219 |
| March | 29,949 | 28,451 | 30,113 | 31,310 | 32,512 | 33,720 |
| June | 44,485 | 43,432 | 45,246 | 46,597 | 47,748 | 48,905 |
| Annual total | 164,800 | 166,209 | 169,997 | 174,625 | 178,325 | 181,845 |

The visitor arrivals forecasts in this chapter take account of industry capacity constraints. The highest number of tourists that the country has received is 18,332, in July 2018. The economic forecasts are based on a more conservative maximum of 17,000 per month.

As

Table 5-4 indicates, the September quarter (July to September) is the busiest time for tourists. Figure 5-21 highlights the capacity limitations experienced in the Cook Islands, by month. During 2019/20, maximum capacity is expected to be reached in the month of July, with more than 90 per cent capacity expected to be reached during a further 4 months. This situation worsens in 2020/21 with maximum capacity expected to be reached during 3 months of the year, rising to 5 months the following year.

Figure 5-21 Tourism capacity utilisation, monthly, 2016 to 2023



5.5.2 Major markets

Introduction

The major tourism markets for the Cook Islands are New Zealand with 67 per cent of total arrivals in 2017/18, followed by Australia with 16 per cent and Europe and the USA and Canada at 7 per cent each. Other markets including Asia and French Polynesia make up the remaining 3 per cent. Table 5-5 shows the aggregate tourist arrivals forecasts broken down by major market, by financial year.

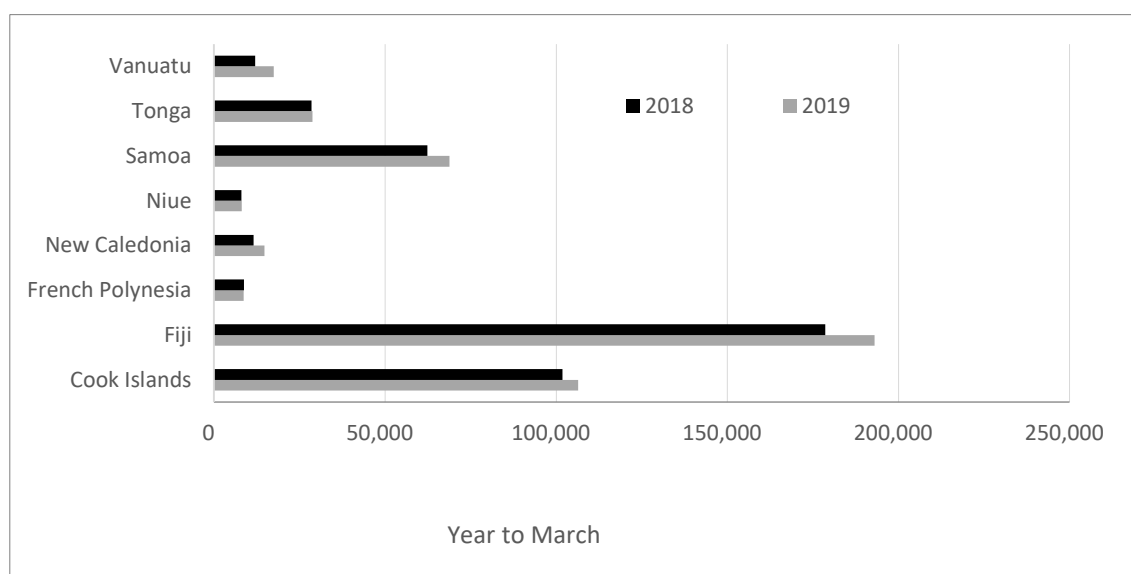
Table 5-5 Forecast total tourism numbers, by major market, 2018/19 to 2022/23

| Markets | 2017/18 | 2018/19e | 2019/20f | 2020/21f | 2021/22f | 2022/23f |
|--------------|----------------|----------------|----------------|----------------|----------------|----------------|
| New Zealand | 110,227 | 110,555 | 112,256 | 114,945 | 116,998 | 118,944 |
| Australia | 26,398 | 27,853 | 28,761 | 29,899 | 30,878 | 31,817 |
| USA & Canada | 11,418 | 11,017 | 11,397 | 11,716 | 11,982 | 12,236 |
| Europe | 11,928 | 12,630 | 13,110 | 13,590 | 14,006 | 14,404 |
| Other | 4,829 | 4,153 | 4,472 | 4,476 | 4,461 | 4,444 |
| Total | 164,800 | 166,209 | 169,997 | 174,625 | 178,325 | 181,845 |

New Zealand

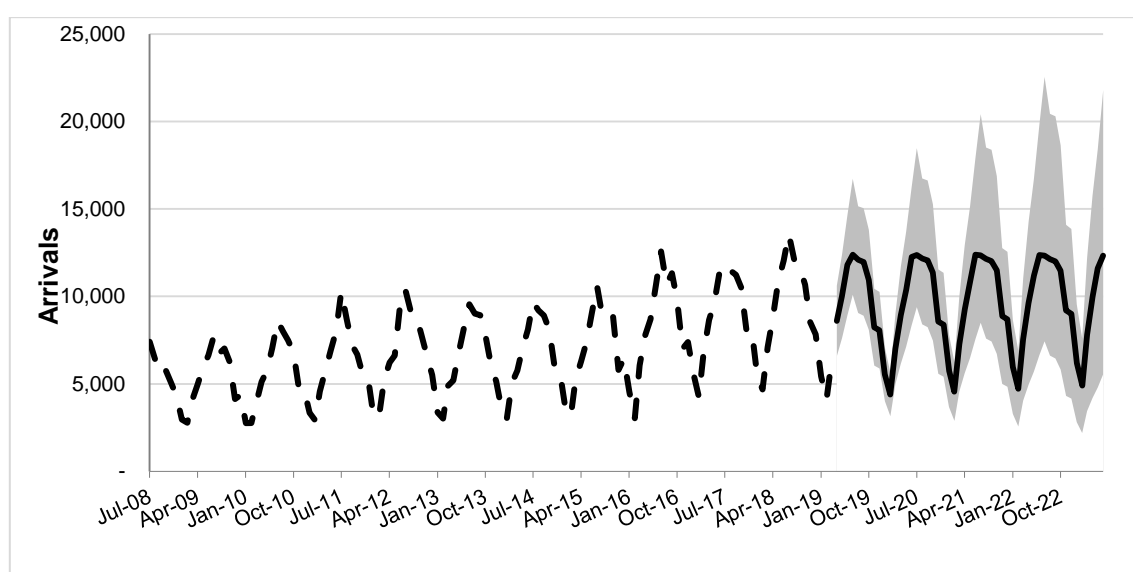
New Zealand visitors continue to make the strongest contribution to tourist arrival numbers. New Zealand arrivals reached 111,800 in the year to March 2019, a 3 per cent increase over the previous year.

Growth in tourism numbers from New Zealand is consistent with the general growth in New Zealand outward tourists to the Pacific, which has increased steadily in recent years. The Cook Islands is receiving an increasingly larger share of New Zealand tourists to Oceania, rising from 6.2 per cent in the year to March 2018 to 6.3 per cent in the year to March 2019, behind Australia and Fiji.

Figure 5-22 New Zealand Pacific resident arrivals, by main country visited

Arrival numbers for New Zealand visitors to the Cook Islands are expected to continue to increase going forward, but at slower rates than in recent years (see Figure 5-23). Growth is estimated at 0.3 per cent in 2018/19, rising to 2.4 per cent in 2019/20, averaging 1.8 per cent over the forward budget period. Total New Zealand arrivals are expected to rise from 110,555 to 118,944 over this period.

Figure 5-23 New Zealand arrivals, quarterly, 2008 to 2023



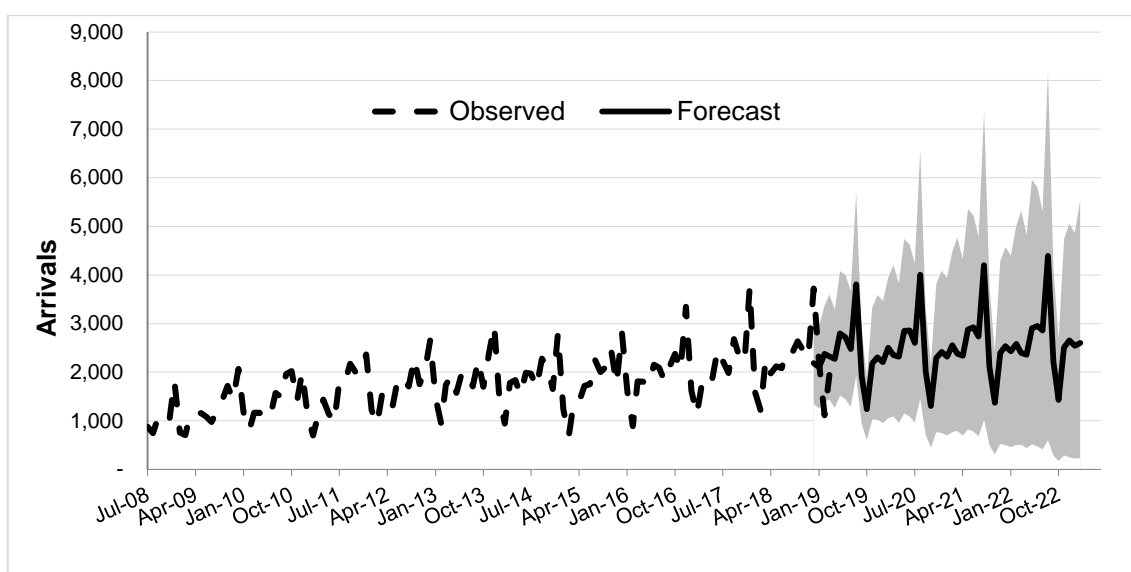
Australia

Australia is the second largest tourism market for the Cook Islands. Following recent strong growth of 6 per cent in the year to March 2017, and 11 per cent the subsequent year, Australian visitors recorded slower growth of 3 per cent in the year to March 2019. This took Australian visitor numbers from 26,513 in the year to March 2018 to 27,365 the following year.

The Cook Islands has seen significant growth in Australian visitors over the past ten years, with growth averaging about 9 per cent per year. This is off the back of strong growth in Australian outbound tourism (5 per cent from the year to March 2018 to the year to March 2019) and the increase in flights from New Zealand to Rarotonga which has increased interconnection options from Australian cities. Tourism Australia forecasts that outbound tourist numbers will continue to grow in Australia, increasing by an annual average of 3.9 per cent to 2026/27.

Arrival numbers for Australian visitors to the Cook Islands are expected to moderate going forward. Growth is estimated at 5.5 per cent in 2018/19, falling to 3.3 per cent in 2019/20, before falling further to about 3 per cent by 2022/23 (see Figure 5-24). Australian visitors are expected to increase from about 27,853 to 31,817 over this period.

Figure 5-24 Australia arrivals, quarterly, 2008 to 2023



Other markets

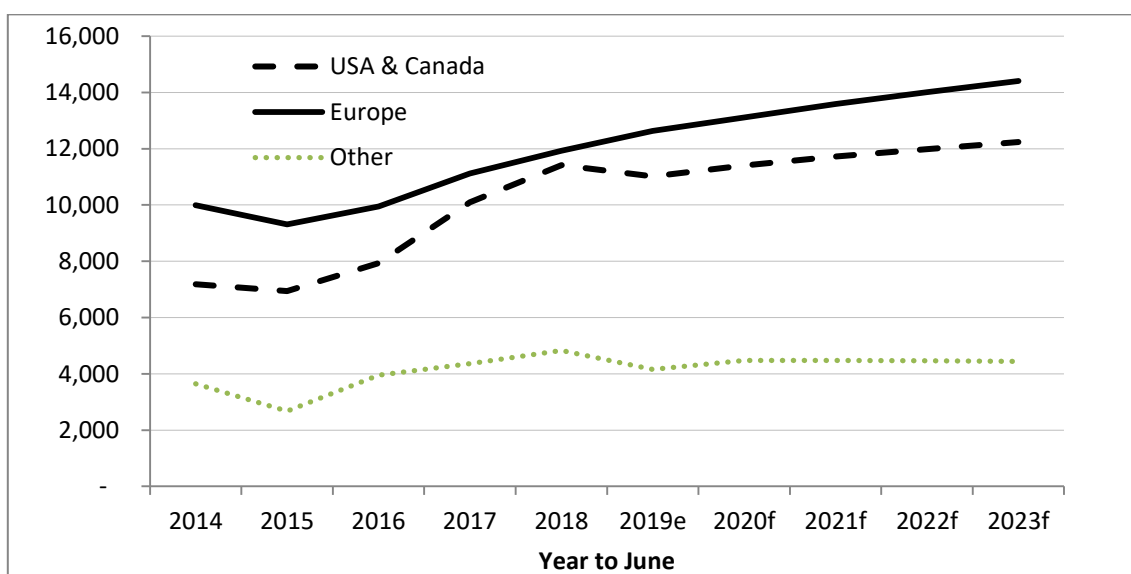
The year to March 2019 has shown mixed results for the other Cook Islands tourism markets.

Arrivals from the United States and Canada, the North American market, fell by 4 per cent from 11,545 in the year to March 2018 to 11,089. Growth is expected to recover in 2019/20 to 3.4 per cent, before falling to about 2 per cent by the end of the forward budget period (see Figure 5-25). Any further strengthening US dollar could have a positive impact on tourist numbers.

Visitor numbers from Europe grew by 9 per cent in the year to March 2019, from 11,626 in the previous year to 12,629. Growth is expected to be 5.9 per cent in 2018/19, thereafter averaging about 2.7 per cent over the forward budget period.

Following strong growth in recent years, arrivals from Asia and French Polynesia fell by 20 and 25 per cent, respectively in the year to March 2019. Average growth of about 1.8 per cent per year is expected over the forward budget period.

Figure 5-25 Other major markets arrivals, 2013/14 to 2022/23

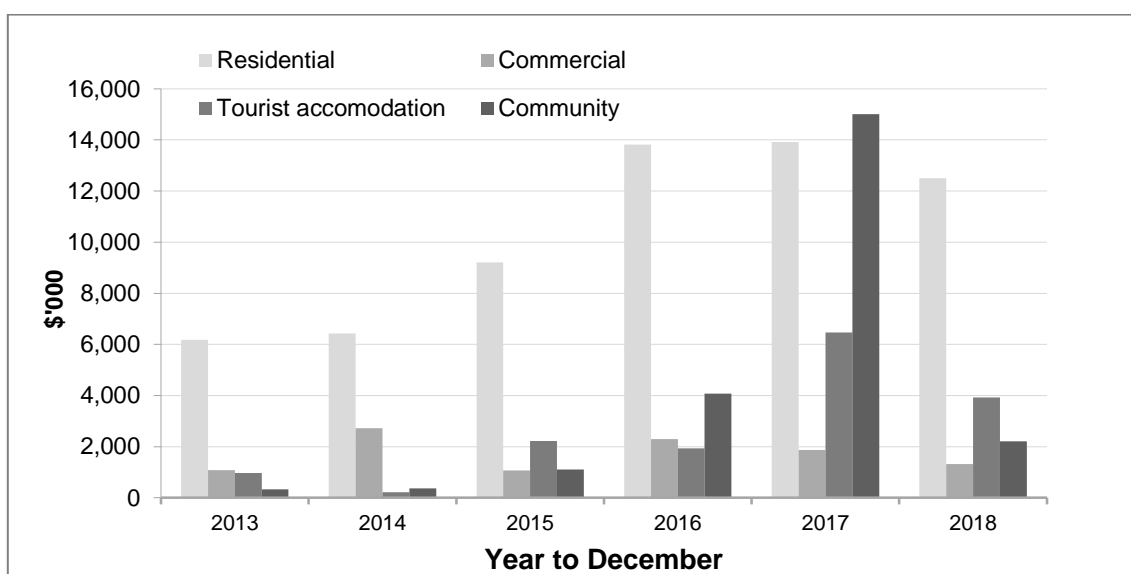


5.6 Housing and construction

5.6.1 Performance

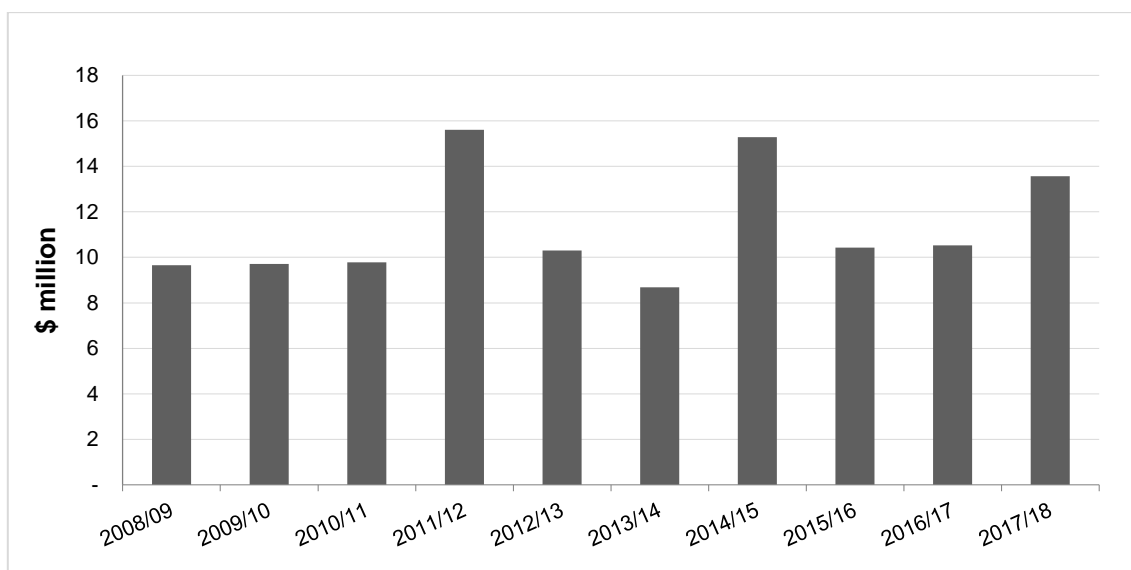
Despite a substantial decline in the value of residential and commercial (commercial, tourist and community buildings) building approvals in the year to December 2018 compared to the year to December 2017 (see Figure 5-26), the value remains well above trend. Total approvals value fell by 46 per cent from \$37.3 million to \$20.0 million, largely driven by a reduction in the value of community infrastructure approvals, following the completion of a number of large projects such as the Tereora College redevelopment.

Figure 5-26 Building approvals, \$'000, 2013 to 2018



The high level of the 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 5-27, has risen from \$10.4 million in 2015/16 to \$13.6 million in 2017/18.

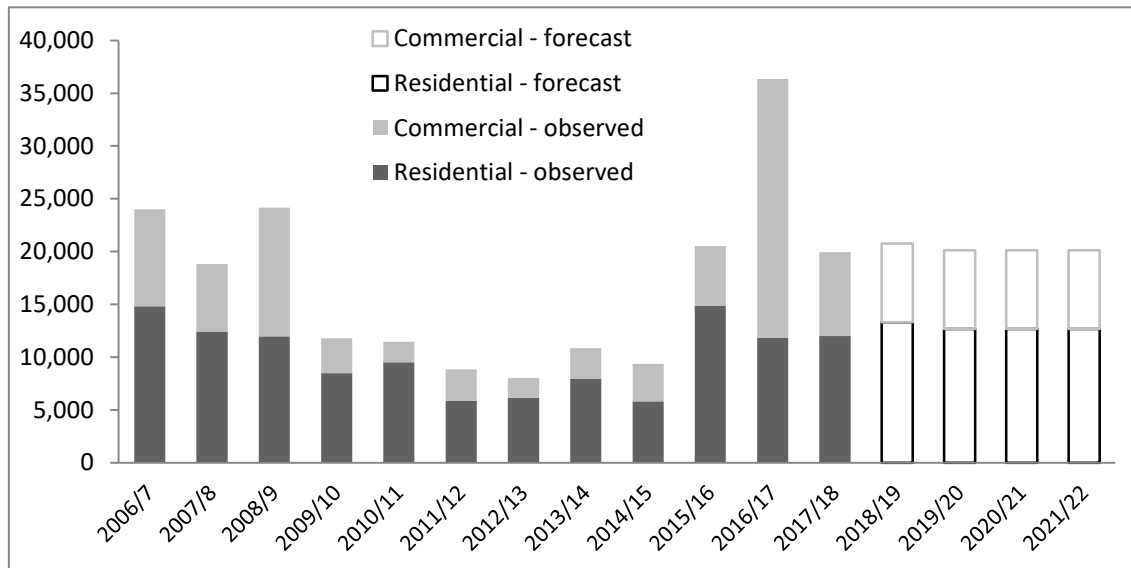
Figure 5-27 Construction sector contribution to real GDP, 2008/09 to 2017/18 (\$'000)



5.6.2 Outlook

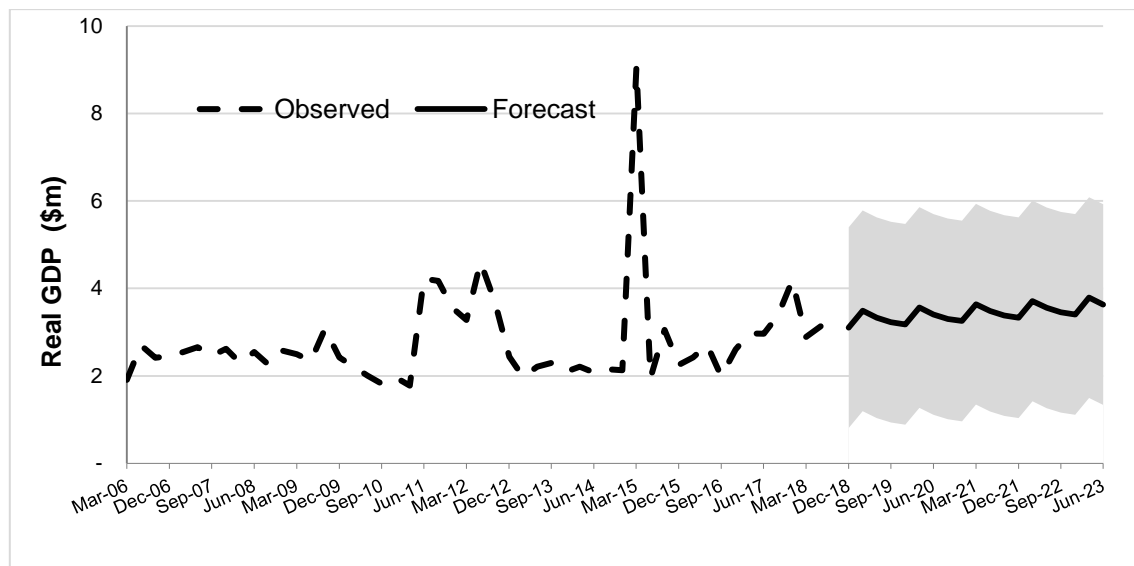
Going forward it is expected that both residential and commercial building approvals will stay at similar levels to those seen in 2017/18, reflecting the expected level of construction activity to service the tourism market, and continuation of government expenditure on a wide range of capital projects (see Figure 5-28).

Figure 5-28 Value of building approvals, 2006/07 to 2022/23 (\$'000)



The expected level of building approvals over the forward budget period is reflected in the steady state medium-term forecast for the construction sector as a whole shown in Figure 5-29.

Figure 5-29 Construction sector forecast, 2006 to 2023 (\$ million real)



5.7 Marine resources

5.7.1 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 provisional revenue estimate for 2018/19 is \$11.5 million.

In December 2016 new longline regulations for the Quota Management System (QMS) were enacted. Under the QMS a total allowable catch of 9,750 metric tonnes (MT) of albacore tuna and 3,500 MT of bigeye tuna per calendar year were set. The quota system was implemented in January 2017, with revenue returns of around \$3 million per year received, 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).

During 2016, the US and Pacific Island states negotiated a new US Multilateral Treaty with a six year term. Under the agreement the Cook Islands will commit 350 fishing days annually before the start of the calendar year. In 2018 the United States acquired 323 fishing days under this pool. In addition, the US fishing industry also entered into bilateral arrangements for 200 additional fishing days for vessels which have not acquired pooled days or who require additional days.

In January 2018, the Government renewed licenses for two Spanish purse seine fishing vessels under the European Union (EU) Sustainable Fisheries Partnership Arrangement. Under the 8 year agreement there is a 4 year protocol for fisheries access allowing up to 7,000 MT per year to be fished by EU Purse Seiners. This arrangement accounts for approximately 158 of the 1,250 vessel days assigned annually by WCPFC.

For the 2018 calendar year, the price for a fishing day ranged between \$12,500 to \$13,500, as determined by exchange rates which affect the US Treaty; and the EU fisheries partnership, and vessel days charged at a rate of US\$9,500 per day. Projected fisheries revenue for 2019/2020 is about \$11.5 million. The sources of revenues include:

- \$3 million from the longline licensing, development fees and quota management system;
- \$1.2 million from the US Treaty equal shares;
- \$4.7 million from the US Treaty annual pool;
- \$1.5 million from the US Treaty bilateral arrangements;
- \$400,000 from the EU Sustainable Fisheries Partnership Agreement (SFPA) fishing authorisations.

The figures above exclude ODA of US\$156,000 from the US Treaty Project Development Fund, and EUR350,000 for EU SFPA fisheries sectoral support. Fisheries revenue is expected to remain relatively stable. Purse seine related revenue are largely dependent on annual fishing patterns influenced by climatic conditions i.e. El Nino, and therefore experience year on year fluctuations. Fisheries management arrangements and differences in pricing for purse seine vessel days will also influence where and when fleets choose to fish.

Fishing activities

The Cook Islands EEZ is divided into the northern and southern fishery grounds (delineated at 15°S latitude), with the majority of fishing activity taking place in the northern fishery which is more stable and productive.

The longline albacore fishery catch is generally unloaded or transshipped in Apia, Samoa or Pago Pago, American Samoa.

The longline albacore fishery catch is generally unloaded or transshipped in Apia, Samoa or Pago Pago, American Samoa.

The longline catch peaked at 15,500 MT in 2012 when exploratory fishing for bigeye tuna was conducted. This experience helped to inform the setting of catch and effort levels that could be maintained to support both biological and economic objectives of the fishery, which are about where current levels are and should be maintained.

Since then catch has declined to 4,739 MT in 2018 as the fishery has reverted back to its reduced regulated albacore catch limits. Over the same period purse seining has become the dominant fishery in the Cook Islands, in terms of both catch and value expanding from 476 MT in 2010 to a peak of 30,273 MT in 2018.

The total commercial catch for all vessels was 35,012 MT in 2018, an increase from 25,466 in 2017. This is driven by increases in both longline and purse seine catch.

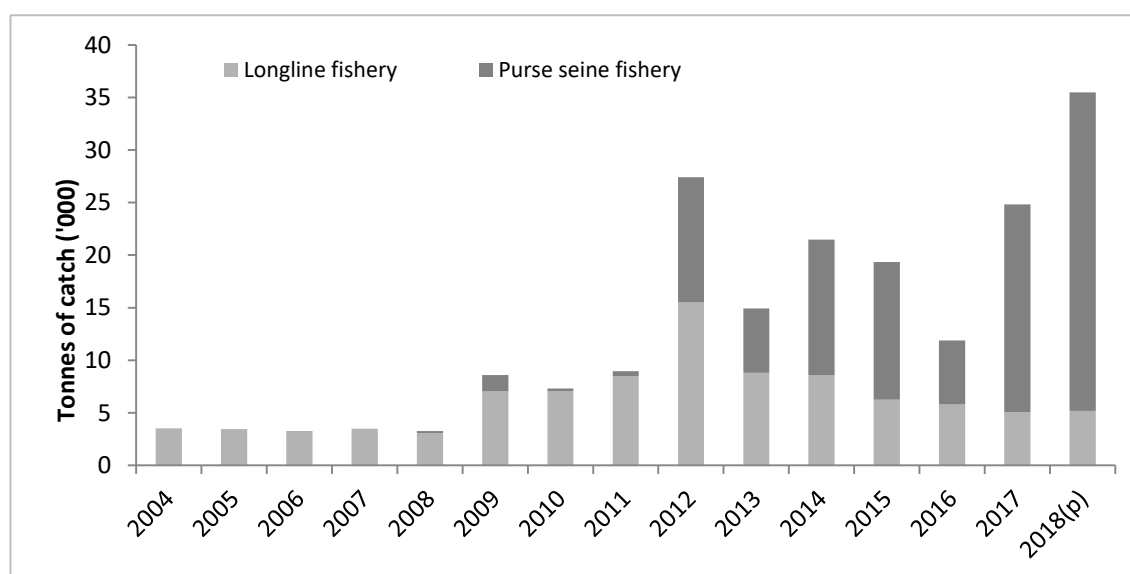
The Quota Management System applies to two species caught in the longline fishery. This is implemented through the Marine Resources (Large Pelagic longline Fishery and Quota Management System) Regulations 2016 (QMS) which came into force on 1 January 2017, by placing quota limits on albacore (ALB) and bigeye tuna (BET) in Cook Island waters.

The QMS Regulations placed a commercial quota limit or total allowable commercial catch (TACC) and total allowable catch (TAC) for each of the species as follows;

- 9,750 MT ALB (TAC)
- 9,698 MT ALB (TACC)
- 3,500 MT BET (TAC)
- 2,500 MT BET (TACC).

In 2018 a total of 4,095 MT of ALB was purchased accounting for 58 per cent of the ALB TACC, and a total of 660 MT BET was purchased accounting for 26.4 per cent of the BET TACC.

Figure 5-30 Fishery catch in the Cook Islands EEZ (MT)



The Cook Islands also supports a small local fishery of artisanal and sports fishing game charter operators. In 2017, 229 MT was caught by local fishers, with an estimated nominal catch of 150 MT in 2018.

Provisional catch estimates indicate albacore and yellowfin tuna together accounted for around 86 per cent of species caught by longline in 2018, with a decrease in yellowfin compared to 2017 (Table 5-6). With the increase in purse seining, skipjack was the dominant catch species in 2018, with approximately 28,949 MT accounting for 95 per cent of the total catch.

Table 5-6 Fishery catches in the Cook Islands EEZ by species (MT)

| | 2016 | | | 2017 | | | 2018(p) | | |
|--------------|-----------------|--------------------|--------------|-----------------|--------------------|--------------|-----------------|--------------------|------------------|
| | <i>Longline</i> | <i>Purse Seine</i> | <i>Local</i> | <i>Longline</i> | <i>Purse Seine</i> | <i>Local</i> | <i>Longline</i> | <i>Purse Seine</i> | <i>Local (P)</i> |
| Albacore | 4,224 | 0 | 1 | 3,315 | 0 | 0 | 3,697 | 0 | 1 |
| Bigeye | 537 | 86 | 0 | 259 | 439 | 0 | 254 | 256 | 1 |
| Yellowfin | 1,094 | 416 | 77 | 902 | 1,767 | 150 | 775 | 1,068 | 87 |
| Skipjack | 123 | 4,874 | 7 | 76 | 18,202 | 23 | 13 | 28,949 | 5 |
| Other | 725 | 10 | 24 | 506 | N/A | 56 | 445 | 0 | 56 |
| Total | 6,703 | 5,386 | 109 | 5,058 | 20,408 | 229 | 5,184 | 30,273 | 150 |

In 2018, a total of 89 licensed vessels were managed by the Ministry of Marine Resources (MMR). These include 40 long liners, 36 purse seiners, 2 high seas trawlers and 11 bunker vessels. In addition there were 238 local artisanal and game charter fishing boats reporting catches to the MMR (Table 5-7).

Table 5-7 Number of active fishing vessels

| Licensed and active vessels | 2014 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Offshore fishery | | | | | | |
| Long liner | 45 | 36 | 38 | 47 | 55 | 40 |
| Purse seiner | 17 | 18 | 65 | 33 | 16 | 36 |
| Other commercial | 4 | 5 | 5 | 10 | 8 | 13 |
| Total | 66 | 59 | 108 | 90 | 79 | 89 |
| <i>Local artisanal and game fishery</i> | 223 | 302 | 301 | 285 | 273 | 238 |

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 for domestic market and export markets such as Japan. For Cook Island domestic vessels that unload in Rarotonga, 183 MT was unloaded in 2018 compared to 286MT in 2017. 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 25 to 8 MT over this period.

Landed frozen catch by foreign flagged vessels in Rarotonga totaled nearly 400 MT in 2016, up from 363 MT in 2015. In 2014, the total catch landed by Chinese vessels was 1,900 MT, a very large spike compared to normal catch levels. There was no landed catch by foreign vessels in Rarotonga for 2017 and 2018.

Table 5-8 Catch landed at Avatiu Port (MT)

| | 2014 | 2015 | 2016 | 2017 | 2018(p) |
|--|--------------|-------------|-------------|-------------|----------------|
| Cook Islands flagged vessels | | | | | |
| Fresh catches offloaded | 194 | 188 | 179 | 286 | 173 |
| Fresh catches to be exported by airfreight | 23 | 115 | 125 | 25 | 8 |
| Chinese flagged vessels | | | | | |
| Frozen by-catch sold locally | 18 | 0 | 0 | 0 | 0 |
| Frozen catches to be exported by sea freight | 1,882 | 363 | 399 | 0 | 0 |
| Total | 2,117 | 666 | 703 | 311 | 181 |

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 incentivised reporting as part of a fuel subsidy program instituted by MMR.

The MMR in conjunction with the South Pacific Community (SPC) continues to upgrade MMR's fisheries information management capacity and capabilities through the integration of coastal monitoring and data collection methods, and the streamlining of this process through the use of electronic reporting mediums, such as the android 'Tails' application.

MMR noted improved coverage in artisanal data collection with the introduction of reporting initiatives such as the 'Tails' application. A significant outcome of this is that the technology can operate with limited internet connectivity, and provides a solution to the problems of geographic isolation that is experienced on many islands, and reducing administrative and resource costs related to data management and processing.

A fisheries development fee of \$10,000 is charged to each foreign fishing license. In 2017, \$300,000 was made available through administrative payments to support the local fishers comprising of \$100,000 for the Cook Islands Fishing Association, \$150,000 in small grants to individuals and \$50,000 for the fishing clubs of the Pa Enua Tokerau (Northern Group).

The FAD program remains a top priority for MMR under the inshore and aquaculture division. From July 2018 to May 2019, a total of 18 successful Fish Aggregating Device (FAD) deployments were conducted in both the north and southern group islands. A total of 34 FAD's are active and are serviced and maintained by Fisheries Officers on each island, with assistance from some fishers. A number of projects complement national budgetary allocations to maintain the FAD program. This includes the Fisheries Development Facility, Ridge to Reef and EU-SFPA.

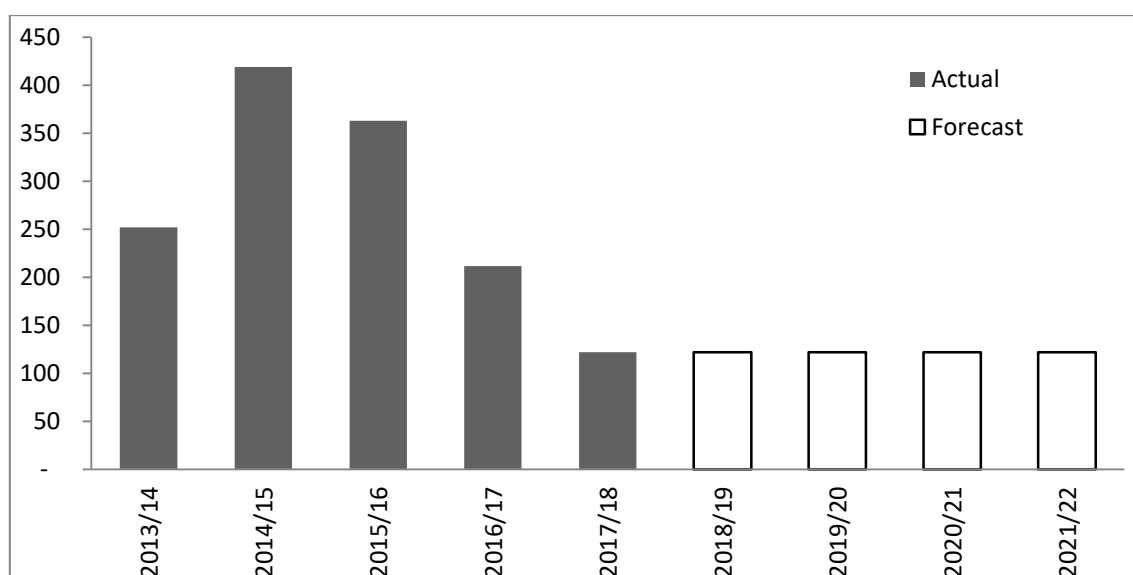
5.7.2 Black pearls

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 the industry saw a decline in the value of total exports as of 2003, following unregulated farming practices, poor oyster health conditions and bacterial disease. Since its peak in 2000, the industry reached a low of \$191,000 in 2013. The industry has rebounded somewhat in recent years, however its value remains very low.

French Polynesia continues to be the major supplier of raw and finished black pearl products to the international market, keeping prices relatively low. Anecdotal information indicates increased imports of black pearl products from French Polynesia to the Cook Islands.

In 2017/18, the value of pearl and pearl shell exports fell to \$122,000, down from \$211,000 in 2016/17 (Figure 5-31). In the Cook Islands there has been a distinctive 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.

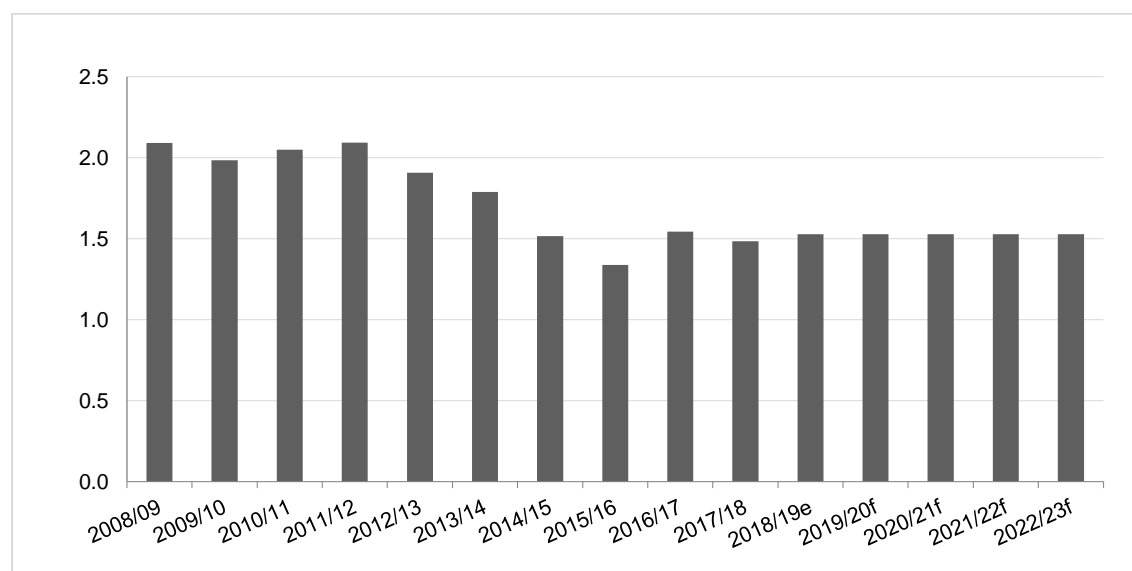
Figure 5-31 Pearl exports, 2012/13 -2021/22 (\$'000)



5.7.3 Economic contribution

The Fishing and Pearl sector, which accounted for less than one per cent of real GDP in 2017/18, contracted by 4 per cent from \$1.54 million the previous year to \$1.48 million, in real terms. A slight rebound is expected in 2018/19, rising to about \$1.53 million. The outlook for the sector over the budget forecast period is steady, as shown in Figure 5-32.

Figure 5-32 Fisheries contribution to GDP, annual, 2008/09 to 2022/23 (\$m real)



5.8 Agriculture

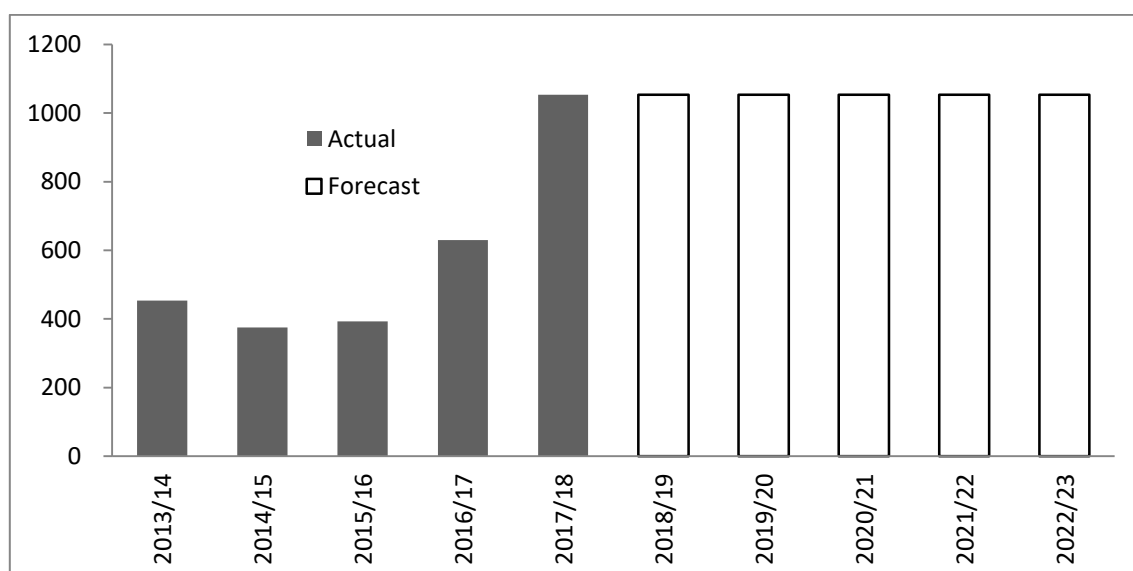
5.8.1 Agricultural activity and exports

The Agricultural sector accounted for about 2 per cent of real GDP in 2017/18, growing by about 1 per cent in 2017/18 from \$10.58 million to \$10.64 million in real terms.

This growth was underpinned by a significant expansion in agricultural exports in 2016/17 and 2017/18, following a decrease in 2015/16. Noni Juice remains the main export commodity product from the Cook Islands, with the primary export markets in Japan, China and, more recently, South Korea. Minor export volumes of processed agricultural products such as virgin coconut oil, vanilla extracts, A-grade vanilla beans and Tamanu seed oil extracts are some of the new export products that are increasing in demand.

Total agricultural exports, almost entirely comprised of Nono, rose from \$630,000 in 2016/17 to just over \$1 million in 2017/18, an increase of 67 per cent (see Figure 5-33).

Figure 5-33 Agriculture exports 2013/14 to 2022/23 (\$'000)



A range of initiatives in Rarotonga and the Pa Enua have been established to improve the supply of fruit and vegetable products by strengthening up-stream supply chains.

In 2018, the Ministry distributed in excess of 150,000 propagated vegetable seedlings to 18 commercial farmers on Rarotonga, with production mainly for sales at supermarkets, local outlets, restaurants and hotels. Seeds of capsicums were distributed to the farmer associations on Aitutaki to assist with meeting local demand, whilst broccoli, cauliflower and cabbage seeds were distributed to the Puna on Mangaia.

During the latter part of 2018, 3 farmers on Mangaia shipped an estimated 250 heads of cabbages to 2 outlets on Rarotonga. A single farmer on Mangaia continues to supply 25 kg of capsicums and tomatoes to Prime Foods on a weekly basis. The sale of propagated seedlings to farmers on Rarotonga has assisted with enhancing the supply of vegetables to our markets.

During the first quarter of 2019, 48,600 seedlings of various vegetables - including tomatoes, capsicums, watermelons and cucumbers were supplied to farmers. A total of 7,866 seedlings of tomatoes were distributed during this period which could equate to \$66,800 in gross income from an area of 1.45 acres, based on recommended spacing and management practices. This initiative also aims to support local production in bridging the gap of vegetable supply.

The Ministry of Agriculture, together with the Prison Services, commenced with a program to propagate and supply open pollinated organic seeds to farmers in the country, including the schools and women groups. The program has commenced with the extraction and packaging of seeds of Sweet Corn, Tomatoes and Eggplants. This initiative has received financial and technical resources through the Land Resources Division of the Secretariat of the Pacific Community.

Domestic hydroponic and summer vegetable production continues to grow, bridging the gap in fruit and vegetable supply value chains during the 'production off-season'. There has also been an increase in the number of hydroponics and summer house facilities on Rarotonga, Aitutaki and Northern Pa Enua. The Ministry of Agriculture is also investing in vanilla shade houses to boost production of this high value crop for export and the local market.

The Ministry of Agriculture has extended the new varieties (White Jade Pineapple, Rambutan, yam, taro), and material support towards the FAO Fruit Tree and Vegetable Model Orchard Farms, implemented by the Cook Islands Chamber of Commerce in their Agribusiness training program. This has now expanded to Aitutaki, Mangaia, Mauke, Atiu – the Agricultural Fruit Tree Production and training of Growers, and crop banks on each islands under the Ridge to Reef program (R2R) and the Pa Enua Action for Resilient Livelihood (PEARL) projects.

The Cook Islands has considerable potential to meet the increased for local agricultural production (products such as drinking coconuts, coffee and cocoa, root crops, ornamentals, tropical fruits, vegetables, honey production, processing and value adding products, including handicraft products). Despite this potential, there are a number of constraints that limit growth in the agriculture sector:

- substandard biosecurity treatment facilities to meet our SPS requirements for international market access and compliance with importing/exporting country's quarantine requirements for fruit flies and other pests
- issues related to labour shortages and, and in some cases, higher level local wages
- low or lack of agricultural water access and supply
- inexperience and failures in supply chain coordination, and
- high transport costs to get produce to markets.

The MOA is establishing 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 trends in the agricultural industry.

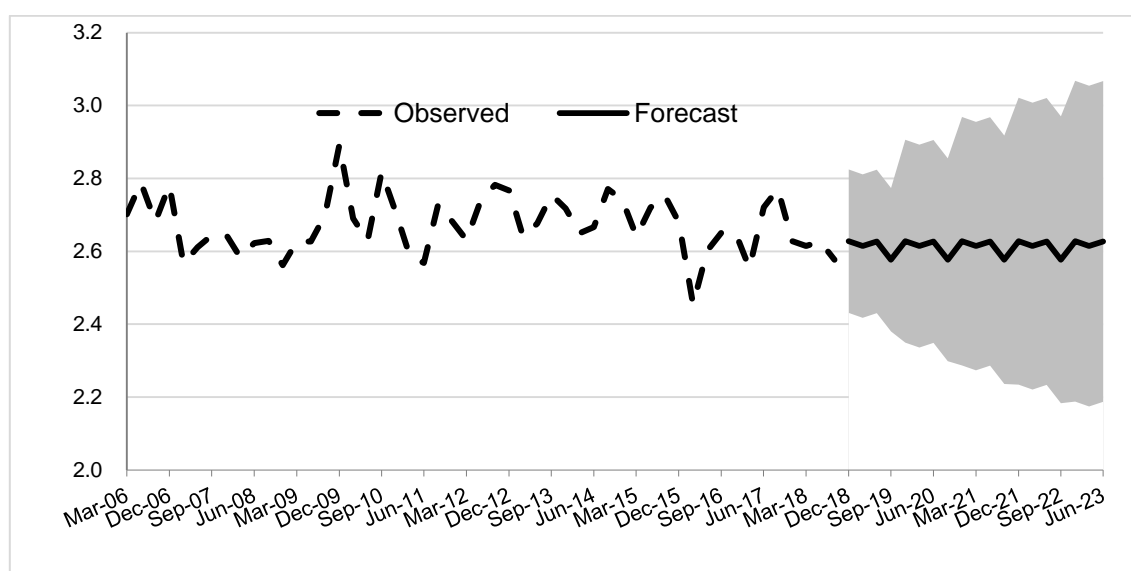
Since the establishment of the AglNTEL data system, the Ministry of Agriculture have been releasing Punanga Nui Market data based on agricultural produce which helps farmers understand the market better in terms of price and demand. This data system helps record market information and monitor changes while providing crucial data to farmers and growers allowing them to supply areas of shortfall in production.

The Ministry of Agriculture has also extended this data system to the southern Pa Enua in 2017 and the first quarterly report on agricultural production will be released 2nd quarter of 2019. It will be the first time the Ministry monitors the agriculture sector in the Pa Enua based on data. Agriculture data for the whole country is currently lacking in some areas, since other islands particularly the northern group are not covered. However the Ministry of Agriculture is now in the process of developing MoU's for each of the Northern Pa Enua with the Island Government to allow the Ministry of Agriculture to work directly with each agriculture department on these Islands. It is expected that by 2020, the Ministry will be delivering training programs to build up the capacity for the agriculture staff on each island and at the same time to introduce AgINTEL data system in the Northern Pa Enua. This method is adopted from the same approach undertaken by the Ministry of Agriculture in the Southern Pa Enua in 2016.

5.8.2 Economic contribution

A steady economic outlook for the agriculture sector is expected over the budget forecast period, as shown in Figure 5-34.

Figure 5-34 Agriculture contribution to GDP, quarterly, 200/07 to 2022/23 (\$ million real)



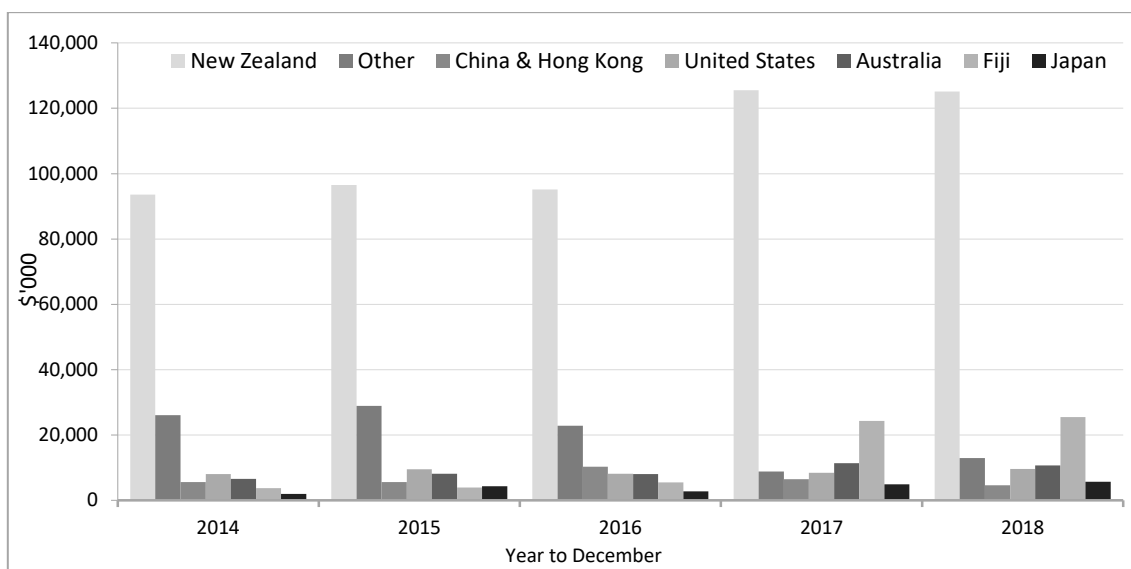
5.9 Goods imports and exports

5.9.1 Goods imports

Due to the size and geography of the Cook Islands, the country is highly reliant on the import of goods.

In the year to December 2018, the total value of imports into the Cook Islands rose by 2.2 per cent from \$190 million to \$194 million, the vast majority from New Zealand (see Figure 5-35). The primary driver of the increase was minerals and fuels, beverages and tobacco and crude materials, which more than offset falls in machines and transport, basic manufactures and food and live animals.

Figure 5-35 Import value by country of origin, year to December (\$'000)



Looking forward, import growth is expected to moderate further from 2019/20, averaging about 2.3 per cent per year, for two reasons (see Figure 5-36). The first relates to the maturation of the current large capital projects, which will further reduce the importation of machines, transport and equipment. The second is the expected slowdown in the growth of tourism arrivals which should drive lower growth in the importation of food.

Figure 5-36 Value of total goods imports, quarterly, 2007 to 2023 (\$'000)

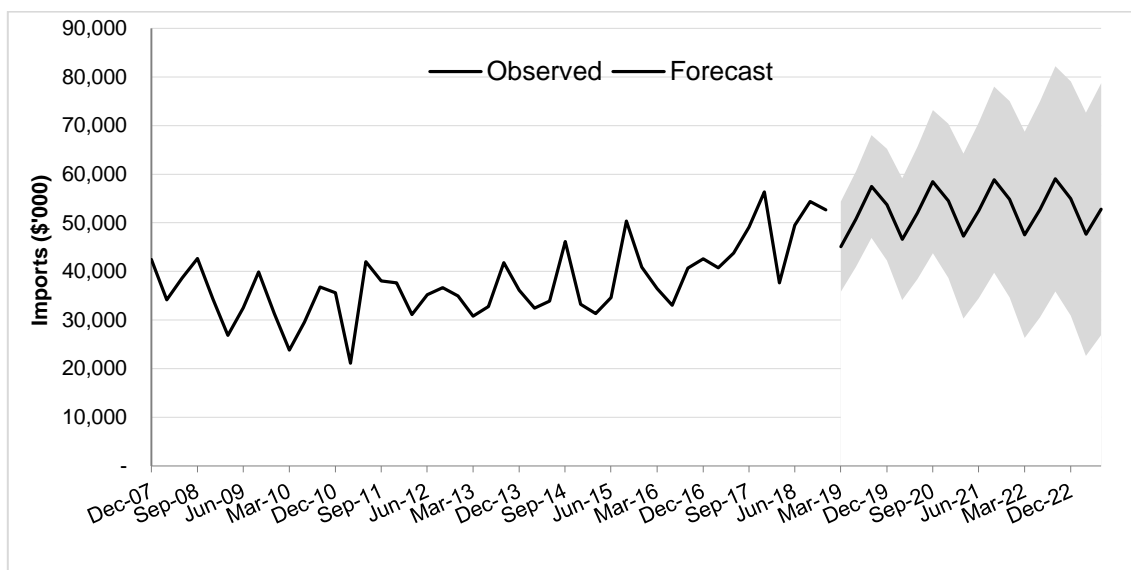
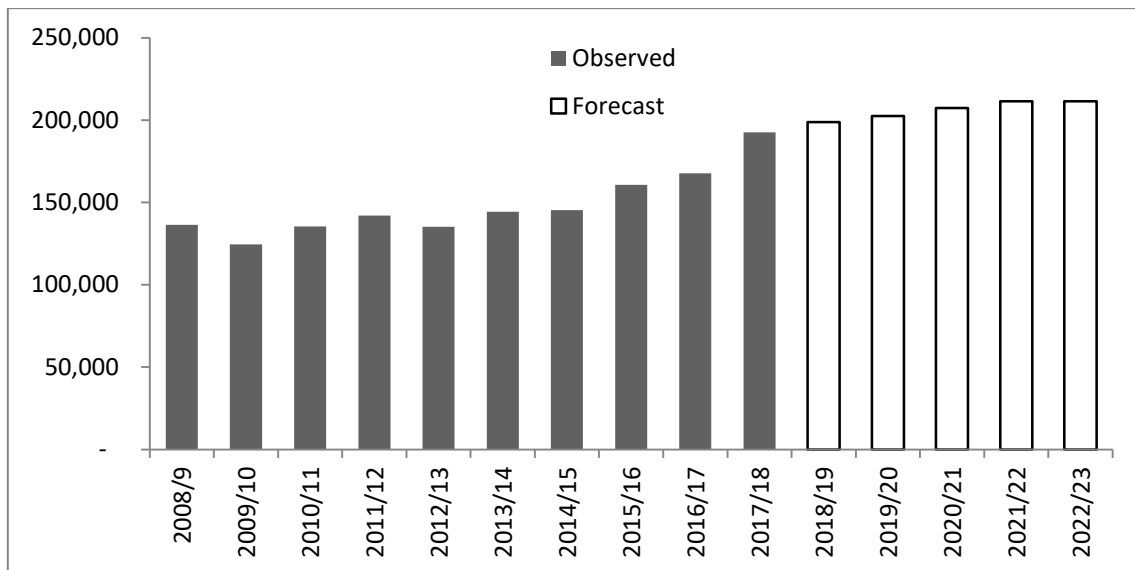


Figure 5-37 shows the projected annual value of total goods imports over the forward budget period.

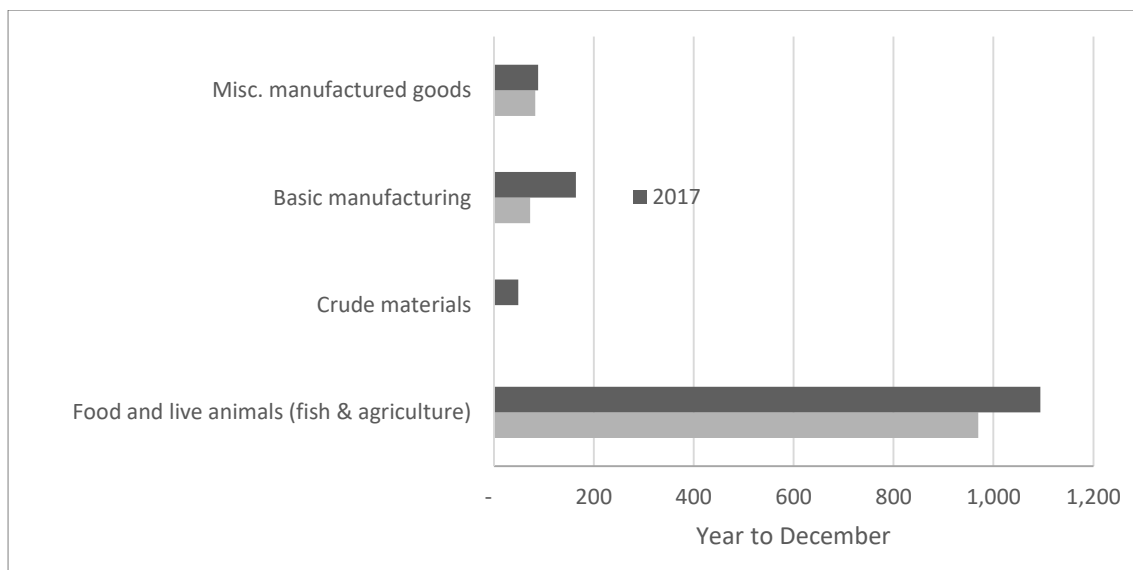
Figure 5-37 Value of total imports, annual, 2008/09 to 2022/23 (\$'000)



5.9.2 Goods exports

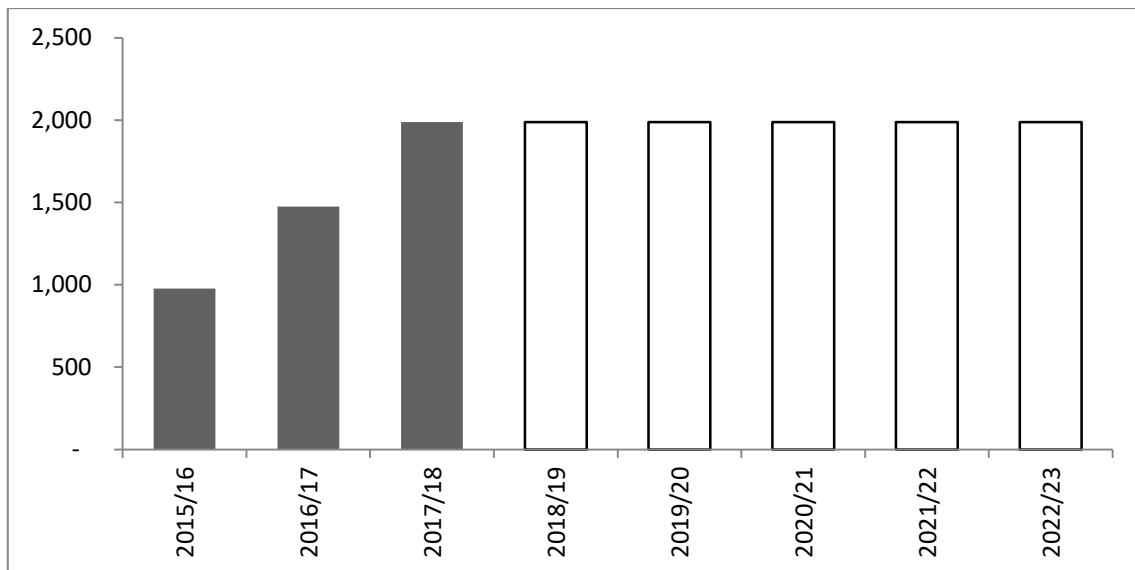
Total goods exports fell in the year to December 2018 by 18.5 per cent to \$1.1 million. This fall is largely attributed a decline of 11 per cent in the export value of food and live animals and a drop in basic manufacturing export value by 56 per cent (see Figure 5-38).

Figure 5-38 Major goods exports, 2017 to 2018 (\$'000)



Looking forward, the value of goods exports is expected to remain steady, as shown in Figure 5-39.

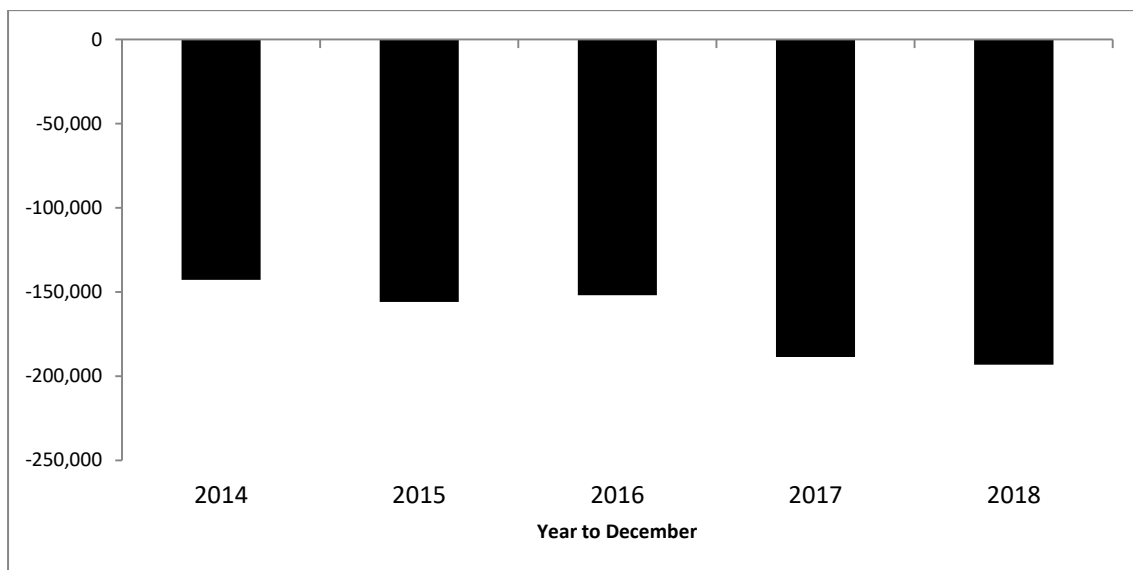
Figure 5-39 Total goods exports 2015/16 to 2022/23 (\$'000)



5.9.3 Merchandise balance of trade

As a result of the positive growth in imports and fall in exports, a negative merchandise balance of \$193.1 million is estimated for the year to December 2018, an increase from the negative \$188.6 million in 2017 (see Figure 5-40)

Figure 5-40 Merchandise balance of trade, 2014 to 2018 (\$'000)

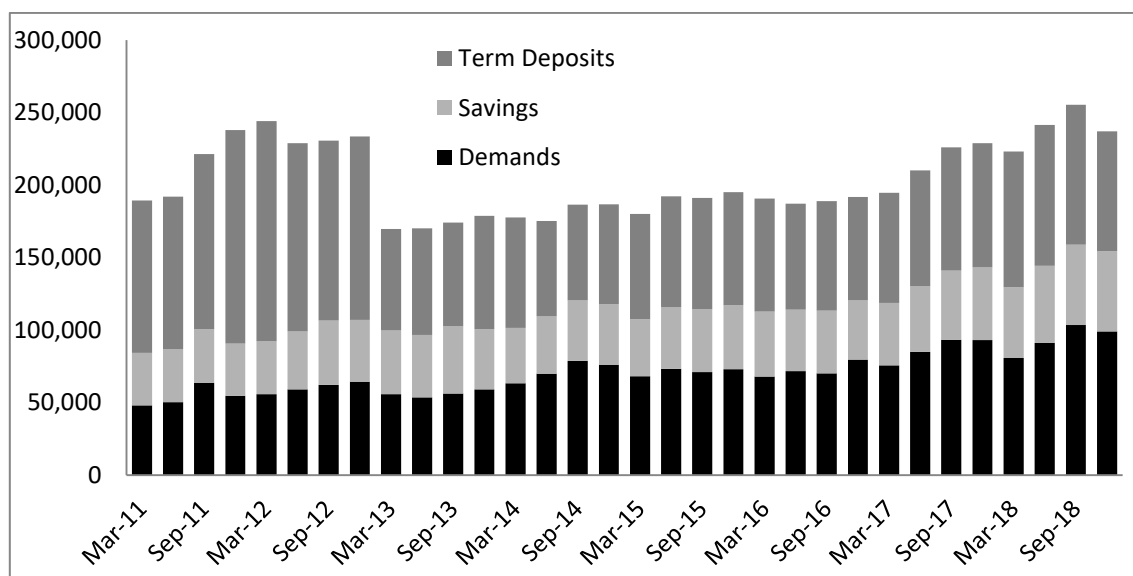


5.10 Banking and finance

5.10.1 Deposits

Total deposits in Cook Islands banks in December 2018 when compared to December 2017 rose by 4 per cent from \$228.3 million to \$237.1 million. The key driver of this increase, about 71 per cent, was a steep rise in demand deposits, from \$93.2 million to \$99.1 million. In contrast, term deposits fell by 3 per cent over this period.

Figure 5-41 Total value of bank deposits, March 2011 to December 2018 (\$'000)

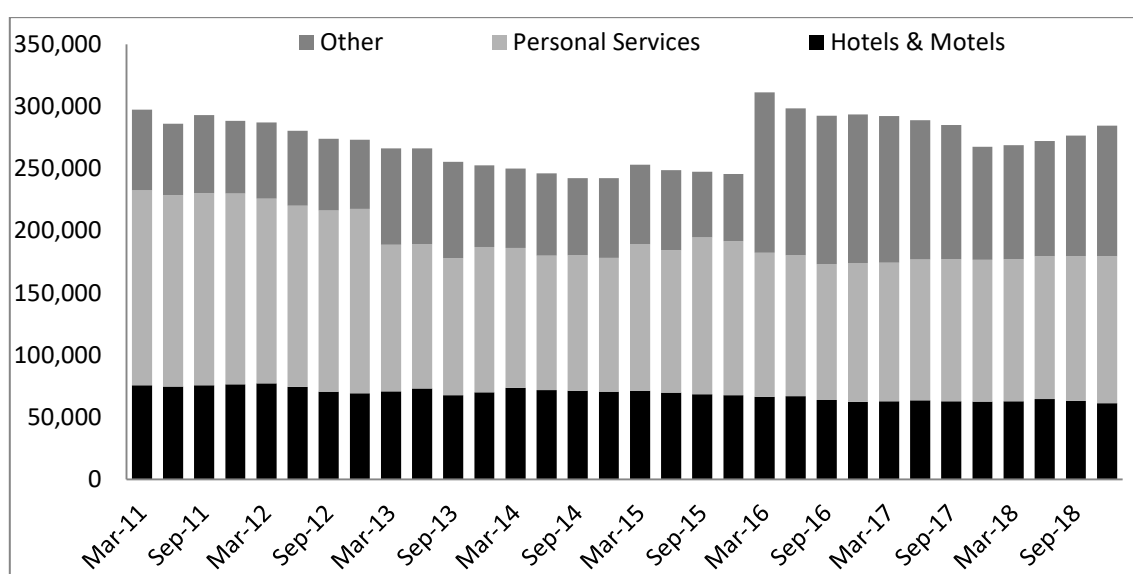


5.10.2 Loans

Lending by Cook Islands banks is dominated by loans to the Personal services, Hotel and motels and Finance and business industry sectors. In December 2018, these sectors accounted for 42, 22 and 16 per cent of the total loan portfolio, respectively.

Total lending by Cook Islands banks in December 2018, when compared to December 2017, rose by 6 per cent from \$267.5 million to \$284.5 million (see Figure 5-42). Agriculture and fishing, Transport and communications, Finance and business and Personal services categories all recorded increases, with Wholesale and retail trade and, Hotels and motels and Public administration recording decreases. Wholesale and retail trade loans fell by 22 per cent from \$12.2 million in December 2017 to \$9.5 million a year later.

Figure 5-42 Total value of bank loans, March 2011 to December 2018 (\$'000)



5.11 Financial services industry

5.11.1 The industry

The Financial Services Development Authority (FSDA) was established in 2009 pursuant to the *Financial Services Development Act 2009*. It is a Cook Islands Government agency tasked with encouraging promoting and developing the Cook Islands financial services industry. The financial services industry, by statutory definition, includes those Cook Islands businesses licensed to carry on banking, insurance and trustee company business, both domestically and internationally.

The financial services industry currently accounts for approximately 5 per cent of total employment in the Cook Islands.

In light of the global push for international standards on transparency and exchange of financial information and the fight against financial crimes such as money laundering and tax evasion, the financial services industry has faced and dealt with many challenges to meet those standards whilst remaining competitive and productive. The Cook Islands has clearly demonstrated its commitment to meeting its international obligations.

The Cook Islands is a member of the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes. In 2015 the Forum's Phase 2 Peer review rated the Cook Islands as "largely compliant", a very positive result for the Cook Islands. The next Global Forum Peer review is scheduled for the second half of 2019.

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 that financial institutions provide the United States (US) Internal Revenue Service with financial information held on US taxpayers.

In October 2018, the Financial Action Task Force (FATF) published the Cook Islands second Mutual Evaluation Report (MER), the first being in 2009. The FATF is an inter-governmental body responsible for policy making on international AML/CFT standards. The evaluation process took 18-months. The Cook Islands rated “largely compliant” or above on 38 of the FATF’s 40 recommendations for technical compliance. This has not been surpassed by any other jurisdiction. The Cook Islands also obtained five “substantial” ratings for the effectiveness of its AML/CFT regime. The 2018 MER is a significant achievement for the Cook Islands.

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 considers amount to preferential and harmful tax regimes. The Cook Islands has been given until the end of 2019 to address these concerns. The international financial services industry, and in particular the business of the licensed trustee companies, will be most affected by the changes required by the EU.

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 in 2019/20 is estimated at \$1.3 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 will be essential to growth. The primary market for the services of licensed trustee companies remains the USA, however efforts are being made to develop an Asian market.

5.11.2 Economic contribution

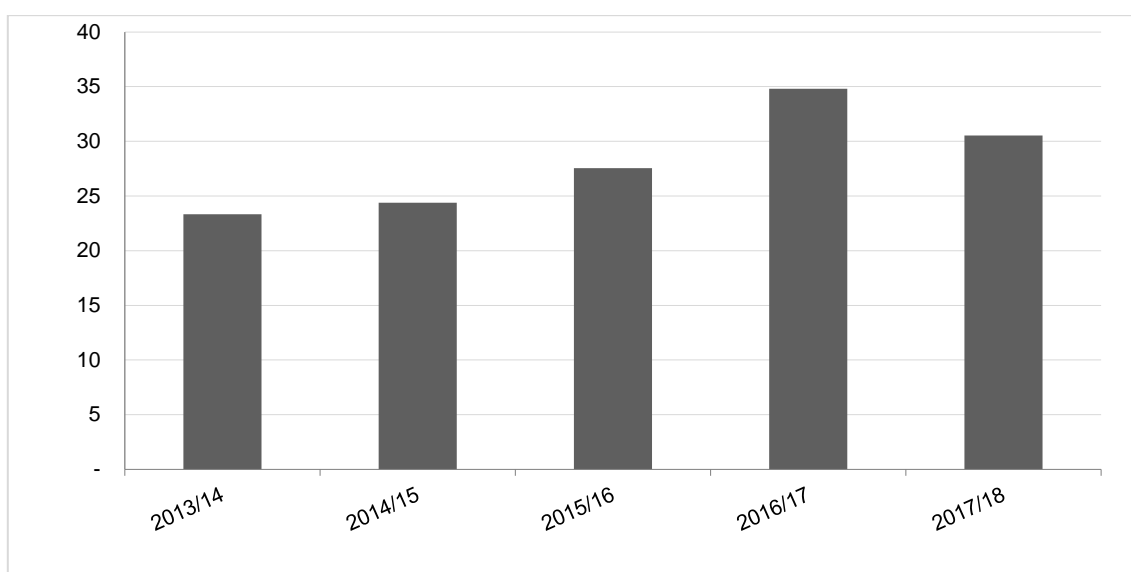
Financial services industry – domestic and international

The financial services industry, which includes trustee companies, banks, insurance companies and money exchangers, employs over 260 staff, accounting for approximately 5.3 per cent of total employment in the Cook Islands.¹²

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 5-43, has fallen from \$34.8 million in 2016/17 to \$30.5 million in 2017/18.

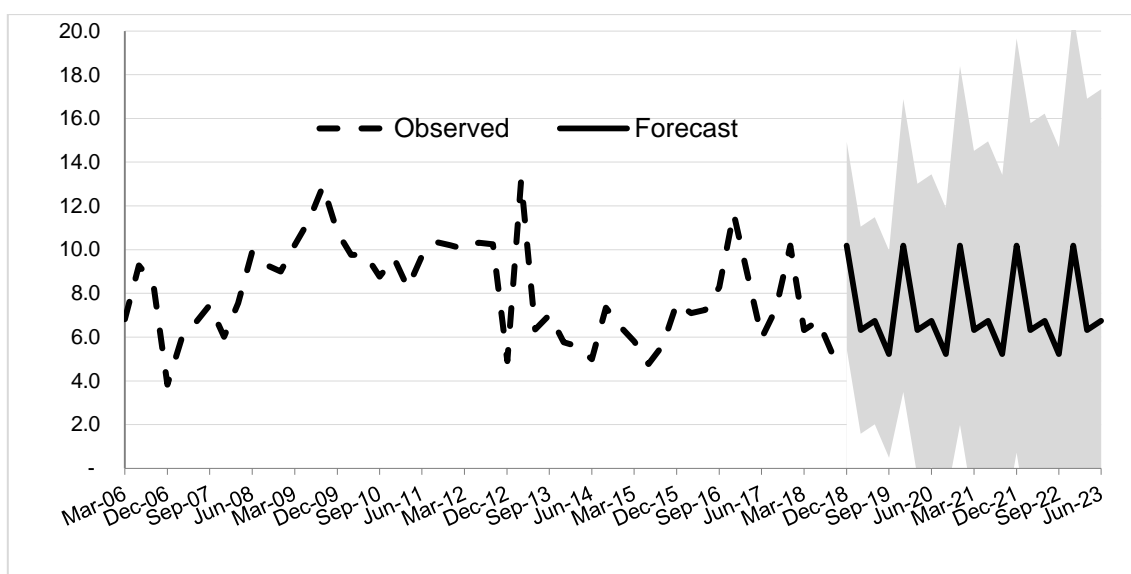
¹² Based on surveys conducted in February 2017 and February 2018 by the Financial Services Development Authority. The employment rate is estimated using the number of active Cook Islands National Superannuation Fund members as a proxy for total employees in the Cook Islands, which was 4,906 as at March 2018.

Figure 5-43 Finance and insurance contribution to real GDP, 2013/14 to 2017/18 (\$'000)



Going forward, the steady state medium-term forecast for the finance and insurance sector is shown in Figure 5-29.

Figure 5-44 Finance and insurance sector forecast, 2006 to 2023 (\$ million real)



International component

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 contributions of the international financial services industry in the Cook Islands.¹³ 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.

¹³ IMF (2019). Cook Islands International Financial Services Industry. Iris Claus, PFTAC Technical Assistance Report, April 2019 (forthcoming).

The IMF report measured both the direct contribution of the international financial services industry to Cook Islands Gross Domestic Product (GDP) and the indirect contribution through two channels: the goods and services that the industry purchases from other suppliers; and through the business that the international financial services providers create for other sectors of the economy, including banking services, captive insurance, and business travel.

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 flat, averaging 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 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.

Table 6-1 GFS Statement

| Statement of Government Operations | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|---|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| REVENUE | 218,837 | 246,320 | 221,239 | 206,885 | 199,255 |
| Taxes | 144,635 | 151,626 | 156,384 | 159,508 | 162,631 |
| Social contributions | 75 | 75 | 75 | 75 | 75 |
| Grants | 22,848 | 57,489 | 28,879 | 14,599 | 3,836 |
| <i>Current</i> | 4,583 | 10,396 | 7,724 | 2,599 | 1,836 |
| <i>Capital</i> | 18,265 | 47,093 | 21,154 | 12,000 | 2,000 |
| Other revenue | 51,279 | 37,129 | 35,901 | 32,703 | 32,713 |
| EXPENSE | 170,394 | 180,645 | 181,457 | 180,512 | 177,883 |
| Compensation of employees | 61,833 | 69,336 | 74,226 | 77,907 | 78,265 |
| Use of goods and services | 52,440 | 53,653 | 49,583 | 45,829 | 43,109 |
| Depreciation | 14,006 | 13,742 | 13,742 | 13,742 | 13,742 |
| Interest | 2,670 | 2,133 | 1,906 | 1,684 | 1,687 |
| Subsidies | 15,691 | 15,181 | 15,181 | 15,181 | 15,181 |
| Grants | 0 | 0 | 0 | 0 | 0 |
| Social benefits | 19,901 | 21,681 | 21,888 | 21,974 | 22,060 |
| Other expense | 3,853 | 4,919 | 4,931 | 4,194 | 3,839 |
| NET OPERATING BALANCE | 48,443 | 65,675 | 39,782 | 26,373 | 21,372 |
| <i>Plus</i> NON CASH APPROPRIATIONS | | | | | |
| Depreciation | 14,006 | 13,742 | 13,742 | 13,742 | 13,742 |
| CASH SURPLUS/(DEFICIT) FROM OPERATING TRANSACTIONS | 62,449 | 79,416 | 53,523 | 40,115 | 35,114 |
| CASH TRANSACTIONS IN NONFINANCIAL ASSETS | | | | | |
| Net Cash Applied to the Acquisition of Fixed Assets | 53,463 | 87,504 | 56,694 | 38,070 | 27,520 |
| Gross transactions in Non-Financial Assets | 67,469 | 101,245 | 70,436 | 51,812 | 41,262 |
| Less Non Cash Transactions in Non-Financial Assets (Depreciation) | -14,006 | -13,742 | -13,742 | -13,742 | -13,742 |
| NET (BORROWING)/LENDING | 8,987 | -8,087 | -3,171 | 2,045 | 7,594 |
| CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS | 4,503 | 2,303 | -6,208 | -6,559 | -1,399 |
| Domestic Transactions | 4,503 | 2,303 | -6,208 | -6,559 | -1,399 |
| Foreign Transactions | 0 | | | 0 | 0 |
| CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES | 4,394 | -9,968 | 3,432 | 8,975 | 8,943 |
| Domestic Transactions | 0 | 0 | 0 | 0 | 0 |
| Foreign Transactions | 4,394 | -9,968 | 3,432 | 8,975 | 8,943 |
| NET CASH FINANCING TRANSACTIONS | 8,897 | -7,665 | -2,776 | 2,416 | 7,544 |
| <i>Statistical discrepancy</i> | -90 | 423 | 394 | 372 | -50 |

6.1 GFS Net Operating Balance

The GFS net operating balance is the equilibrium of operating revenues less operating expenditure by the Government and its development partners. The GFS net operating balance for 2019/20 is \$65.7 million.

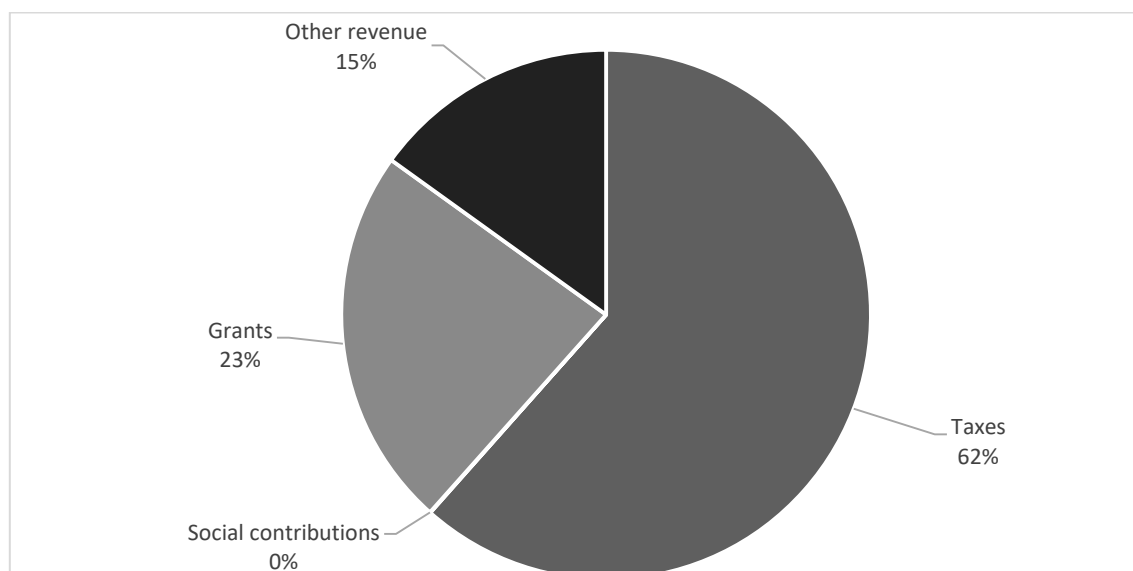
Going forward, changes in expenditure and revenue estimates are predicted to result in a \$39.7 million operating balance in 2020/21, \$26.4 million in 2021/22, and \$21.3 million in 2022/23.

Total net operating balance decreases in the forward years and this is due to Grant and Other Cook Island Government revenue reducing in those years.

6.1.1 GFS operating revenue

As shown in Figure 6-1, operating revenues are made up of taxation receipts (50 per cent in 2019/20), grants from other governments (19 per cent) and other revenues, which include agency trading revenues, interest and dividend receipts (12 per cent). These revenue streams are used to finance the on-going operational expenditure of Government, with surpluses used for investing activities such as infrastructure development projects or accumulated in reserves.

Figure 6-1 GFS operating revenue, 2019/20 (percentage)



GFS Operating revenues in 19/20 were estimated total \$245 million, of which \$154 million is expected to be collected in taxes alone.

In 2020/21, operating revenue is expected to reach \$220 million, with tax revenue estimated to be \$156 million. The estimated decrease in operating revenues from 2019/20 is due to a decrease in foreign grant revenues.

6.1.2 GFS Operating Expenditure

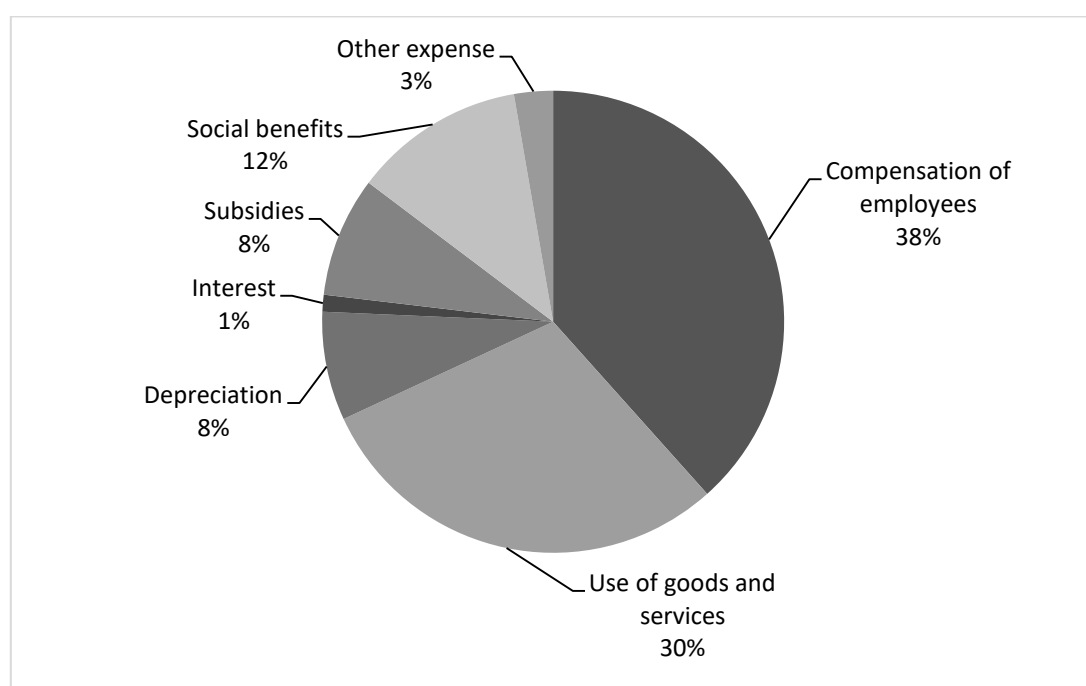
Total gross operating expenditure is estimated to come in at \$181.4 million in 2019/20. After excluding the expenditure of ODA funds of \$10.0 million, Crown operating expenditure is anticipated to be \$171.0 million in 2019/20, an increase of \$6.4 million compared to the 2018/19. Expenditure will remain constant over the medium term before dropping back to \$178.6 million in 2022/23. This is the result of short term funding coming to an end.

Table 6-2 Total GFS expenditure from 2018/19 to 2022/23 (\$'000)

| | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|-------------------------------|---------------------|-------------------|-----------------------|-----------------------|-----------------------|
| Compensation of employees | 61,833 | 69,336 | 74,226 | 77,907 | 78,265 |
| Use of goods and services | 52,440 | 53,653 | 49,583 | 45,829 | 43,109 |
| Depreciation | 14,006 | 13,742 | 13,742 | 13,742 | 13,742 |
| Interest | 2,670 | 2,133 | 1,906 | 1,684 | 1,687 |
| Subsidies | 15,691 | 15,181 | 15,181 | 15,181 | 15,181 |
| Grants | 0 | 0 | 0 | 0 | 0 |
| Social benefits | 19,901 | 21,681 | 21,888 | 21,974 | 22,060 |
| Other expense | 3,853 | 4,919 | 4,931 | 4,194 | 3,839 |
| Gross Expenditure | 170,394 | 180,645 | 181,457 | 180,512 | 177,883 |
| Less Current ODA | 4,583 | 10,396 | 7,724 | 2,599 | 1,836 |
| Underlying Expenditure | 165,812 | 170,249 | 173,733 | 177,913 | 176,047 |

As shown in Figure 6-2, operating expenditure is made up of compensation of employees (38 per cent in 2019/20), use of goods and services (30 per cent), social benefits (12 per cent), subsidies (8 per cent), depreciation (8 per cent), other expenses (1 per cent), and interest expenses (1 per cent).

Figure 6-2 GFS operating expenditure, 2019/20 (percentage)



Compensation to Employees

Expenditure on compensation of employees is estimated to be \$74.5 million in 2019/20, a \$7.6 million increase from the estimated 2018/19 level of \$61.8 million.

Use of Goods and Services

An estimated \$54.3 million is estimated to be spent on the use of goods and services in 2019/20, which represents an increase of \$2.1 million from the estimated outcome for 2018/19. Use of goods and services is expected to decrease slightly over the forward estimates, this is in part due to the expected decline in the receipt of foreign aid funds for operating activities.

Consumption of Fixed Capital

Total depreciation for 2019/20 is estimated to be \$13.7 million, an increase of \$0.3 million on the 2018/19 actuals. This is mainly driven by technical adjustments made to Agency depreciation baselines.

Debt Servicing Payments

Debt interest contributions to the Loan Repayment Fund (LRF) are estimated to be \$2.1 million in 2019/20, a decrease of \$0.5 million in 2018/19 due to changes in exchange rates. As the current stock of debt is expected to decline over the forward years, the level of interest expense on the current debt stock also declines.

Readers should refer to the Debt chapter for more information; it also includes the estimated movements in the LRF over the next four years.

6.2 GFS Non-Operating Items

Cash Transactions in Non-Financial Assets outlines the transactions relating to capital, more details are outlined in the Capital Chapter. This spending includes public works, purchase of plant and equipment and investments in ICT by both the Crown and foreign donors.

Total purchases of non-financial assets (excluding depreciation) is estimated to rise to \$87.5 million in 2019/20. This reduces in the forward years as large projects are appropriated over multiple years instead of appropriating the full cost in one year.

6.2.1 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 borrowing requirement is \$7.3 million in 2019/20, serviced by a combination of cash and debt financing. The net borrowing requirement increases over the forward period as loans are drawn down, such as for the Manatua Submarine Cable.

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.

6.3 Classification of Functions of Government (COFOG)

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

The COFOG has 10 main functions at the highest level and 69 functions at the second (sub-functional) level. Table 6-3 classifies the Budget to the sub-functional level for both Cook Islands Government spending and ODA.

Table 6-3 Classification of Functions of Cook Island Government 2019/20 Budget

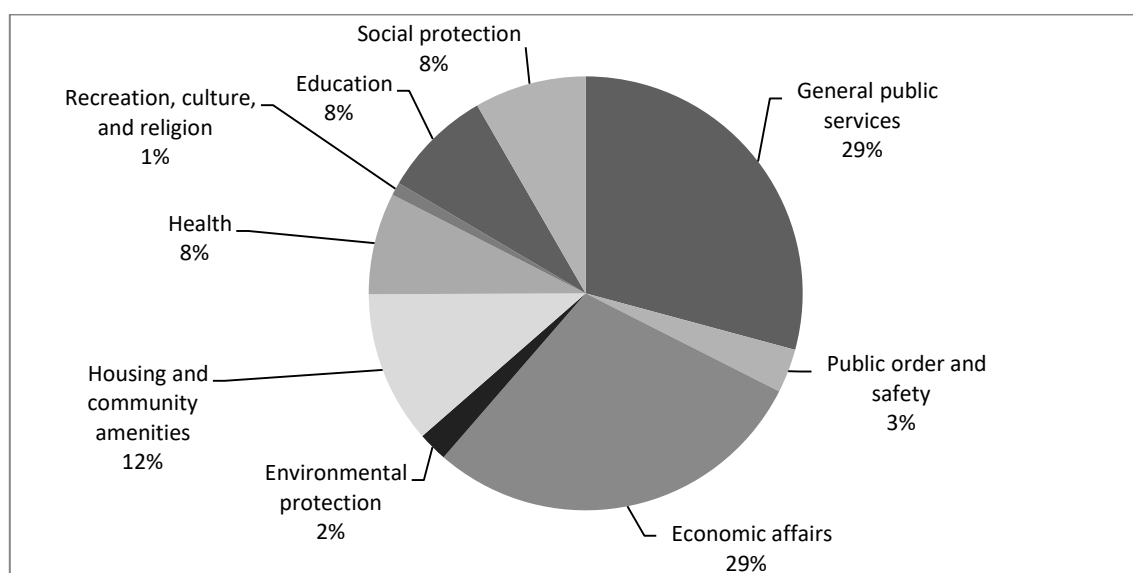
(\$000's)

| Function of Government | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|---|-----------------------------|--|-------------------------------|-------------------------------|-------------------------------|
| Cook Islands Government (CIG) Expenditure | | | | | |
| General public services | 41,701 | 40,874 | 43,259 | 49,967 | 49,492 |
| Executive and legislative organs, financial and fiscal affairs, external affairs | 29,269 | 29,744 | 32,792 | 39,043 | 39,293 |
| General services | 8,909 | 8,311 | 7,911 | 8,582 | 7,832 |
| R&D General public services | 0 | 26 | 26 | 26 | 26 |
| General public services | 853 | 659 | 622 | 632 | 654 |
| Public debt transactions | 2,670 | 2,133 | 1,906 | 1,684 | 1,687 |
| Public order and safety | 8,804 | 8,954 | 8,875 | 8,761 | 8,945 |
| Police services | 5,009 | 5,445 | 5,575 | 5,425 | 5,425 |
| Law courts | 3,166 | 3,135 | 2,889 | 2,923 | 3,089 |
| Prisons | 629 | 374 | 410 | 412 | 431 |
| Economic affairs | 50,044 | 66,633 | 63,688 | 55,116 | 56,093 |
| General economic, commercial, and labor affairs | 8,614 | 8,961 | 8,923 | 8,948 | 8,923 |
| Agriculture, forestry, fishing, and hunting | 3,635 | 3,913 | 4,286 | 4,348 | 4,349 |
| Fuel and energy | 4,704 | 2,124 | 1,645 | 1,645 | 1,645 |
| Mining, manufacturing, and construction | 1,164 | 9,465 | 7,896 | 307 | 307 |
| Transport | 21,524 | 31,549 | 30,318 | 29,532 | 30,532 |
| Communication | 392 | 783 | 783 | 383 | 383 |
| Tourism | 9,466 | 9,330 | 9,330 | 9,445 | 9,445 |
| R&D Economic affairs n.e.c. | 426 | 379 | 379 | 379 | 379 |
| Economic affairs n.e.c. | 120 | 128 | 128 | 128 | 128 |
| Environmental protection | 2,080 | 3,561 | 3,557 | 3,557 | 3,557 |
| Waste management | 672 | 796 | 846 | 846 | 846 |
| Waster water management | 60 | 1,000 | 1,000 | 1,000 | 1,000 |
| Protection of biodiversity and landscape | 82 | 182 | 222 | 222 | 222 |
| Environmental protection n.e.c. | 1,266 | 1,583 | 1,488 | 1,488 | 1,488 |
| Housing and community amenities | 34,265 | 24,883 | 20,439 | 13,816 | 12,462 |
| Community development | 1,200 | 3,100 | 3,100 | 1,600 | 600 |
| Water supply | 24,546 | 13,049 | 8,330 | 3,205 | 2,850 |
| Housing and community amenities n.e.c. | 8,519 | 8,734 | 9,009 | 9,011 | 9,012 |
| Health | 17,156 | 18,485 | 21,490 | 20,090 | 19,990 |
| Medical products, appliances, and equipment | 1,001 | 595 | 1,795 | 595 | 495 |
| Outpatient services | 1,770 | 1,989 | 2,531 | 2,531 | 2,531 |
| Hospital services | 12 | 1,791 | 1,252 | 1,052 | 1,052 |
| Health n.e.c. | 14,372 | 14,110 | 15,912 | 15,912 | 15,912 |
| Recreation, culture, and religion | 4,713 | 2,149 | 2,250 | 4,273 | 2,273 |
| Recreational and sporting services | 98 | 173 | 79 | 79 | 79 |
| Cultural services | 4,615 | 1,977 | 2,172 | 4,195 | 2,195 |
| Education | 20,088 | 20,630 | 20,779 | 23,165 | 23,225 |
| Pre-primary and primary education | 2,230 | 2,753 | 2,743 | 2,743 | 2,743 |
| Secondary education | 710 | 0 | 0 | 0 | 0 |
| Tertiary education | 1,864 | 2,077 | 2,157 | 2,157 | 2,157 |
| Education n.e.c. | 15,284 | 15,799 | 15,879 | 18,266 | 18,326 |
| Social protection | 20,899 | 22,847 | 23,094 | 23,195 | 23,286 |
| Sickness and disability | 575 | 575 | 576 | 577 | 578 |
| Old age | 12,170 | 12,931 | 13,017 | 13,102 | 13,186 |
| Family and children | 5,860 | 6,879 | 6,879 | 6,879 | 6,879 |
| Housing | 79 | 79 | 79 | 79 | 79 |
| Social exclusion n.e.c. | 14 | 36 | 43 | 43 | 43 |

| | | | | | |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Social protection n.e.c. | 2,202 | 2,347 | 2,500 | 2,514 | 2,520 |
| Total CIG Expenditure | 199,751 | 209,016 | 207,430 | 201,940 | 199,324 |
| General public services | 16,576 | 39,193 | 31,263 | 19,655 | 9,336 |
| Economic affairs | 1,813 | 12,639 | 1,188 | 475 | 30 |
| Environmental protection | 101 | 2,493 | 1,420 | 0 | 0 |
| Housing and community amenities | 9,266 | 6,272 | 200 | 200 | 200 |
| Health | 0 | 2,290 | 2,000 | 2,000 | 2,000 |
| Recreation, culture, and religion | 401 | 506 | 0 | 0 | 0 |
| Education | 243 | 1,827 | 538 | 0 | 0 |
| Social protection | 3,531 | 0 | 0 | 0 | 0 |
| Total ODA Expenditure | 31,931 | 65,220 | 36,609 | 22,329 | 11,567 |
| TOTAL PUBLIC EXPENDITURE | 231,683 | 274,236 | 244,039 | 224,269 | 210,890 |

Figure 6-3 classifies the combined Cook Islands Government and ODA spending in the 2019/20 Budget at the 10 main functional levels.

Figure 6-3 Classification of Functions of Cook Island Government 2019/20 Budget



General public services is now the equal largest area of public expenditure at 29 per cent of total public spending, with the Cook Islands Government administration costs being the main driver.

Economic affairs accounts for another 29 per cent of the total spending, driven by tourism spending through the Cook Islands Government appropriation, and energy infrastructure in the ODA spend.

Housing and community amenities (which includes general community infrastructure) is the third largest area of spending at 12 per cent.

7 Revenue

7.1 Total revenue

Total Crown Revenue (including ODA) is estimated to reach \$246.3 million in 2019/20. This is comprised of:

- Taxation revenue of \$151.6 million
- Other revenues of \$24.5 million
- Core Sector Support from New Zealand: \$7.7 million
- Official Development Assistance (ODA): \$57.5 million

Table 7-1 provides total revenue amounts (including ODA) for the forward years to 2022/23.

Table 7-1 Total Crown Revenue 2019/20 to 2022/23 (\$'000)

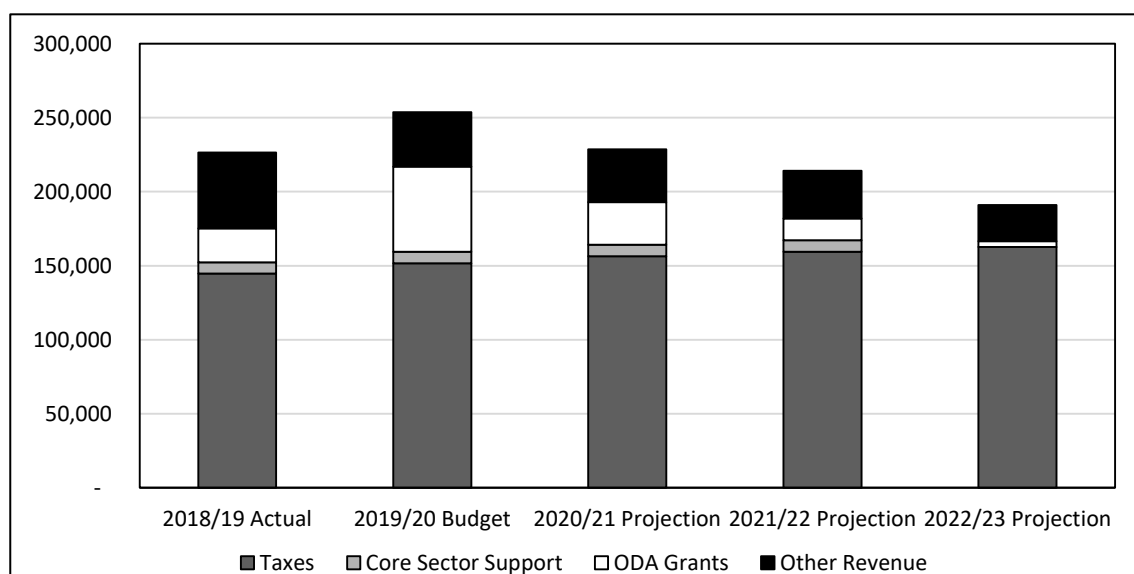
| | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--------------------------------|---------------------|-------------------|-----------------------|-----------------------|-----------------------|
| Taxes | 144,635 | 151,626 | 156,384 | 159,508 | 162,631 |
| Core Sector Support | 7,730 | 7,730 | 7,730 | 7,730 | 7,730 |
| ODA Grants | 22,848 | 57,489 | 28,879 | 14,599 | 3,836 |
| Other Revenue* | 51,349 | 29,473 | 28,245 | 25,027 | 25,037 |
| Total Operating Revenue | 226,563 | 246,318 | 221,238 | 206,864 | 199,234 |

* Other Revenue includes trading revenue

As illustrated in Table 7-1, the largest contributor to total Crown revenue in 2019/20 and the outer years is general taxation, which makes up 60 percent of total revenue. This is followed closely by Official Development Assistance grants which are a significant, but declining source of revenue.

Remaining revenue is from sources such as the sales of goods and services, such as fishing licences, dividends from SOE's, fines and interest on deposits held by Government.

Figure 7-1 Total Crown Revenue 2019/20 to 2022/23



7.2 Revenue Initiatives for the 2019/20 – 2022/23 medium-term

Changes in the estimates of underlying revenue are made up of two types, parameter adjustments and policy decisions. Parameter adjustments result from factors outside of the immediate control of the Government, whereas policy decisions reflect the direct impact of the Government's decisions. The Government has not made any revenue policy decisions in the 2019/20 – 2022/23 medium-term budget, as such, Table 7.2 only shows the parameter adjustments to revenue for 2019/20 and the forward years.

Table 7-2 Changes to Revenue Estimates 2019/20 – 2022/23 (\$'000)

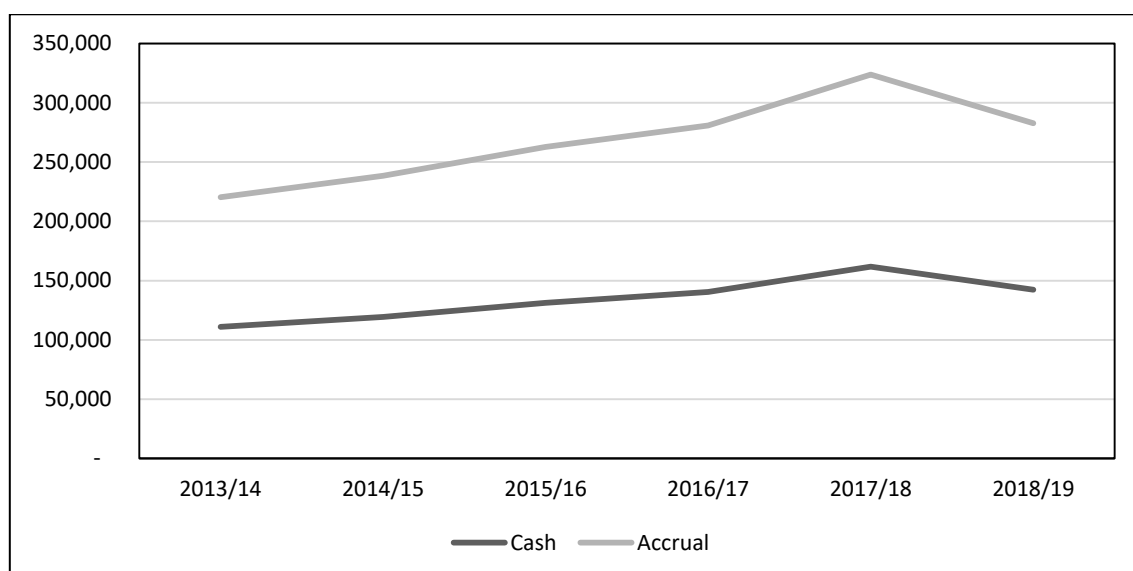
| Reconciliation of Operating Revenue | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--|---------------------------|-------------------------------|-------------------------------|-------------------------------|
| Tax Parameter Adjustments | (2,656) | (3,717) | (6,125) | (3,002) |
| Value Added Tax (VAT) | 354 | (819) | (3,102) | (1,703) |
| Income tax | (1,316) | (1,067) | (1,055) | (819) |
| Company tax | (1,678) | (1,786) | (1,894) | (1,344) |
| Import levies | 311 | 325 | 340 | 442 |
| Withholding tax | (457) | (510) | (561) | (417) |
| Departure tax | 130 | 139 | 147 | 839 |
| ROBOC Adjustments | 2,875 | 1,573 | (2,626) | (2,616) |
| FSC Return of Excess | 55 | 55 | 55 | 55 |
| Fishing Licences | 1,531 | 904 | (3,355) | (3,305) |
| Fisheries - US Treaties (purse seine) | 555 | - | - | - |
| Fishing Fines | 100 | - | - | - |
| Banana Court - dividend | (10) | (10) | (10) | (10) |
| Te Aponga Uira - dividend | 145 | 145 | 145 | 145 |
| Drivers Licences | 60 | 40 | 100 | 60 |
| Censorship Fees | (1) | (1) | (1) | (1) |
| Telecom Cook Island (Bluesky) | 350 | 350 | 350 | 350 |
| Immigration Fees | 90 | 90 | 90 | 90 |
| Trading Revenue Adjustments | (1,719) | (1,717) | (1,697) | (1,697) |
| Ministry of Culture | 40 | 40 | 60 | 60 |
| BTIB | 5 | 5 | 5 | 5 |
| ICI | (16) | (16) | (16) | (16) |
| Ministry of Justice | (150) | (150) | (150) | (150) |
| Ministry of Corrective Services | 100 | 100 | 100 | 100 |
| CIIC | (1,702) | (1,702) | (1,702) | (1,702) |
| Manihiki Island Government | 1 | 1 | 1 | 1 |
| Mitiaro Island Government | 2 | 2 | 2 | 2 |
| Rakahanga Island Government | 1 | 3 | 3 | 3 |
| Total Revenue Changes | (1,501) | (3,862) | (10,448) | (7,315) |

7.3 Taxes

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

Taxation revenues in the Cook Islands are currently accounted for on a cash basis. Figure 7-2 shows the difference between the cash actuals being reported and the total taxation being accrued to each year, as at May 2019. This shows that forecasting revenue using the reported cash figures does not adequately take into account historical taxation revenue, affecting the quality of the revenue forecasts.

Figure 7-2 Historical total tax revenue, accrued vs cash, 2013/14 to 2018/19 (\$'000)



7.3.1 Direct taxation

Direct taxation, which includes company tax, income tax and withholding tax, is estimated to be \$48.9 million in 2018/19. Revenue for the last quarter of 2018/19 is expected to be received in the subsequent financial year, and will be accrued back to the 2018/19 period. Going forward taxation is expected to increase by 3.3 percent in the year to 2019/20, from 2018/19 to approximately \$52.1 million, however, this will be followed by a slow but steady increase to \$53.3 million in 2020/21, \$54.3 million in 2021/22 and \$55.2 million respectively.

Income tax is expected to remain steady at \$27.7 million in 2019/20, as growth in income tax is expected to be relatively moderate as due to it closely mirrors the projected activity in the real economy and the wind-down of repayments organized under the tax amnesty.

Company tax is expected to total up to \$22.1 million in 2019/20, representing a slight increase of \$2.5 million from the \$19.6 million estimated in 2018/19 which has been estimated at \$19.6 million. Company taxes are expected to steadily increase as economic growth continues.

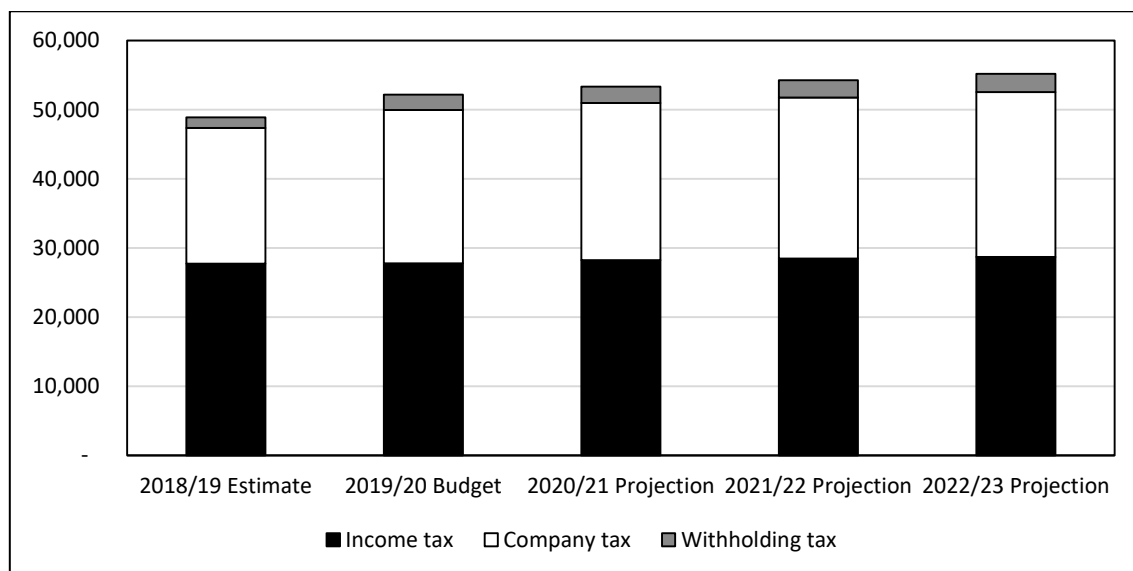
Withholding tax is forecast to be \$2.2 million in 2019/20, representing a slight increase of \$0.7 million from the estimated revenue for 2018/19. Due to the high volatility of withholding tax, the forward year estimates have been reported at conservative levels with 2020/21 being estimated at \$2.3 million followed by \$2.5 million in 2021/22 and \$2.6 million in 2022/23.

Table 7-3 Total direct taxation 2018/19 to 2022/23 (\$'000)

| | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|------------------------------|---------------------|-------------------|-----------------------|-----------------------|-----------------------|
| Income tax | 27,724 | 27,773 | 28,244 | 28,479 | 28,715 |
| Company tax | 19,664 | 22,170 | 22,720 | 23,270 | 23,820 |
| Withholding tax | 1,518 | 2,247 | 2,391 | 2,536 | 2,680 |
| Total Direct Taxation | 48,907 | 52,190 | 53,355 | 54,285 | 55,215 |

As can be seen in Figure 7.4, income tax contributes to the majority of direct taxation revenue in 2018/19, amounting to 57 per cent of the total in 2018/19. Going forward, it is anticipated that income tax collections will decrease in 2019/20 to 53 per cent and stabilise over the forward years. It is expected that company tax will increase its contribution to direct taxation over the forward years from 40 per cent to 43 per cent.

Figure 7-3 Total Direct Taxation 2018/19 2022/23



7.3.2 Indirect taxation

Indirect taxation, which includes VAT, departure tax, import levies, motor vehicle registrations, motor vehicle dealers and fisheries revenues, is expected to decrease by 6.8 percent in 2019/20 compared to the estimated revenues for 2018/19. Indirect taxation is anticipated to increase over the forwards at a relatively steady rate.

As a result of strong economic growth in recent years, VAT in 2019/20 is estimated to remain as forecasted at the time of the 2018/19 Budget totaling to \$72.8 million, followed by further increase in revenue collections of \$75.5 million for 2020/21, \$76.9 million for 2021/22 and \$78.4 million in 2022/23. This is following revenue estimates of \$69.6 million in 2018/19. Departure tax is estimated to be \$12.1 million in 2019/20, representing an increase of \$0.2 million on the \$11.9 million estimated at the time of the 2018/19 Budget. Going forward revenue collections for 2020/21 to 2022/23 is estimated to be \$12.8 million, \$13.5 million and \$14.2 million respectively as a result of the 2 percent increase to departure taxes and mild growth in tourism arrivals.

Import and excise-equivalent duties are estimated at \$14.6 million in 2019/20. This is forecast to steadily increase from 2020/21 to 2022/23.

Motor vehicle registrations are estimated to be \$875,000 in 2019/20 and over the forward years, representing no change on the estimates provided at the time of the 2018/19 Budget.

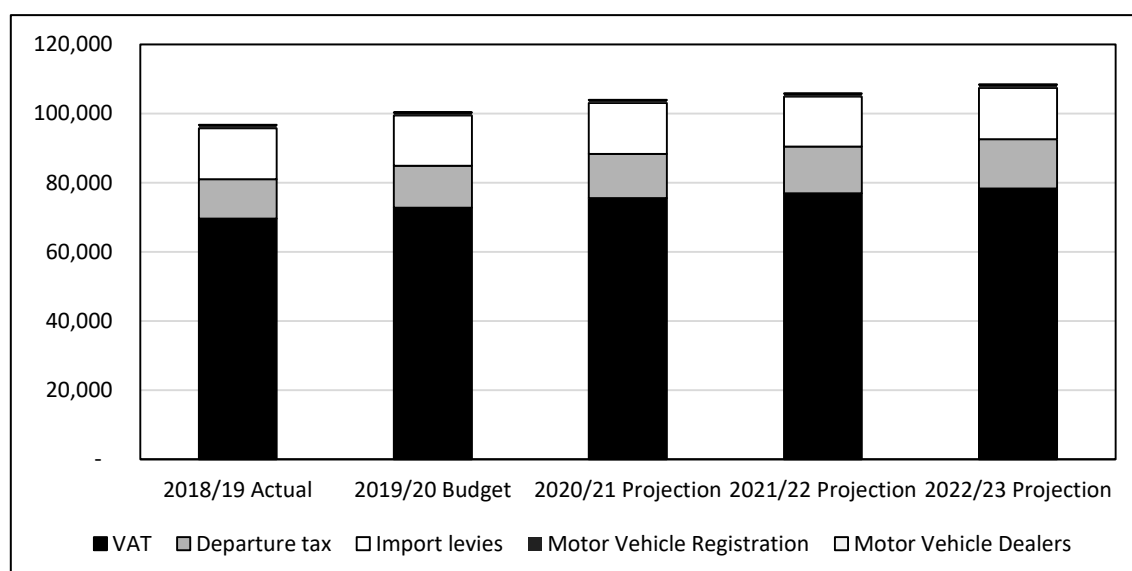
Fisheries revenue is estimated to be \$14.7 million in 2019/20, representing an increase in estimated fishing revenue collections of \$1.4 million. This is largely due to the expected increase in fishing licenses and increased benefits from the US Treaty for purse seine fishing. Estimates of fishing revenue in 2018/19 are \$26.8 million due to higher than anticipated fishing license purchases.

Table 7-4 Total indirect taxation 2018/19 to 2022/23(\$'000)

| | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--------------------------------|---------------------|-------------------|-----------------------|-----------------------|-----------------------|
| VAT | 69,592 | 72,759 | 75,557 | 76,957 | 78,356 |
| Departure tax | 11,405 | 12,120 | 12,813 | 13,505 | 14,197 |
| Import levies | 14,732 | 14,557 | 14,659 | 14,421 | 14,863 |
| Motor Vehicle Registration | 963 | 875 | 875 | 875 | 875 |
| Motor Vehicle Dealers | 3 | 3 | 3 | 3 | 3 |
| Fisheries Revenue | 26,755 | 14,690 | 13,409 | 10,150 | 10,200 |
| <i>Fisheries - US Treaties</i> | 6,321 | 5,059 | 4,505 | 1,200 | 1,200 |
| <i>Fishing Fines</i> | 2,680 | 100 | - | - | - |
| <i>Fishing Licences</i> | 17,755 | 9,531 | 8,904 | 8,950 | 9,000 |
| Total Indirect Taxation | 123,450 | 115,004 | 117,316 | 115,911 | 118,494 |

Figure 7-4 highlights the large contribution that VAT makes to indirect taxation, comprising 56.4 per cent of collections in 2018/19. In 2019/20, this is expected to increase to 64.4 per cent and stabilize over the forward years around to 66 per cent.

Figure 7-4 Total Indirect Taxation 2018/19 to 2022/23



7.3.3 Social contributions

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

Employer liability is estimated to be \$75,000 in 2019/20 and the forward years, representing no change to estimates provided in the 2018/19 budget.

Table 7-5 Social contributions 2018/19 to 2022/23 (\$'000)

| | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--------------------------------|---------------------|-------------------|-----------------------|-----------------------|-----------------------|
| Employer Liabilities Insurance | 75 | 75 | 75 | 75 | 75 |
| Total | 75 | 75 | 75 | 75 | 75 |

7.3.4 Grants

Grants are transfers received from other governments or international organisations, otherwise known as Official Development Assistance (ODA). Further information on ODA funded projects is contained in the Official Development Assistance chapter of this Budget book. In 2019/20, total grants from foreign governments are estimated to reach a total of \$65.2 million. This is estimated to decrease over the forward years as most development partners do not commit development assistant budgets more than two to three years in advance.

Table 7-6 Grants 2018/19 to 2022/23 (\$'000)

| | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|---|-----------------------------|---------------------------|-------------------------------|-------------------------------|-------------------------------|
| Current Grants from Foreign Governments | 12,313 | 18,126 | 15,454 | 10,329 | 1,836 |
| Capital Grants from Foreign Governments | 18,265 | 47,093 | 21,154 | 12,000 | 2,000 |
| Total | 30,578 | 65,219 | 36,608 | 22,329 | 3,836 |

7.3.5 Interest

Interest received is estimated to reach \$2.6 million in 2019/20 and the forward years, largely unchanged from the estimated outcome of the 2018/19 Budget.

Table 7-7 Total interest 2018/19 to 2022/23 (\$'000)

| | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|------------------------------------|-----------------------------|---------------------------|-------------------------------|-------------------------------|-------------------------------|
| Interest on Government deposits | 2,519 | 1,740 | 1,740 | 1,740 | 1,740 |
| Interest on Loans and Subsidiaries | 518 | 830 | 830 | 830 | 830 |
| Total | 3,037 | 2,570 | 2,570 | 2,570 | 2,570 |

7.3.6 Dividends

Total dividends received by the Crown are estimated to reach \$2.40 million in 2019/20, and increase from 2020/21 to 2022/23 to \$2.1 million remain steady over the forward estimates. This represents a slight increase in estimates compared to the 2018/19 period, mainly due to an anticipated increase in dividends received by the Bank of the Cook Islands and Te Aponga Uira.

The Ports Authority has indicated that it will not be able to provide any dividends to the Crown over the medium term due to earnings solely being dedicated towards repayment of the ADB loan which funded the upgrade of the Avatiu International Harbour.

The Airport Authority has also indicated that there are no dividends anticipated due to loan commitments and other expenses.

Revenue estimates for dividends received from the Banana Court have been revised to zero from 2019/20 to 2022/23, as it is expected that the land will be given back to the land owners.

The Bank of the Cook Islands estimates will increase in 2019/20 and then remain constant over the 2019/20 – 2022/23 medium term.

The Government's shareholding in Bluesky Cook Islands operations (40 percent ownership) dividend actuals has come in higher than budgeted for the last 3 years. As such, dividend forecasts have been increased to \$1.5 million in 2019/20 and the forward years.

Te Aponga Uira's estimated dividend has increased slightly in 2019/20 and the forward years to a total of \$400,000, representing a \$145,000 increase compared to the 2018/19 estimates.

Table 7-8 Total dividends 2018/19 to 2022/23 (\$'000)

| | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|----------------------------|-----------------------------|---------------------------|-------------------------------|-------------------------------|-------------------------------|
| Bluesky | 1,600 | 1,500 | 1,500 | 1,500 | 1,500 |
| Banana Court | 10 | - | - | - | - |
| Bank of the Cook Islands | 284 | 410 | 491 | 491 | 491 |
| Te Aponga Uira | 255 | 400 | 400 | 400 | 400 |
| SOE Extraordinary Dividend | 60 | 60 | 60 | 60 | 60 |
| Ports Authority | - | - | - | - | - |
| Total | 2,209 | 2,370 | 2,451 | 2,451 | 2,451 |

7.3.7 Administrative Fees

A number of administrative fees are collected by agencies of Government. These include regulatory charges which are returned to the crown and trading revenue which is retained by agencies.

Table 7-9 Administrative fees 2018/19 to 2022/23 (\$'000)

| | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|---|-----------------------------|---------------------------|-------------------------------|-------------------------------|-------------------------------|
| FSC Return of Excess | 103 | 198 | 198 | 198 | 198 |
| Immigration Fees | 1,015 | 950 | 950 | 950 | 950 |
| IMO Subscriptions - Maritime Cook Islands | 66 | 66 | 66 | 66 | 66 |
| Tattslotto Grants | 241 | 120 | 120 | 120 | 120 |
| Censorship Fees | 2 | 3 | 3 | 3 | 3 |
| Permits | 14 | 24 | 24 | 24 | 24 |
| Driver Licenses | 263 | 260 | 260 | 300 | 260 |
| Research Fees | 1 | 2 | 2 | 2 | 2 |
| Shipping Registration | 310 | 268 | 268 | 268 | 268 |
| International Shipping License | 24 | 10 | 10 | 10 | 10 |
| Liquor Licensing | 74 | 70 | 70 | 70 | 70 |
| Upper Air Management Agreement | 763 | 746 | 746 | 746 | 746 |
| Total Trading Revenue | 6,646 | 4,927 | 4,929 | 4,929 | 4,929 |
| Total | 9,518 | 7,644 | 7,646 | 7,686 | 7,646 |

Total administrative fees are estimated to be \$7.6 million in 2019/20 and are made up of:

- FSC Return of Excess – Total revenue received for the Return of Excess at FSC is expected to increase to \$198,000 in 2019/20 and the forward years. This is due to the positive USD exchange rates resulting in an anticipated increase in revenues compared to the 2018/19 budget. Estimated revenues received total up to \$103,000 in 2018/19.
- Immigration Fees – Estimates for immigration fees has increased for 2019/20 and the forward years to \$950,000 per financial year. Estimated revenues received have come in higher than anticipated for 2018/19 at \$1 million to April 2019. This is due to immigrations continued efforts of to strengthen the current immigration system resulting in increased collections of outstanding immigration fees. At the same time, the country has experienced an increase in the number of foreign workers.
- Drivers Licence – In 2018/19, estimated revenues are \$263,000, a significant increase in revenues received compared to the \$200,000 budgeted for 2018/19. This is a result of the increase in visitor arrivals, and an increase in sales of warrant of fitness booklets. Going forward, estimates for the Drivers Licence fees have been adjusted to \$260,000 for 2019/20, 2020/21 and 2022/23 however estimates in 2021/22 have been increased to \$300,000 to factor in anticipated revenues to be received as a result of significant inflows of visitors, both international and domestic, to the island for the Constitution Celebrations.
- Permits – Estimated revenues received for 2018/19 total up to \$14,000, significantly lower than that budgeted for in the 2018/19 financial year. The reduction is due to the Police enforcing more control over the distribution and selling of raffles to the wider community. No changes have been made to estimates in 2019/20 and the forward years.
- Tattslotto – Total revenue received for Tattslotto Grants is \$241,000, a significant increase compared to the total budget of \$120,000 for the 2018/19 financial year. Going forward, estimates will remain unchanged for 2019/20 to 2022/23.
- Censorship Fees – Censorship fees have been estimated at \$3,000 from 2019/20 to 2022/23, a reduction of \$1,000 compared to the \$4,000 estimated for 2018/19. The changes in estimates were made to be in line with actuals received in previous years. Estimated actuals for censorship fees totalled up to \$2,000 for the 2018/19 financial year.

- Research Fees – This is estimated to remain constant in 2019/20 and the forward years. Research fees are issued by the Office of the Prime Minister to individuals who wish to conduct any official research on the Cook Islands.
- Shipping Registrations – Estimated revenue actuals for 2018/19 are \$310,000, representing a significant increase in revenue collections compared to the 2018/19 budget. Going forward, estimates will remain unchanged for 2019/20 to 2022/23.
- International Shipping Licenses – \$10,000 is estimated to be received in 2019/20 and the forward years, representing no change from the 2018/19 financial year estimates. Estimated actual revenues received to date for international shipping licenses total to \$24,000, representing an increase in revenues received by an estimated \$14,000 compared to budget. This is due to an unanticipated increase in the distribution of shipping licenses to enable ships to operate within Cook Islands waters.
- Liquor Licenses – \$70,000 in revenue is estimated to be received in 2019/20 to 2022/23, representing no change to revenue estimates from the 2018/19 financial year. Estimates for 2018/19 have been revised to \$74,000, a slight increase compared to the 2018/19 Budget as a result of an increase in the collection of licensing fees.
- Upper Air Management – \$746,000 in revenue is estimated to be received in 2019/20 and the forward years, representing no change to revenue estimates from 2018/19. Estimates for 2018/19 have been revised up to \$763,000.
- Trading revenue provides a means of recovery for operational costs incurred by the Ministry in delivering services, \$4.93 million in revenue is estimated to be received in 2019/20 and the forward years. There are a number of agencies that have increased or decreased their trading revenue estimates over the medium-term. This is shown as follows:
 - Ministry of Culture - \$40,000
 - Business Trade Investment Board - \$4,620
 - Infrastructure Cook Islands - \$(15,626)
 - Ministry of Justice - \$(150,000)
 - Ministry of Corrective Services - \$100,000
 - Cook Islands Investment Corporation - \$(1,702,112)
 - Manihiki Island Government - \$1,499
 - Mitiaro Island Government - \$2,000
 - Rakahanga Island Government - \$2,664

7.3.8 Incidental sales by non-market establishments

In order to maintain the level of Cook Islands coins in circulation, higher amounts need to be produced each year and distributed. As the face value of the coins is greater than the cost to produce them, there is some revenue to the Crown. This is augmented by the sale of commemorative coins. The total amount of coin-related revenue is shown in the table below with constant revenue estimates from 2019/20 to 2022/23.

Table 7-10 Incidental sales by non-market establishments 2018/19 to 2022/23 (\$'000)

| | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--|---------------------|-------------------|-----------------------|-----------------------|-----------------------|
| Circulating Currency - Notes and Coins | 650 | 650 | 650 | 650 | 650 |
| Numismatic | 215 | 450 | 450 | 450 | 450 |
| Total | 865 | 1,100 | 1,100 | 1,100 | 1,100 |

7.3.9 Fines, penalties and forfeits

Court service fines are paid by offenders as an enforcement of court orders. Court service fines are estimated to remain at \$50,000 from 2019/20 onwards as projected in the 2018/19 Budget. Estimates of court services fines in 2018/19 are slightly higher than anticipated at \$61,000. This is due to the effective enforcement of court orders, resulting in an increase in the payment of fines by offenders.

Instant fines estimated remain unchanged for 2019/20 and the forward years at a set revenue estimate of \$70,000 and \$40,000 respectively. Estimated actuals for instant fines total up to \$113,000, a significant increase compared to the estimated budget of \$80,000 for 2018/19. This was the result of an increase in road safety campaigns targeting visitors and residents between the ages of 16 to 25 years old.

Table 7-11 Fines, Penalties and forfeits 2018/19 to 2022/23 (\$'000)

| | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|----------------|---------------------|-------------------|-----------------------|-----------------------|-----------------------|
| Court Services | 61 | 50 | 50 | 50 | 50 |
| Instant Fines | 113 | 70 | 40 | 40 | 40 |
| Total | 175 | 120 | 90 | 90 | 90 |

7.3.10 Miscellaneous and Unidentified revenue

Foreign Investment fees are for applications from non-Cook Islanders or international firms who wish to purchase shares or start up a business in the Cook Islands. The application for foreign investment is a set fee of \$750. Going forward, foreign investment fees will remain unchanged for 2019/20 to 2022/23 at a set revenue estimate of \$27,000. Estimated revenues received is \$18,000 for the 2018/19 financial year.

Table 7-12 Miscellaneous and Unidentified revenue 2018/19 to 2022/23 (\$'000)

| | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|-------------------------|---------------------|-------------------|-----------------------|-----------------------|-----------------------|
| Foreign Investment Fees | 18 | 27 | 27 | 27 | 27 |
| Total | 18 | 27 | 27 | 27 | 27 |

8 Expenditure

8.1 Operating expenditure

Operating expenditure is estimated to increase significantly over the forward period from 2018/19 to 2022/23 as seen in Figure 8-1. As can be seen, the rise in operating expenses is largely the result of increased expenditure on personnel. This is in line with Government's strategy to invest in the capabilities of Government Agencies to ensure they operate effectively and efficiently. The substantial investments allocated will provide the resources for government agencies to recruit key personnel and positions to deliver their mandate in the context of graduation from Official Development Assistance.

Figure 8-1 Historical and forecast operating expenditure, 2015/16 to 2022/23 (\$'000)

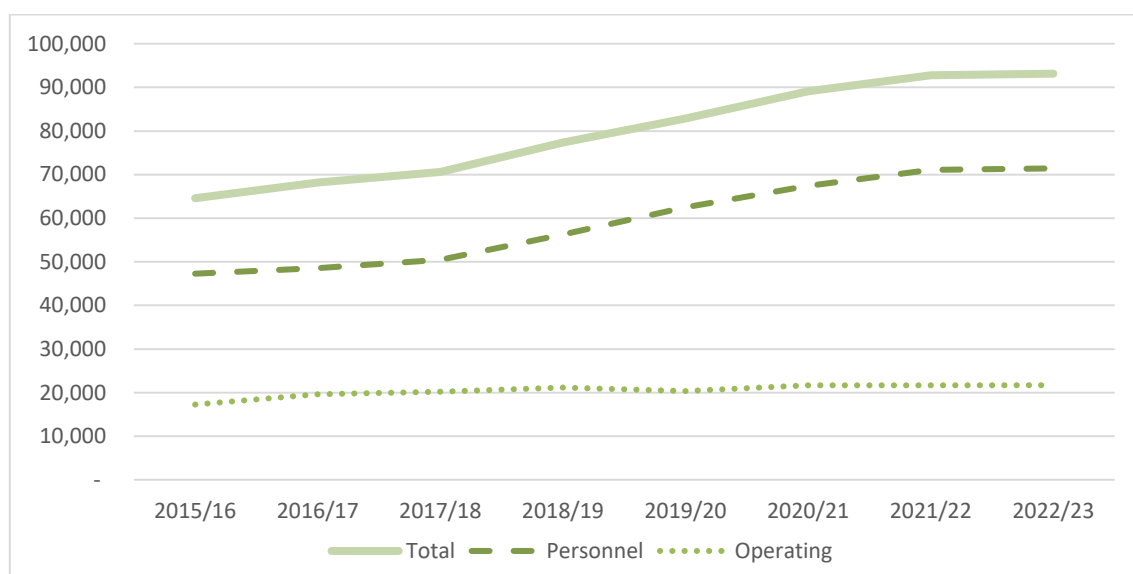


Table 8.2 provides a detailed breakdown of operating expenditure from 2019/20 and over the forward estimates. Total expenditure for 2019/20 is \$171 million, \$174 million in 2020/21, and \$178 million in 2021/22 reducing to \$176 million in 2022/23. The reduction in 2022/23 is mainly due to short term or one off operating costs coming to an end, largely seen in funding for Administered Payments while other expenditure lines largely remain stable.

Table 8-1 Total operating expenditure 2018/19 to 2022/23 (\$'000)

| | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--|---------------------|-------------------|-----------------------|-----------------------|-----------------------|
| Operating Expenditure | | | | | |
| Ministry Outputs | 130,355 | 133,443 | 137,017 | 141,476 | 139,522 |
| <i>Personnel</i> | 56,241 | 62,493 | 67,383 | 71,065 | 71,422 |
| <i>Operating</i> | 21,153 | 20,380 | 21,691 | 21,702 | 21,710 |
| <i>Administered Payments</i> | 45,586 | 43,604 | 40,977 | 41,743 | 39,424 |
| <i>Depreciation</i> | 7,375 | 6,966 | 6,966 | 6,966 | 6,966 |
| POBOC | 25,473 | 27,746 | 27,884 | 27,827 | 27,912 |
| Debt Interest Contribution to LRF | 2,670 | 2,133 | 1,906 | 1,684 | 1,687 |
| Crown Infrastructure Depreciation | 4,603 | 4,603 | 4,603 | 4,603 | 4,603 |
| Transfer to Emergency Response Trust Fund | 50 | 50 | 50 | 50 | 50 |
| Depreciation Contingency Fund | 2,174 | 2,174 | 2,174 | 2,174 | 2,174 |
| <i>Rarotonga Water Network</i> | 803 | 803 | 803 | 803 | 803 |
| <i>Northern Pa Enua Renewable Energy System</i> | 400 | 400 | 400 | 400 | 400 |
| <i>Southern Pa Enua Renewable Energy System (excl. Aitutaki)</i> | 971 | 971 | 971 | 971 | 971 |
| Contingency Funds - Operating | 365 | 100 | 100 | 100 | 100 |
| Total Operating Expenses | 165,689 | 170,249 | 173,733 | 177,913 | 176,046 |

8.2 Changes to expenditure since the 2018/19 Supplementary Budget

The total public expenditure profile has increased since the 2018/19 Supplementary Budget, largely as the result of expenditure decisions by the Government and technical adjustments.

Table 8-2 Expenditure changes since the 2018/19 Supplementary (\$'000)

| Expenditure Changes | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|----------------|----------------|----------------|----------------|
| Operating Expenditure as at 2019/20 Budget | | | | |
| Expenditure Decisions by Government | 15,854 | 21,364 | 25,727 | 23,858 |
| Technical adjustments | 1,619 | 1,569 | 1,545 | 1,548 |
| Total Operating Expenditure | 17,473 | 22,933 | 27,273 | 25,407 |

8.2.1 Ministry of Agriculture

| Agriculture | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------|-------------------------------------|----------------|----------------|----------------|----------------|
| Funding Measure | Personnel, Operating & Depreciation | 340,000 | 490,000 | 390,000 | 390,000 |
| | Administered Payments | - | - | - | - |
| | Gross Operating Adjustment | 340,000 | 490,000 | 390,000 | 390,000 |

In-line with Government's aim to improve Government Agency efficiencies, the Ministry of Agriculture has been provided \$100,000 of additional funding in 2019/20 to undertake strategic planning and a review of the Bio-Security function to strengthen and guide the agriculture sector going forward. The remainder of the funding is to apply salary adjustments to the staff of Ministry of Agriculture.

In 2020/21, a one-off funding of \$100,000 is provided to extend the Pa Enea capacity development program introduced in 2018/19 for the Southern Group to the Northern Group.

With this additional funding for Ministry of Agriculture, their total Gross Appropriation has increased to \$1.3 million in 2019/20.

| | | | | | |
|-------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 1,343,762 | 1,493,762 | 1,393,762 | 1,393,762 |
| | Administered Payments | - | - | - | - |
| | Final Gross Operating | 1,343,762 | 1,493,762 | 1,393,762 | 1,393,762 |

8.2.2 Cook Islands Audit Office

| Audit | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------|-----------------------------------|---------------|----------------|----------------|----------------|
| Funding Measure | Personnel & Operating | 40,000 | 90,000 | 150,000 | 150,000 |
| | Depreciation | - | - | - | - |
| | POBOC | 15,000 | 15,000 | 15,000 | 15,000 |
| | Gross Operating Adjustment | 55,000 | 105,000 | 165,000 | 165,000 |

Additional funding has been provided to the Cook Islands Audit Office in 2019/20 to cover the full cost of operations and associated costs with the TeamMate system in place. A one off funding has been provided in 2020/21 to host the Auditors Conference. By hosting this conference in the Cook Islands, the hosting county will become the chair for two years with PASAI (Pacific Association of Supreme Audit Institutions). Salary Adjustments for the staff of the Audit Office will take place in 2020/21.

In addition to this, \$15,000 has been allocated to resource the PERC committee to fully deliver on the responsibilities of this committee. Audit's new increased appropriation is presented in the table below.

| | | | | | |
|-------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 1,129,154 | 1,179,154 | 1,239,154 | 1,239,154 |
| | POBOC | 153,000 | 153,000 | 153,000 | 153,000 |
| | Adjusted Gross Operating | 1,282,254 | 1,332,254 | 1,392,254 | 1,392,254 |

8.2.3 Crown Law

| Crown Law | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------|-------------------------------------|----------------|----------------|----------------|----------------|
| Funding Measure | Personnel, Operating & Depreciation | 200,000 | 200,000 | 250,000 | 250,000 |
| | Administered Payments | 300,000 | - | - | - |
| | Gross Operating Adjustment | 500,000 | 200,000 | 250,000 | 250,000 |

Crown Law has been provided additional funding to cover operational costs and recruit an additional senior lawyer. The new funding is intended to improve Crown Law's ability to provide oversight of legislative drafting functions. Crown Law's staff salary adjustment is allocated for 2021/22.

An additional \$300,000 has been allocated for litigation costs, details of which have been withheld on the grounds identified in section 18(a) and 8(2) (i) of the Official Information Act 2008.

With the additional funding total gross appropriation has increased to \$1.3 million in 2019/20.

| | | | | | |
|-------|-------------------------------------|------------------|----------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 957,058 | 957,058 | 1,007,058 | 1,007,058 |
| | Administered Payments | 300,000 | - | - | - |
| | Adjusted Gross Operating | 1,257,058 | 957,058 | 1,007,058 | 1,007,058 |

8.2.4 Ministry of Cultural Development

| Cultural Development | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|----------------------|-----------------------------------|----------------|----------------|------------------|----------------|
| Funding Measure | Personnel & Operating | 90,000 | 325,000 | 348,000 | 348,000 |
| | Depreciation | 27,000 | 27,000 | 27,000 | 27,000 |
| | Administered Payments | 240,000 | 200,000 | 2,200,000 | 200,000 |
| | Gross Operating Adjustment | 357,000 | 552,000 | 2,575,000 | 575,000 |

Additional funding has been provided to resource the Ministry of Culture to enable the agency to deliver the plans laid out in its strategic plan. Support has been provided to progress with the digitization of audio and visual project in Wellington. The salary adjustment for the Ministry of Culture staff is allocated for 2020/21.

With the Cook Islands participation in various overseas and domestic cultural events, a Cook Islands cultural fund of \$200,000 per year has been appropriated. In addition to this, \$2,000,000 has been provided for the Te Maeva Nui for hosting both the Rarotonga and Pa Enua celebration.

This increases Ministry of Culture's gross appropriation to \$2 million in 2019/20.

| | | | | | |
|-------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 999,007 | 1,234,007 | 1,257,007 | 1,257,007 |
| | Administered Payments | 977,500 | 937,500 | 2,937,500 | 937,500 |
| | Adjusted Gross Operating | 1,976,507 | 2,171,507 | 4,194,507 | 2,194,507 |

8.2.5 Business Trade and Investment Board

| Business Trade and Investment Board | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-------------------------------------|-------------------------------------|----------------|----------------|---------------|---------------|
| Funding Measure | Personnel, Operating & Depreciation | 100,000 | 100,000 | 90,000 | 90,000 |
| | Administered Payments | - | - | - | - |
| | Gross Operating Adjustment | 100,000 | 100,000 | 90,000 | 90,000 |

Additional funding has been provided to BTIB to top up the business support funding (otherwise known as the revolving fund managed by BCI and BTIB) by \$100,000 in 2019/20 and 2020/21. This will allow the agency to expand the current business support to include the rest of the Pa Enuu. In addition to this, the salary adjustment for the staff of BTIB is allocated in 2021/22.

This has increased BTIB's total gross appropriation to \$782,612.

| | | | | | |
|-------|-------------------------------------|----------------|----------------|----------------|----------------|
| Final | Personnel, Operating & Depreciation | 782,162 | 782,162 | 772,162 | 772,162 |
| | Administered Payments | - | - | - | - |
| | Adjusted Gross Operating | 782,162 | 782,162 | 772,162 | 772,162 |

8.2.6 Ministry of Education

| Education | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------|-------------------------------------|------------------|---------------|------------------|------------------|
| Funding Measure | Personnel, Operating & Depreciation | (706,134) | (627,716) | 1,759,000 | 1,759,000 |
| | Administered Payments | 527,325 | 686,925 | 686,925 | 746,925 |
| | Gross Operating Adjustment | (178,809) | 59,209 | 2,445,925 | 2,505,925 |

The Ministry of Education has reprioritised funding within the agency by transferring some funding from their operating to increase funding for the tertiary training institutions, and the private school funding. Additional funding has been provided to cover the service delivered by a contractor on the Island of Aitutaki to transport children to school.

Scholarship funding increases by an additional \$119,600 from 2020/21 onwards. The salary adjustment for teachers are allocated for 2021/22. This increases the total gross appropriation to \$19.8 million.

The Gross Operating Adjustment reflects a reduction in 2019/20 due to the impact of a transfer of 2 Administered Funds from Ministry of Education to Ministry of Finance.

| | | | | | |
|-------|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Final | Personnel, Operating & Depreciation | 15,283,321 | 15,361,739 | 17,748,455 | 17,808,455 |
| | Administered Payments | 4,612,289 | 4,681,889 | 4,681,889 | 4,681,889 |
| | Adjusted Gross Operating | 19,895,610 | 20,043,628 | 22,430,344 | 22,490,344 |

8.2.7 National Environment Service

| Environment | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|------------------------|-------------------------------------|----------------|----------------|----------------|----------------|
| Funding Measure | Personnel, Operating & Depreciation | 291,852 | 196,852 | 196,852 | 196,852 |
| | Administered Payments | 250,000 | 340,000 | 340,000 | 340,000 |
| | Gross Operating Adjustment | 541,852 | 536,852 | 536,852 | 536,852 |

Additional funding has been provided to environment to deliver their priority to resolve some of the environmental issues faced in the Cook Islands, commencing with the Pa Enea. Funding of \$150,000 and increasing to \$200,000 from 2020/21 has been provided for the purpose of strengthening the Environmental Impact Assessment (EIA) process undertaken by the environment office.

In addition to this, funding has been provided to recruit another staff member to assist with the Natural Heritage function from 2020/21. This has increased the total gross appropriation for Environment to \$1.6 million.

| | | | | | |
|--------------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 1,354,176 | 1,259,176 | 1,259,176 | 1,259,176 |
| | Administered Payments | 332,241 | 422,241 | 422,241 | 422,241 |
| | Adjusted Gross Operating | 1,686,417 | 1,681,417 | 1,681,417 | 1,681,417 |

8.2.8 Financial Services Development Authority

| Financial Services Development Authority | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|--|-------------------------------------|----------------|----------|---------------|---------------|
| Funding Measure | Personnel, Operating & Depreciation | 100,000 | - | 10,000 | 10,000 |
| | Administered Payments | - | - | - | - |
| | Gross Operating Adjustment | 100,000 | - | 10,000 | 10,000 |

Additional funding of \$100,000 has been provided to undergo research for a new product to be marketed. Salary adjustment for the staff of FSDA is allocated in 2021/22. With the additional funding, this has increased the total gross appropriation of FSDA to \$530,571.

| | | | | | |
|--------------|-------------------------------------|----------------|----------------|----------------|----------------|
| Final | Personnel, Operating & Depreciation | 530,571 | 430,571 | 440,571 | 440,571 |
| | Administered Payments | - | - | - | - |
| | Adjusted Gross Operating | 530,571 | 430,571 | 440,571 | 440,571 |

8.2.9 Ministry of Finance and Economic Management

| Finance and Economic Management | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---------------------------------|-----------------------------------|------------------|------------------|------------------|------------------|
| Funding Measure | Personnel & Operating | 1,256,068 | 2,062,861 | 2,158,568 | 2,063,824 |
| | Depreciation | 229,814 | 229,814 | 229,814 | 229,814 |
| | Administered Payments | 1,473,621 | 15,000 | 255,000 | 290,000 |
| | POBOC | 35,000 | 115,000 | -25,000 | -25,000 |
| | Gross Operating Adjustment | 2,994,503 | 2,422,675 | 2,618,382 | 2,558,638 |

The Ministry of Finance is in a reform process and additional funding has been provided to resource and deliver some of these changes. The additional funding has been allocated to prioritise:

- Support to Revenue Management division to meet international tax standards and commitments and completing the required tasks to remain off the EU blacklist. This includes meeting the OECD's BEPS¹⁴ minimum standards and carrying out all Automatic Exchange of Information (AEOI) activities within a timeframe. \$50,000 has been provided in 2020/21 to host the Pacific's Customs conference in the Cook Islands. \$483,000 has been re-appropriated to complete the tasks identified by IMF review for post-tax amnesty.
- Restructure to merge the Budget and Economics team who will form the Planning division for MFEM.
- \$450,000 has been provided to re-print the Cook Islands \$3 notes that is currently out of stock.
- Restructure the Treasury division to undergo preparatory work to manage FMIS once the project phase is completed
- Support the Statistics division to improve the capacity to produce timely statistics
- Development of an additional output for Project and Procurement oversight for major projects. This is to provide greater support to agencies to enable the adherence to follow the Te Terai Vaka activity management cycle and public procurement.
- Salary adjustment for the staff of MFEM is allocated for 2020/21.

This has increase the total gross appropriation of MFEM to \$21.6 million in 2019/20 (including POBOC).

| | | | | | |
|-------|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Final | Personnel, Operating & Depreciation | 6,309,046 | 7,059,839 | 7,155,546 | 7,060,802 |
| | Administered Payments | 14,914,371 | 13,455,750 | 13,695,750 | 13,730,750 |
| | POBOC | 435,694 | 515,694 | 375,694 | 375,694 |
| | Adjusted Gross Operating | 21,659,111 | 21,031,283 | 21,226,990 | 21,167,246 |

8.2.10 Head of State

| Head Of State | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------|-------------------------------------|---------------|---------------|---------------|---------------|
| Funding Measure | Personnel, Operating & Depreciation | - | - | 14,113 | 14,113 |
| | Administered Payments | 13,000 | 13,000 | 13,000 | 13,000 |
| | Gross Operating Adjustment | 13,000 | 13,000 | 27,113 | 27,113 |

\$13,000 has been provided to the head of state office to meet property rental payments. Salary adjustment for staff is allocated in 2021/22. With the additional funding, this has increased the head of states gross appropriation to \$250,163.

¹⁴ <https://www.oecd.org/tax/beps/>

| | | | | | |
|--------------|-------------------------------------|----------------|----------------|----------------|----------------|
| Final | Personnel, Operating & Depreciation | 214,163 | 214,163 | 228,276 | 228,276 |
| | Administered Payments | 36,000 | 36,000 | 36,000 | 36,000 |
| | Adjusted Gross Operating | 250,163 | 250,163 | 264,276 | 264,276 |

8.2.11 Ministry of Foreign Affairs

| Foreign Affairs | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|------------------------|-----------------------------------|----------------|----------------|----------------|----------------|
| Funding Measure | Personnel & Operating | 444,400 | 444,400 | 619,400 | 619,400 |
| | Depreciation | - | - | - | - |
| | Administered Payments | 5,000 | 5,000 | 5,000 | 5,000 |
| | Gross Operating Adjustment | 449,400 | 449,400 | 624,400 | 624,400 |

Additional funding has been provided to adequately resource the Ministry of Foreign Affairs headquarters and the consulate office in Wellington. \$5,000 has been provided to increase the budget allocation set aside to assist the Cook Islands Student Association placed in universities in New Zealand who gather to celebrate our culture and tradition.

The salary adjustment for Foreign Affairs staff is allocated in 2021/22. This has increased their total gross appropriation to \$3.5 million (including POBOC).

| | | | | | |
|--------------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 2,761,521 | 2,907,521 | 3,082,521 | 3,082,521 |
| | Administered Payments | 15,000 | 15,000 | 15,000 | 15,000 |
| | POBOC | 751,428 | 753,158 | 751,428 | 751,428 |
| | Adjusted Gross Operating | 3,527,949 | 3,675,679 | 3,848,949 | 3,848,949 |

8.2.12 Ministry of Health

| Health | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|------------------------|-------------------------------------|------------------|------------------|------------------|------------------|
| Funding Measure | Personnel, Operating & Depreciation | 1,475,500 | 3,880,000 | 3,880,000 | 3,880,000 |
| | Administered Payments | 300,000 | 300,000 | 300,000 | 300,000 |
| | Gross Operating Adjustment | 1,775,500 | 4,180,000 | 4,180,000 | 4,180,000 |

Additional funding has been provided to the Ministry of Health to assist with recruiting key medical and specialised positions to improve the medical services offered in the Cook Islands. This funding is also prioritised to cover operating costs to enable the agency to expand health services offered to the community and Pa Enua. One of the key focus for the Ministry of Health is the combat and reduction of non-communicable diseases as this is the main health issue faced here in the Cook Islands. Salary adjustments for the staff of Ministry of Health is allocated in 2020/21.

\$300,000 has been allocated to increase the patient referral budget as the current baseline is insufficient to cover the annual costs. This has increased the health total gross appropriation to \$17.5 million.

| | | | | | |
|--------------|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Final | Personnel, Operating & Depreciation | 15,372,676 | 17,777,176 | 17,777,176 | 17,777,176 |
| | Administered Payments | 2,146,870 | 2,146,870 | 2,146,870 | 2,146,870 |
| | Adjusted Gross Operating | 17,519,546 | 19,924,046 | 19,924,046 | 19,924,046 |

8.2.13 Infrastructure Cook Islands

| Infrastructure Cook Islands | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------------------|-----------------------------------|------------------|------------------|------------------|------------------|
| Funding Measure | Personnel & Operating | 455,000 | 745,000 | 745,000 | 745,000 |
| | Depreciation | - | - | - | - |
| | Administered Payments | 725,000 | 905,000 | 625,000 | 625,000 |
| | Transfers | - | - | - | - |
| | Gross Operating Adjustment | 1,180,000 | 1,650,000 | 1,370,000 | 1,370,000 |

Additional funding has been provided to ICI to support their corporate service function to recruit financial analysts and quality assurance professional. In addition to this:

- Funding for 2 engineers is also provided to assist with the delivery of major projects managed by ICI.
- The full allocation of the newly developed Pa Enea output under ICI is now funded to recruit an additional staff and cover operational costs
- The road and assets maintenance budget has increased by \$470,000 in 2019/20
- Bridges and Drainage maintenance has increased by \$600,000
- An emergency administered payment of \$200,000 has been allocated to ICI on an annual basis

The salary adjustment for the ICI staff is allocated in 2020/21. This has now increased ICI total gross appropriation to \$6.2 million in 2019/20.

| | | | | | |
|-------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 3,085,169 | 3,375,169 | 3,375,169 | 3,375,169 |
| | Administered Payments | 3,200,000 | 3,380,000 | 3,100,000 | 3,100,000 |
| | Adjusted Gross Operating | 6,285,169 | 6,755,169 | 6,475,169 | 6,475,169 |

8.2.14 Ministry of Justice

| Justice | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------|-----------------------------------|----------------|----------------|----------------|----------------|
| Funding Measure | Personnel & Operating | 900,000 | 1,000,000 | 1,000,000 | 1,200,000 |
| | Administered Payments | 123,000 | 123,000 | 123,000 | 123,000 |
| | Transfers | (877,941) | (877,941) | (877,941) | (877,941) |
| | Gross Operating Adjustment | 145,059 | 245,059 | 245,059 | 445,059 |

Additional funding has been provided to Ministry of Justice for salary adjustments and to allow recruitment of critical position to help improve the services delivered by Justice. Funding allocated to prison and probation has been transferred to Ministry of Corrective Services.

In addition to this, the judges administered payment has increased by \$123,000. With the additional funding, this has increased the total gross appropriation for ministry of justice to \$2.8 million.

| | | | | | |
|-------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 2,395,763 | 2,495,763 | 2,495,763 | 2,695,763 |
| | Administered Payments | 460,000 | 460,000 | 460,000 | 460,000 |
| | Adjusted Gross Operating | 2,855,763 | 2,955,763 | 2,955,763 | 3,155,763 |

8.2.15 Ministry of Internal Affairs

| Internal Affairs | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|------------------|-----------------------------------|----------------|------------------|------------------|------------------|
| Funding Measure | Personnel & Operating | 250,000 | 300,000 | 470,000 | 470,000 |
| | Depreciation | 2,849 | 2,849 | 2,849 | 2,849 |
| | Administered Payments | 681,391 | 1,153,055 | 1,134,111 | 1,135,120 |
| | POBOC | 298,794 | 384,178 | 469,287 | 554,016 |
| | Gross Operating Adjustment | 934,240 | 1,455,904 | 1,606,960 | 1,607,969 |

Additional funding has been provided to Internal Affairs to improve effectiveness and efficiency for the office to enable the increased assistance and support provided to the welfare of our people and children of the Cook Islands. Salary increases for the Internal Affairs staff is allocated in 21/22.

In addition to this:

- Caregivers allowance has been increased to \$200 a month
- Pension for those over 70 years increased to \$700 a month
- Children's forum has been funded for 2020/21
- CISNOC funding has been increased by additional \$150,000 in 2019/20
- Social Impact Fund has been maintained at \$800,000
- \$45,000 has been allocated for youth program

This has increased Internal Affairs gross appropriation to \$24.1 million in 2019/20.

| | | | | | |
|-------|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Final | Personnel, Operating & Depreciation | 1,493,037 | 1,543,037 | 1,713,037 | 1,713,037 |
| | Administered Payments | 2,978,309 | 3,109,973 | 3,091,029 | 3,092,038 |
| | POBOC | 19,689,535 | 19,774,919 | 19,860,028 | 19,944,757 |
| | Adjusted Gross Operating | 24,160,881 | 24,427,929 | 24,664,094 | 24,749,832 |

8.2.16 Ministry of Corrective Services

| Corrective Services | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---------------------|-----------------------------------|------------------|------------------|------------------|------------------|
| Funding Measure | Personnel & Operating | 400,000 | 600,000 | 800,000 | 1,000,000 |
| | Transfers | 789,941 | 789,941 | 789,941 | 789,941 |
| | Gross Operating Adjustment | 1,189,941 | 1,389,941 | 1,589,941 | 1,789,941 |

In addition to the funds transferred from Ministry of Justice, the HOMs salary for Corrective Services has been transferred out to OPSC as this is managed by the public service commissioner. Additional funding has been provided to the agency to apply salary adjustments for the staff and to allow the recruitment of critical staff. This funding has also been prioritised to cover operating costs for both probation and prison.

This has increased the total gross appropriation for corrective to \$1.3 million in 2019/20.

| | | | | | |
|-------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 1,339,941 | 1,539,941 | 1,739,941 | 1,939,941 |
| | Administered Payments | - | - | - | - |
| | Adjusted Gross Operating | 1,339,941 | 1,539,941 | 1,739,941 | 1,939,941 |

8.2.17 Ministry of Marine Resources

| Marine Resources | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|------------------|-----------------------------------|----------------|----------------|----------------|----------------|
| Funding Measure | Personnel & Operating | 200,000 | 390,000 | 540,000 | 540,000 |
| | Transfers | 200,000 | 200,000 | 200,000 | 200,000 |
| | Gross Operating Adjustment | 400,000 | 590,000 | 740,000 | 740,000 |

Additional funding has been provided to Ministry of Marine Resources to reduce reliance on donor funds and to allocate funding to cover operational cost. \$200,000 has been transferred from the Pearl Authority to continue residual functions of the authority.

Salary adjustment for the staff of marine is allocated in 2020/21. This increases the total gross appropriation for marine to \$2.3 million in 2019/20.

| | | | | | |
|-------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 2,072,618 | 2,262,618 | 2,412,618 | 2,412,618 |
| | Administered Payments | 300,000 | 300,000 | 300,000 | 300,000 |
| | Adjusted Gross Operating | 2,372,618 | 2,562,618 | 2,712,618 | 2,712,618 |

8.2.18 Ombudsman

| Office of the Ombudsman | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-------------------------|-------------------------------------|---------------|---------------|---------------|---------------|
| Funding Measure | Personnel, Operating & Depreciation | 40,043 | 40,043 | 90,043 | 90,043 |
| | Administered Payments | - | - | - | - |
| | Gross Operating Adjustment | 40,043 | 40,043 | 90,043 | 90,043 |

Additional funding has been provided to the Office of the ombudsman to cover personnel shortfall in funding and to enable ombudsman to contract out legal advice when required. Salary adjustment for the ombudsman staff is allocated in 2021/22. This has increased the total gross appropriation for ombudsman to \$330,399 in 2019/20.

| | | | | | |
|-------|-------------------------------------|----------------|----------------|----------------|----------------|
| Final | Personnel, Operating & Depreciation | 330,399 | 330,399 | 380,399 | 380,399 |
| | Administered Payments | - | - | - | - |
| | Adjusted Gross Operating | 330,399 | 330,399 | 380,399 | 380,399 |

8.2.19 Parliamentary Services

| Parliamentary Services | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|------------------------|-----------------------------------|------------------|------------------|------------------|------------------|
| Funding Measure | Personnel & Operating | 65,000 | 100,000 | 185,000 | 185,000 |
| | Depreciation | (5,000) | (5,000) | (5,000) | (5,000) |
| | Administered Payments | 48,000 | 48,000 | (2,000) | (2,000) |
| | POBOC | 1,150,000 | 1,150,000 | 1,150,000 | 1,150,000 |
| | Gross Operating Adjustment | 1,258,000 | 1,293,000 | 1,328,000 | 1,328,000 |

Additional funding has been provided to parliament to recruit key positions over the medium term. In addition to this:

- \$100,000 has been provided for special select committee to consult on various bills
- \$800,000 has been provided for Civil List personnel
- \$120,000 has been provided for the House of Ariki
- \$30,000 has been provided to increase parliamentary sitting budget
- \$200,000 has been provided to increase the MP travel budget

Salary adjustment for parliament staff is allocated in 2021/22.

This has increased the gross appropriation for parliament to \$4.7 million in 2019/20 (including POBOC).

| | | | | | |
|-------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 648,681 | 683,681 | 768,681 | 768,681 |
| | Administered Payments | 110,000 | 110,000 | 60,000 | 60,000 |
| | POBOC | 4,020,581 | 4,020,581 | 4,020,581 | 4,020,581 |
| | Adjusted Gross Operating | 4,779,262 | 4,814,262 | 4,849,262 | 4,849,262 |

8.2.20 Cook Islands Police

| Cook Islands Police Service | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------------------|-------------------------------------|----------------|----------------|----------------|----------------|
| Funding Measure | Personnel, Operating & depreciation | 450,000 | 500,000 | 500,000 | 500,000 |
| | Administered Payments | 50,000 | 200,000 | 50,000 | 50,000 |
| | Gross Operating Adjustment | 500,000 | 700,000 | 550,000 | 550,000 |

Additional funding has been provided to Cook Islands Police to apply salary adjustment for staff. In addition to this \$50,000 has been provided to increase the serious crime budget to \$100,000 on annual basis. \$150,000 is allocated for the bi annual slipping of Te Kukupa in 2020/21.

With the additional fund provided, this has increased the gross appropriation for police to \$5.3 million in 2019/20.

| | | | | | |
|-------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 5,070,199 | 5,120,199 | 5,120,199 | 5,120,199 |
| | Administered Payments | 305,000 | 455,000 | 305,000 | 305,000 |
| | Adjusted Gross Operating | 5,375,199 | 5,575,199 | 5,425,199 | 5,425,199 |

8.2.21 Prime Minister's Office

| Office of the Prime Minister | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|------------------------------|-------------------------------------|----------------|------------------|----------------|----------------|
| Funding Measure | Personnel, Operating & Depreciation | 324,075 | 715,000 | 715,000 | 715,000 |
| | Administered Payments | 430,000 | 400,000 | 150,000 | 150,000 |
| | POBOC | 30,000 | 0 | 0 | 0 |
| | Gross Operating Adjustment | 784,075 | 1,215,000 | 965,000 | 965,000 |

Additional funding has been provided to the Office of the Prime Minister to recruit for key positions to support the operations of the office. In addition to this, funding has been provided for:

- An ICT Support team to assist with the ICT network upgrade
- Energy Commissioner
- Pa Enea mechanical overseer to help the Northern Group Island Administration maintain machineries purchased

Funding for salary adjustment has been allocated in 2020/21. This has increased the total gross appropriation to \$2.7 million for 2019/20 (including POBOC).

| | | | | | |
|-------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 1,948,886 | 2,339,811 | 2,339,811 | 2,339,811 |
| | Administered Payments | 773,000 | 743,000 | 493,000 | 493,000 |
| | Adjusted Gross Operating | 2,721,886 | 3,082,811 | 2,832,811 | 2,832,811 |

8.2.22 Public Service Commissioner

| Public Service Commission | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---------------------------|-----------------------------------|----------------|----------------|----------------|----------------|
| Funding Measure | Personnel & Operating | 120,000 | 170,000 | 255,000 | 255,000 |
| | Depreciation | (58,093) | (58,093) | (58,093) | (58,093) |
| | Administered Payments | 368,760 | 368,760 | 368,760 | 368,760 |
| | Gross Operating Adjustment | 430,667 | 480,667 | 565,667 | 565,667 |

Additional funding has been provided to increase the Human Resource Management support delivered by the Public of the Service Commissioner. Salary adjustments for the staff is allocated in 2021/22.

In addition to this the HOMs administered payment has been maintained to consider the increase made in the 2018/19 supplementary and recruitment of CEO for the Office of the public service commissioner.

This has increased total gross operating for the Office of the Public Service Commissioner to \$2.4 million in 2019/20.

| | | | | | |
|-------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 681,965 | 731,965 | 816,965 | 816,965 |
| | Administered Payments | 1,741,645 | 1,741,645 | 1,741,645 | 1,741,645 |
| | Adjusted Gross Operating | 2,423,610 | 2,473,610 | 2,558,610 | 2,558,610 |

8.2.23 Tourism Corporation

| Cook Islands Tourism Corporation | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|----------------------------------|-----------------------------------|---------|---------|----------------|----------------|
| Funding Measure | Personnel & Operating | - | - | 115,000 | 115,000 |
| | Administered Payments | - | - | - | - |
| | Gross Operating Adjustment | - | - | 115,000 | 115,000 |

Additional funding has been provided for Tourism Corporation to apply salary adjustments in 2021/22. Total gross appropriation for tourism increases from \$9.2 million to \$9.3 million in 2021/22.

| | | | | | |
|-------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 4,352,662 | 4,352,662 | 4,467,662 | 4,467,662 |
| | Administered Payments | 4,922,000 | 4,922,000 | 4,922,000 | 4,922,000 |
| | Adjusted Gross Operating | 9,274,662 | 9,274,662 | 9,389,662 | 9,389,662 |

8.2.24 Ministry of Transport

| Transport | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------|-----------------------------------|----------------|----------------|----------------|----------------|
| Funding Measure | Personnel & Operating | 440,000 | 570,000 | 570,000 | 570,000 |
| | Depreciation | 13,200 | 13,200 | 13,200 | 13,200 |
| | Administered Payments | (111,000) | (111,000) | (111,000) | (111,000) |
| | Gross Operating Adjustment | 342,200 | 472,200 | 472,200 | 472,200 |

Additional funding has been provided to Ministry of Transport to fund civil aviation and maritime work requirements. Funding for the civil aviation director has been transferred from an administered payment and included into the ministries personnel baseline.

Salary adjustments for the staff of transport is to be applied in 2019/20. This increases the total gross appropriation to \$1.1 million in 2019/20.

| | | | | | |
|-------|-------------------------------------|------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 1,160,232 | 1,290,232 | 1,290,232 | 1,290,232 |
| | Administered Payments | - | - | - | - |
| | Adjusted Gross Operating | 1,160,232 | 1,290,232 | 1,290,232 | 1,290,232 |

8.2.25 Cook Islands Investment Corporation

| Cook Islands Investment Corporation | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-------------------------------------|-----------------------------------|-----------------|----------------|------------------|------------------|
| Funding Measure | Personnel, Operating & Operations | (1,700,843) | (1,300,843) | (1,200,843) | (1,200,843) |
| | Administered Payments | 1,605,000 | 1,685,000 | 960,000 | 605,000 |
| | POBOC | 8,000 | 8,000 | 8,000 | 8,000 |
| | Gross Operating Adjustment | (87,843) | 392,157 | (232,843) | (587,843) |

Additional Funding has been provided to Investment Corporation for:

- Asset maintenance budget will increase from 2020/21 to allow greater coverage of maintenance work across government
- Maintaining the current staff carrying out CIIC's corporate strengthening programme
- Land rentals will have an annual budget of \$500,000 from 2020/21
- \$8,000 for the Bank of the Cook Islands Social Assistance Subsidy
- \$75,000 to recruit for an Asset & Infrastructure Analyst and assist with the review of the National Infrastructure plan
- Water maintenance has been transferred from ICI to To Tatou Vai and additional funding has been provided to assist with the operations of To Tatou Vai
- School Security has increased by \$30,000
- The reduction shown above is due to the transferring of the Aitutaki Power Supply funding from the CIIC baseline to the Aitutaki Power Supply SOE

This has resulted in a \$109 million total gross appropriation for Investment Corporation in 2019/20 (including POBOC).

| | | | | | |
|-------|-------------------------------------|-------------------|------------------|------------------|------------------|
| Final | Personnel, Operating & Depreciation | 2,910,490 | 3,310,490 | 3,410,490 | 3,410,490 |
| | Administered Payments | 5,380,000 | 3,960,000 | 3,235,000 | 2,880,000 |
| | POBOC | 2,666,096 | 2,666,096 | 2,666,096 | 2,666,096 |
| | Adjusted Gross Operating | 10,956,586 | 9,936,586 | 9,311,586 | 8,956,586 |

8.2.26 Cook Islands Seabed Minerals

| Seabed Minerals Authority | | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---------------------------|-----------------------------------|--------------|--------------|---------------|---------------|
| Funding Measure | Personnel & Operating | - | - | 11,038 | 11,038 |
| | Depreciation | 2,187 | 2,187 | 2,187 | 2,187 |
| | Gross Operating Adjustment | 2,187 | 2,187 | 13,225 | 13,225 |

Additional funding was provided for Seabed Minerals Office for salary adjustment in 2021/22. This will increase the total gross appropriation for the Cook Islands Seabed Minerals from \$296,236 to \$307,274 in 2021/22.

| | | | | | |
|-------|-------------------------------------|----------------|----------------|----------------|----------------|
| Final | Personnel, Operating & Depreciation | 295,292 | 296,236 | 307,274 | 307,274 |
| | Administered Payments | - | - | - | - |
| | Adjusted Gross Operating | 295,292 | 296,236 | 307,274 | 307,274 |

8.2.27 Island Governments

All Island Governments has been provided additional funding for:

- The increase in minimum wage
- Additional funding to cover personnel and operating shortfall on each island
- Salary adjustments for staff in the Pa Enua are allocated in 2020/21

Further to the above the Pa Enua funding adjustments were applied to each Island Administrations. With the additional funding mentioned above, this has increased all Island Administration gross appropriation for 2019/20 and 2020/21.

Table 8-3 Pa Enua Funding Adjustments (\$000's)

| Pa Enua | Operating Funding Measure | | | | Depreciation Adjustments | | | | Final Funding (including baseline) | | | |
|---------------------|---------------------------|-------|-------|-------|--------------------------|-------|-------|-------|------------------------------------|-------|-------|-------|
| | 19/20 | 20/21 | 21/22 | 22/23 | 19/20 | 20/21 | 21/22 | 22/23 | 19/20 | 20/21 | 21/22 | 22/23 |
| Aitutaki | 54 | 167 | 165 | 166 | 290 | 290 | 290 | 290 | 2060 | 2160 | 2154 | 2154 |
| Atiu | 45 | 124 | 128 | 128 | 278 | 278 | 278 | 278 | 1696 | 1784 | 1797 | 1797 |
| Mangaia | 44 | 112 | 111 | 111 | 431 | 431 | 431 | 431 | 2158 | 2237 | 2248 | 2248 |
| Manihiki | 54 | 98 | 98 | 98 | 382 | 382 | 382 | 382 | 1333 | 1370 | 1366 | 1366 |
| Mauke | 49 | 131 | 131 | 131 | 238 | 238 | 238 | 238 | 1360 | 1450 | 1457 | 1458 |
| Mitiaro | 92 | 125 | 125 | 125 | 36 | 36 | 36 | 36 | 844 | 882 | 888 | 888 |
| Palmerston | 22 | 64 | 64 | 64 | 42 | 42 | 42 | 42 | 432 | 472 | 470 | 470 |
| Penrhyn | 114 | 162 | 161 | 158 | 76 | 76 | 76 | 76 | 902 | 956 | 961 | 957 |
| Pukapuka -Nassau | 139 | 289 | 290 | 290 | 73 | 73 | 73 | 73 | 1262 | 1406 | 1400 | 1401 |
| Rakahanga | 32 | 61 | 61 | 61 | 45 | 45 | 45 | 45 | 557 | 583 | 580 | 580 |

8.2.28 7th Ministers Office

Funding has been allocated for the full implementation of the 7th minister's office.

| Measure | 2019/20 | 2019/20 | 2020/21 | 2021/22 |
|-------------------|----------------|----------------|----------------|----------------|
| Operating | 290,000 | 290,000 | 290,000 | 290,000 |
| Total cost | 290,000 | 290,000 | 290,000 | 290,000 |

8.3 Payments on Behalf of the Crown (POBOC)

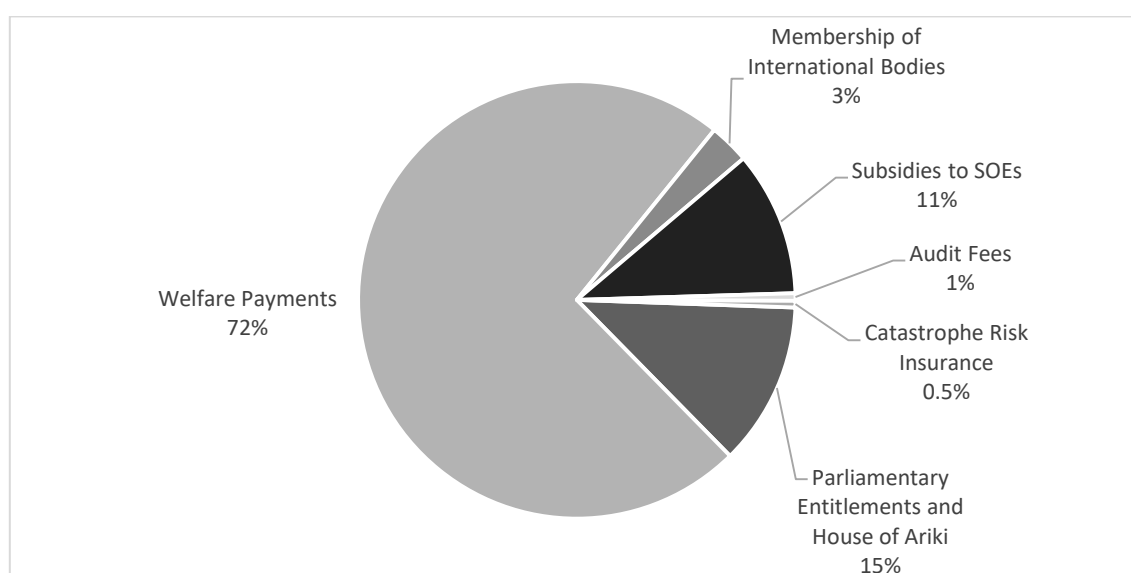
A breakdown of the key areas of POBOC expenditure can be seen below.

Table 8-4 POBOC Summary 2019/20 – 2022/23 (\$000)

| POBOCS | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|---|---------------|---------------|---------------|---------------|----------------|
| Welfare Payments | 19,690 | 19,775 | 19,860 | 19,860 | 79,014 |
| Parliamentary Entitlements and House of Ariki | 4,021 | 4,021 | 4,021 | 4,021 | 16,082 |
| Subsidies to SOE's | 2,666 | 2,666 | 2,666 | 2,666 | 10,664 |
| Membership of International Bodies | 751 | 753 | 751 | 751 | 3,006 |
| Audit Fees | 138 | 138 | 138 | 138 | 552 |
| Catastrophe Risk Insurance | 121 | 121 | 121 | 121 | 484 |
| Total POBOCS | 27,386 | 27,474 | 27,557 | 27,386 | 109,803 |

As shown above, welfare payments comprise the majority of POBOCs at 73 per cent. More detail on each of the POBOCs with significant value is provided below.

Figure 8-2 POBOC Summary for 2019/20



8.4 Parliamentary Entitlements and House of Ariki

8.4.1 Civil List

The Civil List Legislation governs the funding for Parliament and the Executive branch of Government. This funding allows the Government to go deliver day to day business, including parliamentary sittings, and representing the Cook Islands domestically and abroad.

Note that these figures include the new appropriation for the increase in the Civil List Personnel and the MPs Travel and Allowances POBOCs.

Table 8-5 Civil List

| POBOC | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-------------------------|------------------|------------------|------------------|------------------|
| Civil List Personnel | 2,901,961 | 2,901,961 | 2,901,961 | 2,901,961 |
| Parliamentary Sitting | 150,000 | 150,000 | 150,000 | 150,000 |
| Constituency Visits | 170,200 | 170,200 | 170,200 | 170,200 |
| QR Travel and Allowance | 109,000 | 109,000 | 109,000 | 109,000 |
| MP Travel and Allowance | 341,000 | 341,000 | 341,000 | 341,000 |
| Total Cost | 3,672,161 | 3,672,161 | 3,672,161 | 3,672,161 |

8.4.2 Parliamentary Superannuation

This funding enables the Parliamentary Services to carry out its legal requirements of covering costs associated with the Cook Islands and New Zealand, if any, Superannuation of all Members of Parliament.

Table 8-6 Parliamentary Superannuation

| POBOC | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|------------------------------|----------------|----------------|----------------|----------------|
| Parliamentary Superannuation | 180,000 | 180,000 | 180,000 | 180,000 |
| Total Cost | 180,000 | 180,000 | 180,000 | 180,000 |

8.4.3 House of Ariki

As the paramount chiefs of the Cook Islands, the House of Ariki holds an important place in society. This POBOC allows funding for general operations and events to be held, as well as a stipend to recognise the contribution to society made by the Ariki.

Table 8-7 House of Ariki Funding

| POBOC | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-------------------|----------------|----------------|----------------|----------------|
| House of Ariki | 348,420 | 348,420 | 348,420 | 348,420 |
| Total Cost | 348,420 | 348,420 | 348,420 | 348,420 |

8.4.4 Subsidies to SOE's

Subsidies to State-owned Enterprises (SOE's)

In order to provide equitable basic services for all Cook Islanders, the Government provides a subsidy to SOE's involved in the provision of these services to cover the non-commercially viable aspects of their business, which is considered a social responsibility.

Table 8-8 Subsidies to State-owned Enterprises (SOE's)

| POBOC | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|--------------------------|------------------|------------------|------------------|------------------|
| Bank of the Cook Islands | 128,000 | 120,000 | 120,000 | 120,000 |
| Airport Authority | 2,047,997 | 2,047,997 | 2,047,997 | 2,047,997 |
| Ports Authority | 110,099 | 110,099 | 110,099 | 110,099 |
| Te Aponga Uira | 380,000 | 380,000 | 380,000 | 380,000 |
| Total Cost | 2,666,096 | 2,666,096 | 2,666,096 | 2,666,096 |

8.4.5 Social Assistance

Table 8-9 Welfare Payments

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|--|-------------------|-------------------|-------------------|-------------------|
| Welfare Payments POBOC | 19,689,535 | 19,774,919 | 19,860,028 | 19,944,757 |
| Welfare Payments Administered Payments | 1,291,309 | 1,292,973 | 1,294,029 | 1,295,038 |
| Total | 20,980,844 | 21,067,892 | 21,154,112 | 21,239,795 |

These pensions and allowances support and protect the most vulnerable members of our society through the provision of legislated welfare benefits. The split between POBOC and Administered Payments is to recognise ongoing payments, such as pensions and the Destitute and Infirm Payment (DIP), and one-off or short-term payments such as funeral allowances and Christmas bonuses.

The payments are aimed at assisting the disadvantaged, the elderly, disabled and young families to meet the cost of basic needs such as food, shelter and clothing.

Table 8-10 Welfare Benefits (POBOC and Administered)

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|--|-------------------|-------------------|-------------------|-------------------|
| | Estimate | Estimate | Estimate | Estimate |
| 1 Old Age Pension | 13,078,253 | 13,163,637 | 13,248,746 | 13,333,475 |
| 2 Child Benefit | 5,575,882 | 5,575,882 | 5,575,882 | 5,575,882 |
| 3 Newborn Allowance | 200,000 | 200,000 | 200,000 | 200,000 |
| 4 Destitute and Infirm Persons Payment | 528,000 | 528,000 | 528,000 | 528,000 |
| 5 Government-funded Paid Maternity Leave | 150,000 | 150,000 | 150,000 | 150,000 |
| 6 Caregiver's Allowance | 663,791 | 665,455 | 666,566 | 667,520 |
| 7 Carer Order Payment | 10,400 | 10,400 | 10,400 | 10,400 |
| 8 Christmas Bonus | 278,318 | 278,318 | 278,318 | 278,318 |
| 9 Funeral Allowance | 170,000 | 170,000 | 170,000 | 170,000 |
| 10 Power Subsidy | 79,200 | 79,200 | 79,200 | 79,200 |
| 11 Special Assistance | 100,000 | 100,000 | 100,000 | 100,000 |
| 12 Bank of Cook Islands Transaction Fees | 147,000 | 147,000 | 147,000 | 147,000 |
| Total | 20,980,844 | 21,067,892 | 21,154,112 | 21,239,795 |

Table 8-11 Details on Welfare Payments

| Legislated Welfare Payments | Payment Rate | Beneficiaries 2018/19 Estimate | Beneficiaries 2019/20 Budget | Assumptions |
|--|--------------|--------------------------------|------------------------------|--|
| Child Benefit (monthly) | 100 | 3,352 | 4,730 | The number of eligible children up to age 16 is expected to increase the budget for this payment. The rate for the child benefit is \$100 a month. |
| New Born Allowance* | 1,000 | 200 | 200 | The number of births eligible for this payment is expected to increase slightly due to a change in the legislation |
| Old Age Pension - 60 to 69 years of age (monthly) | 500 | 1,065 | 1070 | The number of pensioners in this age group continues to increase slightly based on actuals. |
| Old Age Pension - 70 years of age and over (monthly) | 700 | 747 | 830 | The number of pensioners in this age group is expected to increase slightly. |

| Legislated Welfare Payments | Payment Rate | Beneficiaries 2018/19 Estimate | Beneficiaries 2019/20 Budget | Assumptions |
|--|---------------------|---------------------------------------|-------------------------------------|--|
| Destitute and Infirm Persons Payment (monthly) | 200 | 220 | 220 | A slight increase in the number of people receiving these payments based on current trends. |
| Non-legislated Welfare Payments | | | | |
| Caregiver's Allowance (monthly) | 200 | 160 | 180 | The number of people that will qualify for caregiver's allowance is likely to increase due to an ageing population and an increase in disability due to NCDs. |
| Christmas Bonus* | 50 | 5,536 | 7,000 | An increase in the total number of beneficiaries receiving benefit payment due to age eligibility bring extended to 16 for child benefit. |
| Funeral Allowance* | 2,400 | 70 | 70 | The number of old age beneficiaries expected to receive funeral assistance is expected to remain stable. |
| Power Subsidy (quarterly) | 66 | 300 | 300 | Estimated number of pensioners receiving the power subsidy is expected to remain stable. |
| Other Payments | | | | |
| Government-funded Paid Maternity Leave** | 1,740 | 80 | 86 | The number of births by working women in the private sector is expected to remain stable, however the payment has increased due to an increase in the minimum wage to \$7.25 |

Note: some payments are not made on a monthly basis.

*The New Born Allowance, Christmas Bonus and Funeral Assistance are paid on each occurrence. The Funeral Allowance is now paid at two rates: \$2,400 is paid to Cook Islands welfare and pension recipients, and \$1,200 is paid to eligible Cook Islanders receiving the NZ Superannuation.

8.5 Welfare Payments

8.5.1 Legislated Entitlements

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

1. New Born Allowance - a lump sum payment at the birth of a child;
2. Child Benefit
3. Old Age Pension
4. Destitute Payment
5. Infirm Relief

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

Child Benefit

The eligible age for the Child Benefit will be extended to children under the age of 16 years as of 1 July 2019.

The rate of the payment increased on 1 July 2017 from \$66 to \$100 per month and is paid in two monthly instalments on the 1st and the 16th of each month.

New Born Allowance

The Newborn Allowance is provided as a lump sum payment to mothers on the birth of a child in the Cook Islands. The legislation was amended in 2016 to provide for births in New Zealand by mothers normally resident in the Cook Islands. The rate of the payment is \$1,000. Applications for payment must be made within six months of the birth of the child.

Old Age Pension

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

For those aged between 60 and 69, the rate of payment is \$500 a month. For those aged 70 and over, the rate of payment increased from \$660 a month to \$700 a month on 1 July 2019. Payments are paid in two monthly installments on the 1st and the 16th of each month.

Destitute and Infirm Payment

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

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

Government Funded Paid Maternity Leave payment

The Government Funded Paid Maternity Leave Payment is a payment to assist private sector employers in meeting paid maternity leave obligations for working women who give birth. The rate is set at the minimum wage based on 40 hours per week for six weeks and was set in 2012 at \$250 per week. On 1 July 2019 the minimum wage increased from \$7.25 to \$7.60 increasing the maternity leave payment to \$304 per week for six weeks.

The payment is paid in one lump sum to employers of eligible women who are then expected to pass on the payment, in accordance with usual income payment arrangements. The payment is subject to income tax. This payment is not made to women in the Public Service as Government provides six weeks maternity leave to employees through agency appropriations.

8.5.2 Non-legislated Welfare Payments

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

1. Caregiver's allowance
2. Christmas bonus
3. Funeral allowance
4. Power subsidy, and
5. Special assistance

Caregiver's Allowance

The Caregiver's Allowance is provided to people that are required to provide substantial day to day care to elderly Cook Islanders or people with permanent disabilities who have high care needs and do not have the capacity to access such care. The rate of payment was increased from \$165 per month to \$200. It is paid in two monthly instalments on the 1st and the 16th of each month.

Christmas Bonus

A Christmas Bonus of \$50 is an extra payment expected to be paid out to all eligible beneficiaries in December as a contribution from the Government to assist with costs at that time of the year.

Funeral Allowance

A funeral allowance is provided to families on the death of a person receiving a welfare payment, to assist with funeral costs. The rate for the Old Age Pension is \$2,400. A new rate was introduced in 2015/16 for eligible Cook Islanders who receive the NZ Superannuation but reside in the Cook Islands of \$1,200.

Power Subsidy

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

Special Assistance

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

Bank of Cook Islands Transactions

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

9 Cook Islands Capital Expenditure

Table 9-1 Total Capital Expenditure 2019/20 to 2022/23 (\$ million)

| | 2018/19 Actuals | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|---|----------------------------|---------------------------|-------------------------------|-------------------------------|-------------------------------|
| Ministry of Agriculture | 30,091 | 0 | 0 | 0 | 0 |
| Cook Islands Investment Corporation | 859,595 | 6,180,000 | 7,370,000 | 11,450,000 | 10,000,000 |
| Ministry of Education | 165,480 | 360,000 | 360,000 | 360,000 | 360,000 |
| Ministry of Health | 718,461 | 400,000 | 1,600,000 | 400,000 | 300,000 |
| Infrastructure Cook Islands | 6,977,143 | 18,471,500 | 19,950,000 | 11,800,000 | 12,800,000 |
| Ministry of Internal Affairs | 45,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Ministry of Justice | 200,000 | 0 | 0 | 0 | 0 |
| Ministry of Finance and Economic Management | 21,616,164 | 13,068,836 | 5,000,000 | 1,000,000 | 1,000,000 |
| Office of the Prime Minister | 3,545,314 | 900,000 | 300,000 | 100,000 | 100,000 |
| Cook Islands Police Services | 0 | 70,000 | 0 | 0 | 0 |
| Capital Funds administered by MFEM | 1,040,135 | 910,000 | 910,000 | 910,000 | 910,000 |
| Total | 35,197,383 | 40,410,336 | 35,540,000 | 26,070,000 | 25,520,000 |

9.1 Summary

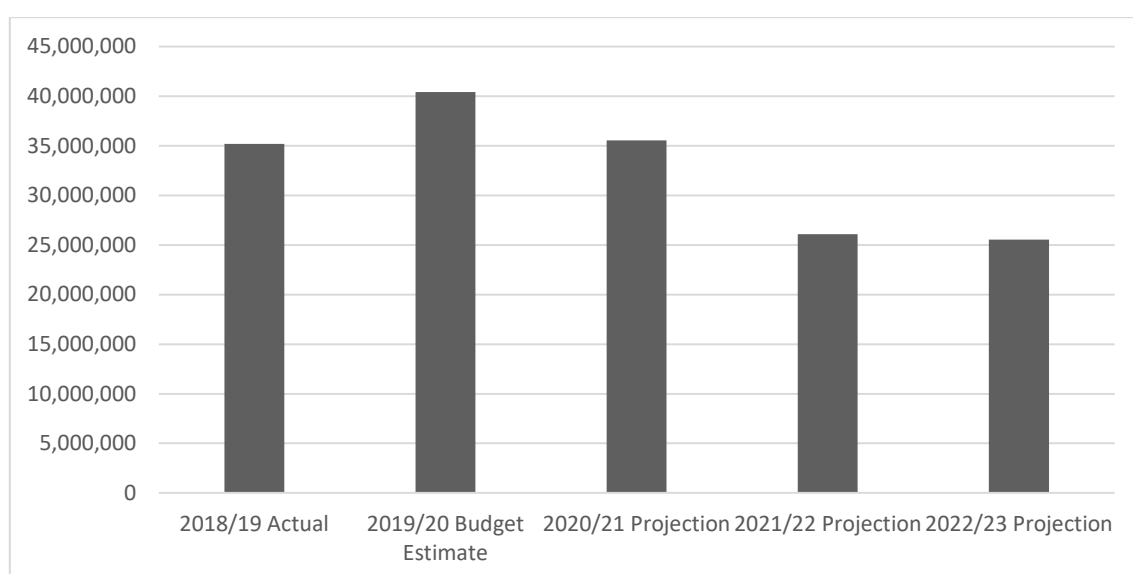
The Capital Schedule outlines the projects appropriated for the 2019/20 financial year and earmarked for 2020/21 to 2022/23.

The Government has made a concerted effort in the 2019/20 Medium-term Budget to acknowledge capacity constraints that have restricted the Government's ability to complete its ambitious capital projects in recent years. This is evident through the continual carry forwards of capital funds from one budget year to the next. In 2018/19, \$0.4 million was carried forward from 2017/18, which had the effect of increasing the capital budget from \$44.5 million at the time of the 2018/19 Budget to \$47.1 million in the 2018/19 Half Year Fiscal and Economic Update (HYEFU), impacting upon the fiscal estimates and further burdening the agencies responsible for implementation.

As outlined above, capital spend to date is estimated to be \$35.2 million or 75 percent of total spend for 2018/19 compared to the \$47.1 million budgeted for 2018/19. Despite the significant appropriation of capital projects, coupled with previous years carry forwards, this represents a significant increase in capital expenditure due to agencies further progressing with current works as well as the completion of existing projects before engaging and implementing new capital works.

Figure 9-1 shows expected capital spending compared to budget for the 2018/19 financial year.

Figure 9-1 Cook Islands Government Total Annual Capital Expenditure



As a result, the priority investment areas reflected in the 2019/20 Budget remains largely unchanged, with a focus on further progressing current capital projects prior to engaging in new works. Funds have been appropriated to Road Asset Management, Pa Enua Cyclone Centres, Bridges and Drainage Improvement Programmes, Te Mato Vai, FMIS, ICT and the development of various Government Buildings. These major priority projects, together with maintenance and minor repair projects, have been spaced over the forward period to ensure that Government has the absorptive capacity to fully implement and complete them. The Cook Islands capital expenditure appropriated for 2019/20 amounts to \$40.4 million followed by a capital budget of \$35.0 million in 2020/21, \$26.0 million in 2021/22 and \$25.5 million in 2022/23. These projects are all expected to contribute to improving the quality of life in the Cook Islands and increasing the productive capacity of the economy.

The remainder of this chapter provides details on the capital expenditure appropriation, by the implementing Government Agency.

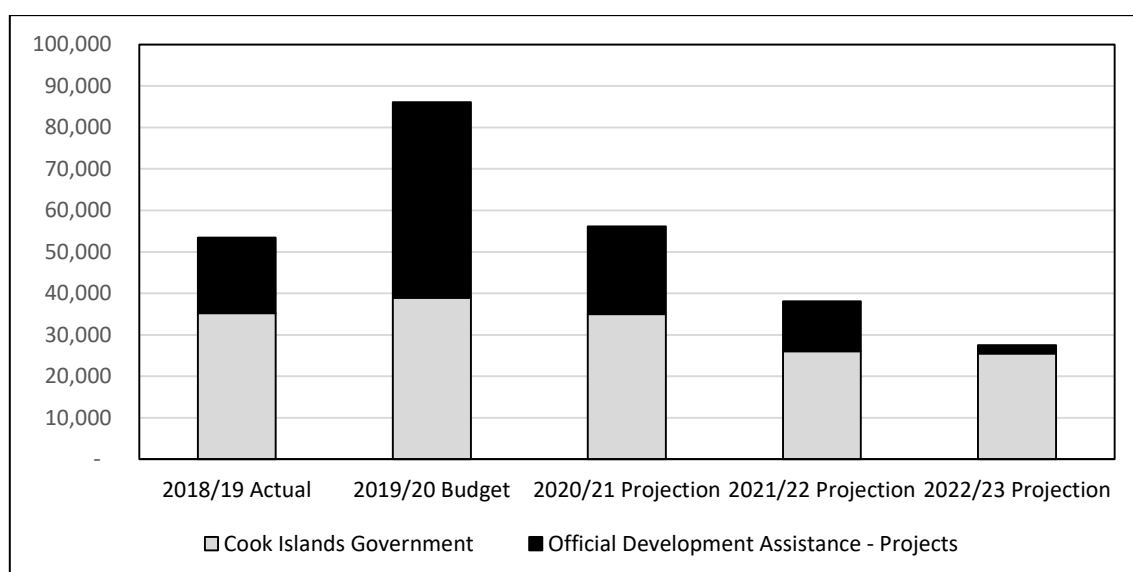
The Government's capital plan for 2019/20 to 2022/23 is split between two funding sources. The first is direct funding from the Cook Islands Government, utilising previous year's underspends and cash reserves. The second is Official Development Assistance (ODA) funding from a number of development partners, with New Zealand being the major contributor. A significant number of capital projects are jointly funded by the Government and its donor partners.

Table 9-2 Total Capital Expenditure by Funding Source, (\$ million) and Figure 9-1 Cook Islands Government Total Annual Capital Expenditure shows the total capital expenditure appropriation for the 2019/20 – 2022/23 medium-term by funding source.

Table 9-2 Total Capital Expenditure by Funding Source, (\$ million)

| Funding Source | 2018/19 Actual | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--|-------------------|-------------------|-----------------------|-----------------------|-----------------------|
| Cook Islands Government | 35,197 | 40,410 | 35,540 | 26,070 | 25,520 |
| Official Development Assistance - Projects | 18,265 | 47,093 | 21,154 | 12,000 | 2,000 |
| Total | 53,463 | 87,503 | 56,694 | 38,070 | 27,520 |

Figure 9-2 Total Capital Expenditure by Funding Source, (\$ million)



This chapter provides further detail on the Government's portion of the capital plan.

Chapter 15.4 describes the ODA capital (and operating) expenditure budget

9.2 Capital Spending by Agency

9.2.1 Cook Islands Investment Corporation

Figure 9-3 Capital projects, CIIC (\$)

| Island | Project/ Programme | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--------------|--|------------------|------------------|--------------------|--------------------|--------------------|
| Rarotonga | 3 Building Repair | 0 | 550,000 | 0 | 0 | 0 |
| Rarotonga | MFEM Building | 0 | 540,000 | 0 | 0 | 0 |
| Atiu | School Upgrade | 0 | 480,000 | 350,000 | 0 | 0 |
| Penrhyn | Government Building Project | 0 | 500,000 | 150,000 | 0 | 0 |
| Rarotonga | Land Acquisition | 0 | 2,000,000 | 2,000,000 | 1,000,000 | 0 |
| Aitutaki | Orongo Development Master Plan and Centre reconstruction (Ports Authority) | 0 | 500,000 | 500,000 | 0 | 0 |
| Aitutaki | Government Building Project | 0 | 60,000 | 170,000 | 450,000 | 0 |
| Rarotonga | To Tatou Vai | 0 | 150,000 | | 0 | 0 |
| Various | Health Project | 0 | 800,000 | 200,000 | 0 | 0 |
| Rarotonga | Vaikapuangi Government Building | 204,495 | 600,000 | 4,000,000 | 10,000,000 | 10,000,000 |
| Rarotonga | Avaroa Cable Establishment | 50,000 | 0 | 0 | 0 | 0 |
| Rarotonga | Nukutere Rebuild | 530,000 | 0 | 0 | 0 | 0 |
| Pukapuka | Pukapuka Hospital Reconstruction | 12,100 | 0 | 0 | 0 | 0 |
| Rarotonga | Tereora College Redevelopment Stage 1 | 63,000 | 0 | 0 | 0 | 0 |
| Total | | 859,595 | 6,180,000 | 7,370,000 | 11,450,000 | 10,000,000 |

Vaikapuangi Project and Avarua Town Plan

The Vaikapuangi project has been extended to embrace a whole of government approach for the centralization of Government services in Rarotonga. A study has been undertaken to assess the social and economic impacts of the various options for a whole of government facility. Though this means that the implementation of the project could be delayed, it will ensure that the investment represents the best possible value for money and that the level of public services offered by Government will improve over the long term through efficiency gains.

The development of the town plan takes into account projects such as the Vaikapuangi Project, Parliament House situated at the Te Atukura grounds, the Punanga Nui and Constitution Park at Avatiu. In an addition to these projects, this may also require Government to contribute to the development of an integrated public realm and transportation center. This would lead to greater potential for recreational activities such as meetings and gathering functions, as well as better public transport, thereby minimising the potential adverse effects of private passenger car parking, traffic movements and peak period congestion. The town plan will guide the layout and operation of the Avarua township, allowing the interaction of people and activities in a safe and effective manner.

3 Government Building Repairs Project (Bluesky Sports Arena, Police, Justice)

The Ministry of Justice building, National Police Headquarters and Bluesky Sports Arena (formerly Telecom Sports Arena) were constructed in 2004, 2006 and 2009 respectively by way of grant and concessional loans from the People's Republic of China (PRC). The buildings require various repairs and improvements, some of which have been addressed by the Cook Islands Government. The current funding of \$550,000 has been approved to commence the work around the replacement of the roller doors at the Bluesky Sports Arena which is expected to take place this financial year.

Orongo Development Master Plan and centre reconstruction

Activity on the Orongo Development Project has been limited. Changes in circumstances in Aitutaki required a review of the project priorities. It is therefore expected that progress on implementing the agreed project activities will see the funds being utilised in 2019/20 and the project completed in 2020/21. This will include the remaining work to be done around the channel dredging as well as the development of the marina area in front of the Aitutaki Fishing Club.

Infrastructure Projects to improve Health Services

Health and Education facilities and infrastructure remain a key priority area for government infrastructure investment throughout the Cook Islands. For this immediate period, government intends to significantly invest in health-related infrastructure upgrades and replacement of some buildings on Rarotonga and the pa enua. Rarotonga hospital will undergo major electrical upgrades, facilities improvements for better mental health services and total replacement of the Tupapa Outpatient clinic roof. Government also commits to replacing the Atiu doctors residence to accommodate visiting specialists and the support the revolving 'Flying Doctors' programme. All efforts are targeted towards providing improved health facilities to support better service delivery for residents and visitors alike.

Land Acquisition

The land acquisition fund is established to provide government the opportunity to engage with and fairly compensate landowners for land in strategic locations to support key investments and further grow and sustain infrastructure programmes into the future. One key project is the construction of a runway end safety area (RESA) to meet international requirements that come into effect in 2020.

Atiu School Building Project

Education infrastructure has remained a key focus area for improvements across the CIIC portfolio. Following the recent construction of the Technology and Admin building as part of Tereora College Stage 1 project and also Apii Nikao, the attention is now focused on strengthening education infrastructure in the Pa Enea. Eneuamau School has remained without significant upgrades in recent times. This project aims to provide plumbing and electrical upgrades to provide facilities that promotes positive learning environments for the students and tertiary learning at Eneuamau School.

Penrhyn Government Building Project

Health facilities are key to sustaining healthy and productive populations. The Tetautua hospital is near end of its asset life and the construction of a new building will certainly ensure access to immediate and direct health care is made easy with the construction of a new Tetautua hospital in 2019/20.

MFEM Building Extension

Government has made significant investments in improving government services through, inter alia, the Financial Management and Information System (FMIS) and Tax modernisation programmes separately. The MFEM building which houses staff and resources of five different government agencies has insufficient space to meet the growing demands for improved effective and efficient public services.

To Tatou Vai

Consultations for the Te Mato Vai (TMV) and Mei Te Vai Ki Te Vai projects identified the need for a communications survey in order to determine the feasibility of a future Supervisory Control And Data Acquisition (SCADA) project. A SCADA system is required for the efficient and optimal operation of TMV by To Tatou Vai to better operate the water supply in order to continually meet an improved customer level of service.

Aitutaki Government Building Project

The Aitutaki court house and adjacent facilities will undergo significant improvements to provide safe public access and use of buildings and facilities to meet growing demands for more court sittings and services.

9.2.2 Ministry of Education

Table 9-3 Capital projects, MOE (\$)

| Island | Project/Programme | 2018/19 Estimate | 2019/20 Budget | 2020/21 Estimate | 2021/22 Projection | 2022/23 Projection |
|----------|-------------------------------------|---------------------|-------------------|---------------------|-----------------------|-----------------------|
| National | Fund to be prioritised by Education | 165,480 | 360,000 | 360,000 | 360,000 | 360,000 |
| | Total | 165,480 | 360,000 | 360,000 | 360,000 | 360,000 |

Funds to be prioritised by Education

The Ministry of Education received a total capital budget of \$360,000 which comprises of an annual appropriation of \$110,000 and an additional \$250,000 that was made available from the New Zealand aid higher modality fund in 2017/18. Going forward, Government has provided funding of \$360,000 over the medium term in order to allow for the Ministry to continue the current level of expenditure for capital replacement for all schools. This funding meets the requirements of replacement plans for computers, photocopiers, other multi-media items, desks, chairs and other classroom furniture.

9.2.3 Ministry of Health (MOH)

Table 9-4 Capital projects, MOH (\$)

| Island | Project/Programme | 2018/19 Estimate | 2019/20 Budget | 2020/21 Estimate | 2021/22 Projection | 2022/23 Projection |
|--------------|--|---------------------|-------------------|---------------------|-----------------------|-----------------------|
| National | Fund prioritised by Health for Technical Equipment | 275,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Rarotonga | Medical Service Bed End Panels | 78,252 | 0 | 0 | 0 | 0 |
| Rarotonga | Ambulance | 147,798 | 0 | 0 | 0 | 0 |
| Rarotonga | CT Scanner | 0 | 100,000 | 1,300,000 | 100,000 | 0 |
| Rarotonga | Hospital Incinerator | 217,411 | 0 | 0 | 0 | 0 |
| Total | | 718,461 | 400,000 | 1,600,000 | 400,000 | 300,000 |

Funds to be prioritised by Health for Technical Equipment

There are various technical medical instruments and equipment necessary to assist medical professionals with health check-ups. \$300,000 has been appropriated per year to ensure the Ministry of Health can purchase this equipment when required.

Purchase of a CT Scanner

Non-Communicable Diseases (NCD's) have become a significant issue in the Cook Islands with over 66 percent of the population overweight, morbidly obese or having potential NCD morbidities such as diabetes, cardiovascular diseases or cancer. The population's health needs are evolving and becoming more complex, thereby placing an increased demand on health care services and resources, and costly referrals overseas for specialised care and treatment.

A CT Scanner is a \$1.5 million investment for the Ministry of Health which would require significant infrastructure changes and a skilled workforce to install, operate and maintain this asset to improve its longevity in the country. Much of the preparatory work will be done in 2019/20 which will enable the current hospital infrastructure to house the equipment without rendering damage to the machine before the installation of the scanner takes place in 2020/21.

9.2.4 Infrastructure Cook Islands

Table 9-5 Capital projects, ICI (\$)

| Island | Project/ Programme | 2018/19 Estimate | 2019/20 Budget | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|----------------------|---|---------------------|-------------------|-----------------------|-----------------------|-----------------------|
| Atiu | Atiu Road Improvement Programme | 384,597 | 570,000 | 0 | 0 | 0 |
| National | Bitumen truck | 14,229 | 0 | 0 | 0 | 0 |
| Rarotonga | Bridges & Structures Improvement Project | 515,740 | 2,580,000 | 3,300,000 | 2,800,000 | 3,800,000 |
| National | Pa Enua Marine Infrastructure Improvement | 0 | 150,000 | 3,500,000 | 0 | 0 |
| National | Pa Enua Water Infrastructure | 0 | 0 | 1,050,000 | 500,000 | 500,000 |
| Various | Pa Enua Cyclone Center | 630,000 | 4,200,000 | 3,600,000 | 0 | 0 |
| Rarotonga | Avatiu Valley Stream embankment | 639,156 | 21,500 | 0 | 0 | 0 |
| Rarotonga | Road Asset Management | 2,000,000 | 8,000,000 | 7,000,000 | 7,000,000 | 7,000,000 |
| Rarotonga | Drainage Improvement | 0 | 1,800,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| National | Manea Games Upgrade | 0 | 100,000 | 0 | 0 | 0 |
| Mitiaro | Mitiaro Water Upgrade | 382,000 | 250,000 | 0 | 0 | 0 |
| Rarotonga | Rutaki Foreshore Rock Revetment | 0 | 250,000 | 0 | 0 | 0 |
| Aitutaki | Establishing new water galleries | 218,376 | 200,000 | 0 | 0 | 0 |
| Pukapuka | Nassau Ferry | 0 | 350,000 | 0 | 0 | 0 |
| Mangaia | Mangaia Road Improvement Programme | 137,958 | 0 | 0 | 0 | 0 |
| Mangaia, Atiu, Mauke | HV Transport Trailer | 14,230 | 0 | 0 | 0 | 0 |
| Manihiki | Manihiki Island Airport Terminal - construction | 15,921 | 0 | 0 | 0 | 0 |
| Penrhyn | Omoka Harbour Upgrade | 140,000 | 0 | 0 | 0 | 0 |
| Pukapuka | Pukapuka Airport terminal buildings upgrade | 59,758 | 0 | 0 | 0 | 0 |
| Pukapuka | Yato Cargo Shed Upgrade | 0 | 0 | 0 | 0 | 0 |
| Rarotonga | Tereora Drainage Improvement | 117,000 | 0 | 0 | 0 | 0 |
| Rarotonga | Sheraton Foreshore Protection | 239,100 | 0 | 0 | 0 | 0 |
| Aitutaki | Aitutaki road Improvement Programme | 226,000 | 0 | 0 | 0 | 0 |
| Mangaia | Tamarua Water Project | 214,913 | 0 | 0 | 0 | 0 |
| Manihiki | Tukao Passage Widening, Improving safe access to and from the Manihiki Lagoon | 140,500 | 0 | 0 | 0 | 0 |
| Rarotonga | Muri Road Widening | 287,665 | 0 | 0 | 0 | 0 |
| Rarotonga | Culvert | 600,000 | 0 | 0 | 0 | 0 |
| Total | | 6,977,143 | 19,521,500 | 19,400,000 | 11,800,000 | 12,800,000 |

Atiu Road Improvement Programme

Infrastructure Cook Islands is working with the Atiu Island Government to deliver a road that will improve access between key infrastructure such as the airport and harbour, as well as improved connections between the five villages. Funding of \$570,000 has been made available in 2019/20 to complete the sealing of the road which will include rehabilitation of pavements and drainage improvements to protect the pavement integrity over the long term, followed by the application of two coats of chip seal.

Bridges and Structures Improvement Programme

Rarotonga has approximately 76 bridge structures on the transport network with additional associated structures. Historically these assets have undergone limited maintenance, this coupled with increased use and vehicle loads, has resulted in a deterioration of these assets.

The Government has made funding available to undertake required bridge and structure replacement works, structural inspections and repairs, as well as safety improvements. The current condition of a number of these assets including structural capacity has been inspected. Works will be undertaken in-line with the forward years work-plan in order to address and improve these assets in a prioritised and structured manner.

The Punanga Nui Bridge, Empire Bridge and Sheraton Bridges have been identified as requiring replacement with the Punanga Nui Bridge Replacement physical works to be undertaken in the 2019/20 financial year. Structural maintenance and improvement of a number of bridges and structures have also been identified and prioritised within the forward years work plan.

Drainage Improvement Programme

Historically mostly uncontrolled land and building development has occurred in Rarotonga affecting wetlands, secondary flow paths and flood plains. This has led interruptions to the normal surface and subsurface flows of water through catchments including flooding of low-lying areas and other environmental problems such as ongoing erosion and scouring. There is mounting community and government concern about the increasing risks of land degradation, the resulting impacts of storm-water/flooding and the ability of infrastructure to support ongoing growth and development. Changes in climatic conditions such as rising temperatures, sea level rise and increased rainfall variability and intensity, in conjunction with uncontrolled development is significantly impacting public infrastructure, particularly in relation to storm-water drainage.

Government has made funding available to undertake improvements to existing storm-water infrastructure, as well as construction of new drainage infrastructure across various locations on Rarotonga. Funding will be utilised to undertake flood and catchment management, provide the increased storm-water infrastructure capacity required due to increased rainfall intensity and development pressures, and to improve storm-water quality through the provision of attenuation and treatment infrastructure.

Mitiaro Water Upgrade

Water supply and storage on the island of Mitiaro requires significant rehabilitation. Mitiaro's primary water supply is sourced from groundwater and is used for non-potable purposes, while harvested rainwater is used for potable purposes. Water is pumped to an elevated reservoir tank and gravity-fed to the wider community. There are several issues with the current water supply system including high salinity, wastage of water supply through leakages and highly corroded reservoir tank and platform stand. There are also issues with the current catchments and rainwater tanks within the community. Work is now set to take place in 2019/20 on improving and replacing the existing water infrastructure to address these current problems and plan for a long-term efficient water supply system.

Pa Enea Cyclone Centers

Most northern islands communities of the Cook Islands are situated on low lying atolls. These islands have limited elevation above sea level which exposes them to the risks of sea level rise and inundation, as well as the impact of cyclones. Communities utilise schools and or community buildings as shelters in the event of a cyclone or significant storm experience. Many of these buildings are vulnerable and inadequate to withstand higher category storms.

Resilience, and economic development and recovery following a significant storm event on these islands is hindered by the lack of existing structurally safe and secure building infrastructure. As part of Government's priority of improving resilience, and the ongoing development of the Pa Enea, funding for the construction of purpose built cyclone centers has been made available for Palmerston, Penrhyn, Rakahanga and Nassau since 2016/17.

Construction of the Palmerston cyclone center is now complete, with remaining centers to be completed in 2019/20 and 2020/21. These centers will be delivered in conjunction with the relevant Government agencies and the respective island administrations to ensure the delivery of a multi-purpose structure which services the needs of the Pa Enea communities.

Rarotonga Road Asset Management

The road network and associated infrastructure provide the means for the transportation of goods and services upon which the economic and social development of Rarotonga and the Cook Islands is critically dependent. It also provides essential emergency access to communities in the case of natural disasters.

The Rarotonga roading network dates back to the Ara Metua, which historically provided for land transport around most of Rarotonga. The current roading network consists of approximately 201 km of roading in varying conditions. Due to limited maintenance these assets have significantly deteriorated and in some cases don't meet required levels of service.

Funding has been made available to undertake planned maintenance and improvement works to the road network in line with the identified forward years' work plan and Road Asset Management plan which sets the minimum level of service for the road network. Works will address structural pavement issues, roadside drainage, resurfacing, and road widening along with improvements to pedestrian facilities as well as safety improvements. These works are prioritised based on identified defects and high risk areas that when improved will provide benefits to the wider community.

Aitutaki Water Gallery

The majority of Aitutaki's water supply is derived from groundwater sources and existing sources are nearing their safety yields. The 2013 drought which impacted Aitutaki caused the Island Government to review its position with regards to the water security on Aitutaki. A strategy was developed involving the establishment of new water galleries and the redevelopment of an existing one to take pressure off the existing six galleries. This will allow for better water access for the wider public including the Island's commercial growers. To facilitate this, the Aitutaki Island Government intends to establish new galleries for Vaitupa, Tautu and Vaipae. The remaining funds will be used to complete the construction of these water galleries in 2019/20.

Manea Games Upgrade

The Manea Games is held every three years rotating between the islands of Mangaia, Mitiaro, Mauke, Atiu and Aitutaki to host the communities of those islands in sports and cultural festivities. The last Manea Games was hosted by Mitiaro in 2017 to which Government made available a total budget of \$100,000 to assist in the upgrades of the islands sports facilities. For the 2019/20 financial year, similar funding will be provided for the island of Atiu to undertake upgrades to the islands tennis courts and other sports facilities.

Pa Enua Water Infrastructure Improvement Programme

The Cook Islands, particularly the Pa Enua, are extremely vulnerable to both slow and fast-onset events as a result of climate change. This vulnerability is intensified by current socio-economic, infrastructure and environmental pressures caused by climate change and tourism. The Pa Enua require strategies and practical measures, including management, human and physical infrastructure, to be able to deal with these changes and secure provision of suitable water supply for the future.

The changes to the climate currently being experienced, and increased extreme events predicted, expose the islands to regular droughts and resultant water shortages. Inadequate sanitation and waterborne and solid waste intensifies the impacts by reducing the available water sources for community use.

Funding has been made available to build on, and expand, the existing water security and improvement programmes to reduce vulnerability by climate proofing communities through asset rehabilitation, including the development of alternative water supply systems, improved water quality and operation efficiency improvements.

Pa Enua Marine Infrastructure Improvement Programme

The Pa Enua are spread over a significant expanse of the Pacific Ocean which creates issues in relation to access and provision of transport of goods and services. Marine transport is the key means of transport for a majority of goods to the Pa Enua as well as the only form of transport for some island communities and is critically important for the ongoing development and sustainability of these communities. Marine infrastructure includes harbours, wharfs, channels, moorings and navigational aids which contribute to the Pa Enua communities and their safe and efficient use, as well as enjoyment of the marine environment for both economic and recreational activities.

Government has provided funding to improve the current marine infrastructure which supports the Pa Enua communities. This includes the provision of robust, durable harbour structures that are resilient to the impacts of climate change, increase safety for marine operations and reduce damage and loss of vessels, cargoes and equipment, support increases in the frequency of inter-island shipping services as well as the expected increase in the level of service provided for passengers, and minimise adverse impacts on the marine environment.

Specific works include the design and subsequent construction for the Penrhyn and Nassau harbours during the 2019/20 financial year.

Avatiu Valley Stream Embankment

Severe erosion by flood waters have continually affected the Avatiu Valley stream embankment posing a risk of failure of the access road at the top of the embankment. This road is required for the on-going operation and maintenance of the Avatiu water intake. Government is committed to strengthening this infrastructure in order to mitigate existing and future risks to the surrounding communities. Funding has been provided to complete the remaining works for the Avatiu Valley stream embankment.

Rutaki Foreshore

The coastal area around Rutaki leading up to the Vaimaanga Sheraton is prone to inundation from high seas because of low lying depressions. Experience over the years has shown ongoing foreshore damage and erosion due to high sea levels and increased wave activities which will cause further damage to nearby infrastructure such as roads, water pipelines and public and private properties. Funding has been re-appropriated in 2019/20 to assist with the construction of rock revetment to protect the area from high seas.

Nassau Ferry

Funds have been provided in 2019/20 to enable the purchase and replacement of the Nassau ferry. Due to the age and wear and tear of the current ferry on the island of Nassau, it has become inadequate and unsafe for the transportation of infrastructure and equipment between the islands of Nassau and Pukapuka.

9.2.5 Ministry of Internal Affairs

Table 9-6 Capital projects, Internal Affairs (\$)

| Island | Project/Programme | 2018/19 Estimate | 2019/20 Budget | 2020/21 Estimate | 2021/22 Projection | 2022/23 Projection |
|---------------|-----------------------------------|-----------------------------|---------------------------|-----------------------------|-------------------------------|-------------------------------|
| Rarotonga | Vaka Maintenance Capital Projects | 45,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| | Total | 45,000 | 50,000 | 50,000 | 50,000 | 50,000 |

Vaka Maintenance Capital Projects

An annual budget of \$50,000 is provided to the Ministry of Internal Affairs to undertake small capital projects such as road-side maintenance and beautification around Rarotonga.

9.2.6 Ministry of Finance and Economic Management

Table 9-7 Capital projects, MFEM (\$)

| Island | Project/Programme | 2018/19 Estimate | 2019/20 Budget | 2020/21 Estimate | 2021/22 Projection | 2022/23 Projection |
|--------------|-------------------------------------|---------------------|-------------------|---------------------|-----------------------|-----------------------|
| Rarotonga | FMIS purchase and implementation | 434,511 | 468,836 | 0 | 0 | 0 |
| Rarotonga | Te Mato Vai Rarotonga Water Upgrade | 21,000,000 | 9,000,000 | 5,000,000 | 0 | 0 |
| Rarotonga | AEOI ¹⁵ IT System | 121,653 | 0 | 0 | 0 | 0 |
| Rarotonga | Furniture and Material | 0 | 100,000 | 0 | 0 | 0 |
| Rarotonga | Mei Te Vai Ki Te Vai | 60,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Rarotonga | Shipping Vessel | 0 | 2,500,000 | 0 | 0 | 0 |
| Total | | 21,616,164 | 13,068,836 | 6,000,000 | 1,000,000 | 1,000,000 |

Financial Management Information System (FMIS)

The FMIS supports the standardisation and integration of a centralised database accessible by Government agencies. Phase 1 - planning stage has come to an end, and the project has now progressed to phase 2 – system configuration. Funding has been provided to cover the remaining works around the system configuration for 2019/20.

Te Mato Vai – Rarotonga Water Upgrade

Te Mato Vai is progressing with the completion of Stage 2 of the project. Stage 2 will establish a new pipe network and significant upgrades to 10 of the Island's 12 water intake sites, introducing new treatment and storage facilities to manage demand more effectively. The contract for the design and construction of Stage 2 was awarded to McConnell Dowell in August 2017. McConnell Dowell mobilised by the end of 2017, with construction now underway. Construction at the Turangi and Avana intake sites has commenced, as well as trunk main upgrades at Papua. The aim is to complete all Stage 2 construction in 2020. Further information including Stage 1 and Stage 2 works can be sourced from www.tematovai.com.

Mei Te Vai Ki Te Vai / Water & Associated Services Programme (WASP)

The project includes an environmental monitoring and investigation program for the Muri and Avana lagoon area, early measures to address the sea water quality issues in the short-term, the design of permanent infrastructure for improved wastewater management in the long-term and the establishment of a Crown-owned water and wastewater authority.

MFEM Building Extension – Furniture and Materials

Funding has been provided for the purchase of furniture and fittings in 2019/20 for the new building to house FMIS.

Shipping Vessel

The Cook Islands Government has allocated \$2.5 million for the procurement of a bulk cargo shipping vessel that is intended to provide regular, affordable and reliable cargo shipping services between Rarotonga and the Pa Enua. The vessel will also support the implementation of the Government's planned Pa Enua infrastructure projects over the 2019/20 estimates and forward budget period.

¹⁵ <https://www.oecd.org/tax/automatic-exchange/>

9.2.7 Office of the Prime Minister

Table 9-8 Capital projects, OPM (\$)

| Island | Project/ Programme | 2018/19 Estimate | 2019/20 Budget | 2020/21 Estimate | 2021/22 Projection | 2022/23 Projection |
|--------------|---|---------------------|-------------------|---------------------|-----------------------|-----------------------|
| Aitutaki | Aitutaki Renewable Energy Project | 1,219,384 | 0 | 0 | 0 | 0 |
| Atiu | Atiu Power Distribution | 454,253 | 0 | 0 | 0 | 0 |
| National | Government IT Network | 40,000 | 650,000 | 300,000 | 300,000 | 300,000 |
| National | Southern Group Renewable Energy Project | 1,494,370 | 0 | 0 | 0 | 0 |
| Mangaia | Mangaia School Bus | 87,307 | 0 | 0 | 0 | 0 |
| National | Renewable Energy Project Management and Support | 250,000 | 250,000 | 0 | 0 | 0 |
| Total | | 3,545,314 | 900,000 | 300,000 | 300,000 | 300,000 |

Government IT Network

Additional funding has been provided to enable the Office of the Prime Minister to undertake a whole of Government ICT network upgrade. This includes the replacement of ICT equipment, upgrades to the current server room and the establishment of an external data backup centre to house whole of Government information and to ensure business continuity and security. This funding is also for the ongoing implementation and maintenance of the government network. This includes work on integrating the Pa Enua into the Government network, with work set to commence on Mitiaro and Rakahanga in 2019/20 before rolling it out to the remaining islands over the medium-term.

Renewable Energy Management Project

In 2019/20, \$250,000 is appropriated for the management team to continue to oversee the remaining work required for the Southern Renewable Energy Project, including Aitutaki.

9.2.8 Cook Islands Police Services

Table 9-9 Capital projects, MOE (\$)

| Island | Project/Programme | 2018/19 Estimate | 2019/20 Budget | 2020/21 Estimate | 2021/22 Projection | 2022/23 Projection |
|--------------|--|---------------------|-------------------|---------------------|-----------------------|-----------------------|
| Rarotonga | Integrated Communication System (PABX) | 0 | 70,000 | 0 | 0 | 0 |
| Total | | | 70,000 | 0 | 0 | 0 |

Integrated Communication System (PABX)

Funding has been provided for the purchase of a new Integrated Communications system. The current communications system was purchased from Telecom Cook Islands in 2007 which was used to manage incoming emergency calls. Due to the wear and tear of the current system, it was identified that the system will need to be replaced in the 2019/20 financial year.

9.2.9 Capital Funds Committee – Administered by MFEM

Table 9-10 Capital projects, MOE (\$)

| Island | Project/Programme | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|--------------|---------------------------------|------------------|----------------|----------------|----------------|----------------|
| | | Estimate | Budget | Estimate | Projection | Projection |
| National | Capital Distribution Fund | 930,135 | 800,000 | 800,000 | 800,000 | 800,000 |
| Pa Enea | Outer Island Small Capital Fund | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 |
| Total | | 1,040,135 | 910,000 | 910,000 | 910,000 | 910,000 |

Capital Distribution Fund – Top up

The Ministry of Finance and Economic Management is responsible for administering the Capital Distribution Fund which includes the purchase and replacement of vehicles and small capital equipment across all Agencies. This was budgeted at \$300,000 for 2019/20 and \$250,000 for 2020/21 and 2021/22 respectively with the intention of replacing whole of Government vehicles and capital equipment in order to bring them up to acceptable standards and in line with the Government Fleet Management Plan Policy. Additional funding has been provided over the medium-term to cater for this.

10 Tax Exemptions (Expenditure)

10.1 Introduction

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

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

To identify what a tax expenditure is, a normative or a benchmark tax structure must be established. In the case of the Cook Islands, the benchmark tax structure is the existing tax regime as governed by the following Acts:

- Income Tax Act 1997;
- Value Added Tax Act 1997;
- Customs Revenue and Border Protection Act 2012; and
- Customs Tariff Act 2012.

10.2 Import duty

Concession on fuel to the outer islands

The import duty rate for Rarotonga is 28 cents per litre on petrol and 22 cents per litre on diesel.

Fuel to all outer islands is free of duty except Aitutaki where the rate is 15 cents per litre on petrol and 5 cents per litre on diesel. These concessions are estimated to cost around \$620,000 in 2019/20.

Concessions for returning Cook Islanders

All duties are waived for returning Cook Islanders who have been away for more than three years and are returning to live in the Cook Islands for the next three years.

The estimated cost to revenue of the concession provided in 2019/20 is estimated to be \$500,000.

Concessions for non-Cook Islanders

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

The estimated cost to revenue of the concession provided in 2019/20 is estimated to be \$100,000.

Duty free jet fuel

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

Concession for non-profit and religious organizations

Goods imported by non-profit and religious organizations, schools and for disaster relief are exempt of duty upon importation. The estimated cost of providing this exemption in 2019/20 is estimated to be \$20,000.

Concessions for imported goods for public projects

All duty is waived for approved public projects. The estimated cost to revenue of the concession provided in 2019/20 is estimated to be \$50,000.

10.3 Income tax

Income below \$11,000

Every individual on a pro-rata basis of residency in the Cook Islands are exempted for the first \$11,000 of their assessable income.

Deductions allowed in respect of donations to charitable organisations

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

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

Income of the Queen's Representative

The income of the Queen's Representative is tax exempt. The cost of this exemption is estimated to be \$30,000 per year.

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

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

Income from approved superannuation funds

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

Income derived by charitable organisations

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

Income derived by promoters of amateur sports

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

Income derived under a government approved supplementary scheme

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

Income derived by consular and diplomatic personnel

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

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

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

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

95 per cent of incomes derived upon retirement

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

10.4 Value-added tax

The following are exempt of value-added tax (VAT):

- Financial services.
- Attendance dues paid to private schools.
- Goods imported by non-profit and religious organizations, schools and for disaster relief are exempt of VAT upon importation. The estimated cost of providing this exemption in 2019/20 is estimated to be \$100,000.
- All VAT is waived for approved public projects. The estimated cost to revenue of the concession provided in 2019/20 is estimated to be \$500,000.
- Goods imported by the Queen's Representative and New Zealand High Commission are exempt of VAT upon importation. The estimated cost to revenue of the concession provided in 2019/20 is estimated to be \$20,000.

11 Crown Debt and Net Worth

11.1 The Loan Repayment Fund (LRF)

In February 2014, the Parliament of the Cook Islands passed the Cook Islands Loan Repayment Fund (LRF) Act 2014 formally creating a Loan Repayment Fund (LRF). The aim of the LRF is to quarantine funds previously accumulated for loan repayments and to prevent them from being utilized for anything outside of debt servicing requirements.

The LRF Act ensures a framework for the prudential management of all sovereign debt and the timely allocation of money from the Budget for debt servicing.

Since its enactment, the LRF has become the official means by which the Cook Islands Government (Crown) manages its debt portfolio.

Table 11-1 Loan Repayment Fund Statement (NZD '000)

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Opening LRF balance | 20,922 | 21,427 | 21,128 | 20,066 | 18,977 |
| Contribution to LRF principle | 7,696 | 7,950 | 7,977 | 7,923 | 7,732 |
| Contribution to LRF interest | 2,228 | 2,076 | 1,876 | 1,681 | 1,489 |
| Transfer in | 9,924 | 10,026 | 9,854 | 9,604 | 9,222 |
| Interest earned (avg. 2%) | 418 | 429 | 423 | 401 | 380 |
| Total transfer in | 10,343 | 10,454 | 10,276 | 10,006 | 9,601 |
| Repayment of Prepaid SOE debt | | | | | |
| Principal | 790 | 792 | 776 | 697 | 701 |
| Interest | 84 | 76 | 67 | 60 | 53 |
| Total repayment from LRF | 875 | 869 | 843 | 756 | 754 |
| Repayment of other debt | | | | | |
| Principal | 6,524 | 7,381 | 8,199 | 8,246 | 8,328 |
| Interest | 2,440 | 2,504 | 2,296 | 2,092 | 1,890 |
| Total repayment other debt | 8,964 | 9,884 | 10,495 | 10,338 | 10,218 |
| LRF stock balance | 21,427 | 21,128 | 20,066 | 18,977 | 17,608 |

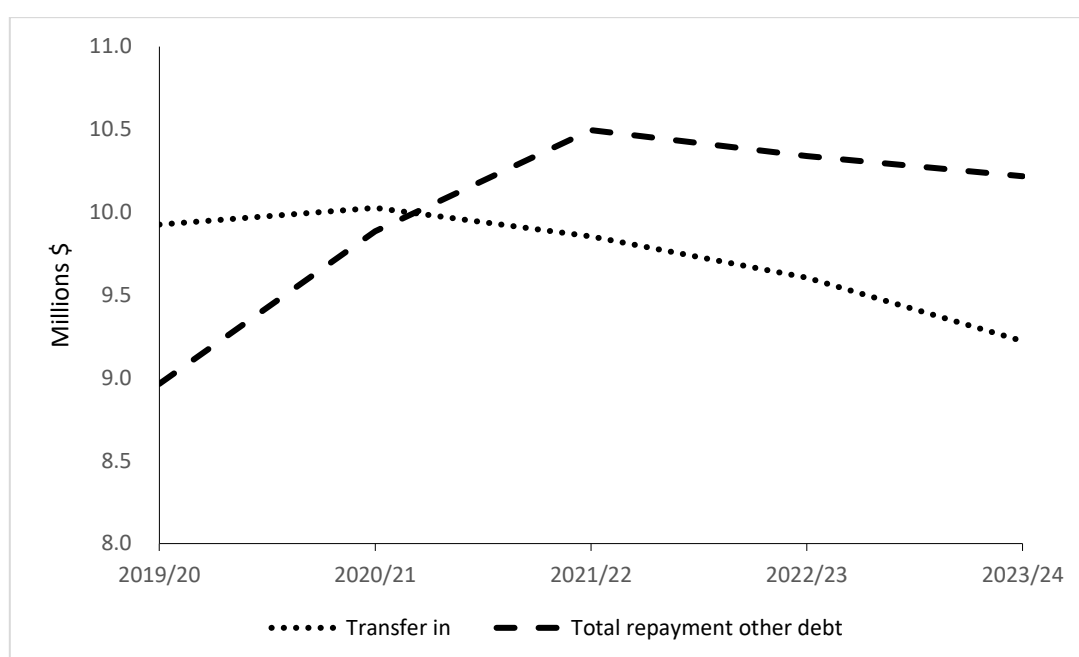
The 2019/20 opening balance includes funds that was tagged for repayments of 'Prepaid SOE Debt', the contribution into the LRF is therefore the estimated smoothed (see below) debt servicing net of Prepaid SOE Debt.

The net contributions into the LRF are 'smoothed' in order to reduce the volatility to the Crown's cash reserves from new debt obligations and exchange rate shocks. The contribution is calculated at the start of each financial year as mandated by Section 7(1) of the LRF Act, using the estimated average debt servicing requirements for the next five years, i.e. current plus four forward years.

The figures do not include any provisions related to the Disaster Recovery Mechanism (DRM) loan from the Asian Development Bank (ADB), which will only be triggered and drawn down in the event of a catastrophe.

Figure 1.1 demonstrates that payments made into the LRF do not match the debt servicing profile until 2020/21 (excluding interest revenue) due to the smoothing effect of LRF contributions.

Figure 11-1 LRF Smoothing Effect



The payments into the LRF will fall in a stepped manner as the current loan stock is repaid. Equally, payments into the LRF will rise if new loans are approved, committed and drawn down.

The debt repayments made from the LRF for principal and interest obligations are estimated at the time of the Budget and will be subject to changes in foreign exchange rate and draw down schedule variations.

11.2 Gross Debt owed by the Crown

Total gross debt owed by the Crown estimated to the end of 30 June 2020 is \$129.47 million, which includes \$18.69 million in committed but yet to be disbursed loans. The undisbursed loans relate to \$13.95 million for the DRM loan which is only triggered and drawn down in the event of a catastrophe and \$4.74 million for the Undersea Broadband Cable loan, estimated to be drawn in 2020/21.

Table 11-2 Gross Debt by Crown estimated to 30 June 2020 (\$ million)

| | Direct Debt | SOE Debt | Gross Debt |
|-------------------------------|--------------|--------------|---------------|
| Loans committed and drawn | 58.94 | 51.83 | 110.78 |
| Loans committed but not drawn | 13.95 | 4.74 | 18.69 |
| Total Commitment | 72.89 | 56.57 | 129.47 |

The \$56.27 million of loans held on behalf of/and by SOE's include a \$3.02 million commercial loan taken directly by the Airport Authority to fund necessary upgrade to the Instrument Landing System (ILS) for Rarotonga Airport.

11.2.1 Status of Crown debt by individual loan

Table 1.4 lists the estimated balance of each loan to the end of the 2019/20 financial year.

Total drawn down loans of \$110.78 million is the estimated direct liability in the Crown's balance sheet. However, the Crown is committed to an additional \$18.69 million of loans related to \$13.95 million DRM loan that will only be utilised and disbursed in the event of a catastrophe and the Undersea Broadband Cable loan (\$4.74 million) which is estimated to be drawn down in the 2020/21 financial year.

The Undersea Broadband Cable, called the Manatua Cable project, is supported and funded by the borrowing from the ADB (\$USD15.0 million) and grant by the New Zealand government (NZD\$14.9 million). Both development partners have worked with the Cook Islands Government with the interest of building better connectivity in the Pacific for a number of years leading to the eventual development of the Manatua Cable.

Table 11-3 Status of Government loans to 30 June 2020

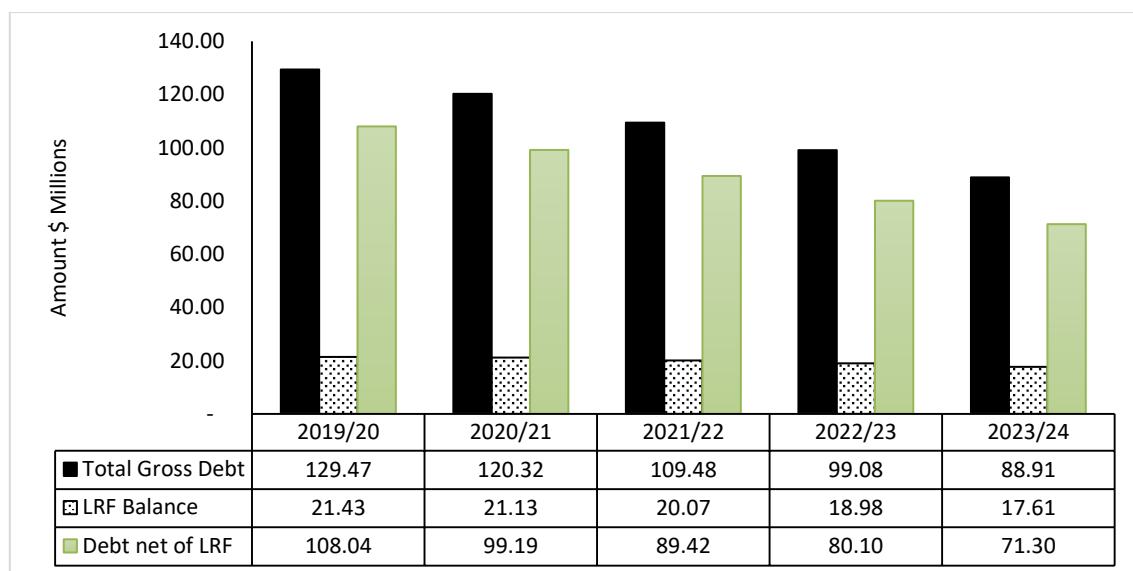
| Loans committed and drawn | Date loan taken | Original loan amount (000's) | Expected date of Repayment | Current Balance (\$NZD 000's) |
|---|-----------------|------------------------------|----------------------------|-------------------------------|
| ADB 461 (SF) Multi Project | November, 1980 | USD 1,000 | August, 2020 | 53 |
| ADB 567 (SF) CIDB Project | July, 1982 | USD 1,500 | April, 2022 | 161 |
| ADB 849 (SF) 2nd Multi-Project | December, 1987 | SDR 2,150 | August, 2027 | 1,254 |
| ADB 1031 (SF) Outer Islands Telecom Project | October, 1990 | SDR 3,578 | August, 2030 | 3,355 |
| ADB 1155 (SF) 2nd CIDB Project | March, 1992 | SDR 1,085 | December, 2031 | 870 |
| ADB 1171 (SF) Emerg. Telecom Rehab Project | August, 1992 | SDR 349 | June, 2032 | 302 |
| ADB 1309 (SF) Pearl Industry Dev. Project | December, 1994 | SDR 272 | August, 2034 | 358 |
| ADB 1317 (SF) Educ'n Dev Project | February, 1995 | SDR 1,852 | August, 2034 | 2,182 |
| ADB 1380 (SF) 3rd CIDB Project | January, 1996 | SDR 1,977 | September, 2035 | 1,884 |
| ADB 1466 (SF) Economic Restructure Program | September, 1996 | SDR 3,430 | September, 2036 | 4,325 |
| ADB 1588 (SF) Cyclone Emergency Rehab Project | January, 1997 | SDR 583 | January, 2038 | 763 |
| Restructured French Loans | January, 1999 | Euro 5,413 | September, 2018 | 0 |
| ADB 1832 (SF) Waste Mgt Project | December, 2001 | SDR 1,695 | June, 2033 | 1,791 |
| ADB 2174 (SF) Cyclone Emergency Assist Project | June, 2005 | SDR 1,895 | June, 2045 | 3,337 |
| China - Multi-Functional Indoor Sports Stadium | August, 2008 | RMB 74,100 | August, 2028 | 8,465 |
| ADB 2472 (OCR) Avatiu Port Development Project* | September, 2009 | NZD 10,309 | November, 2033 | 8,583 |
| ADB 2473 (SF) Avatiu Ports Development project | September, 2009 | SDR 4,524 | November, 2040 | 5,538 |
| ADB 2565 OCR Economic Recovery Support Program 1* | January, 2010 | NZD 11,053 | October, 2024 | 4,522 |
| ADB 2739 (OCR) Amendment Avatiu Port project* | December, 2011 | NZD 5,290 | November, 2035 | 4,837 |
| China - Rarotonga Water Ring Main Upgrade | December, 2012 | RMB 118,000 | December, 2032 | 22,103 |
| ADB 2946 OCR Economic Recovery Support Program 2 | December, 2012 | NZD 11,053 | October, 2027 | 4,531 |
| ADB 3193 Renewable Energy Project | December, 2014 | NZD 12,980 | June, 2036 | 11,255 |
| ADB 3479 - Disaster Risk Management | TBC | NZD 13,950 | TBC | 0 |
| ADB 3632 - Loan for Undersea Broadband Cable | November, 2018 | USD 15,000 | 2031 | 17,282 |
| Commercial - Loan for Rarotonga Airport Equipment | January, 2018 | NZD 3,206 | 2033 | 3,024 |
| Total Loans Drawn Down | | | | 110,775 |
| Loans committed but not drawn | | | | |
| ADB 3479 - Disaster Risk Management | TBC | NZD 13,950 | TBC | 13,950 |
| ADB 3632 - Loan for Undersea Broadband Cable | November, 2018 | USD 15,000 | 2031 | 4,741 |
| Total Loans committed but not drawn | | | | 18,691 |
| Total Loans Commitment by the Crown | | | | 129,467 |

*These loans have been converted to NZD

11.2.2 Crown debt burden

Overall Crown debt gradually reduces in the outer years on the assumption that principal is repaid and the Crown does not undertake on new loans.

Figure 11-2 Cook Islands overall debt burden



11.3 Gross Debt by Currency

11.3.1 Exchange rate assumptions

The assumptions for the major exchange rates against the New Zealand Dollar (NZD), detailed in the table below, have been used to calculate future NZD flows.

Table 11-4 Exchange Rate Assumptions – 2019/20 – 2023/24

| Currency | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|----------|---------|---------|---------|---------|---------|
| EUR | 0.5801 | 0.5694 | 0.5766 | 0.5732 | 0.5669 |
| USD | 0.6770 | 0.6960 | 0.7050 | 0.7080 | 0.7120 |
| CNY | 4.6136 | 4.6645 | 4.7182 | 4.7115 | 4.6615 |
| SDR | 0.4787 | 0.4776 | 0.4869 | 0.4875 | 0.4847 |

Figure 11-3 Assumed Changes in Major Exchange Rates (indices – 2018/19 = 100)

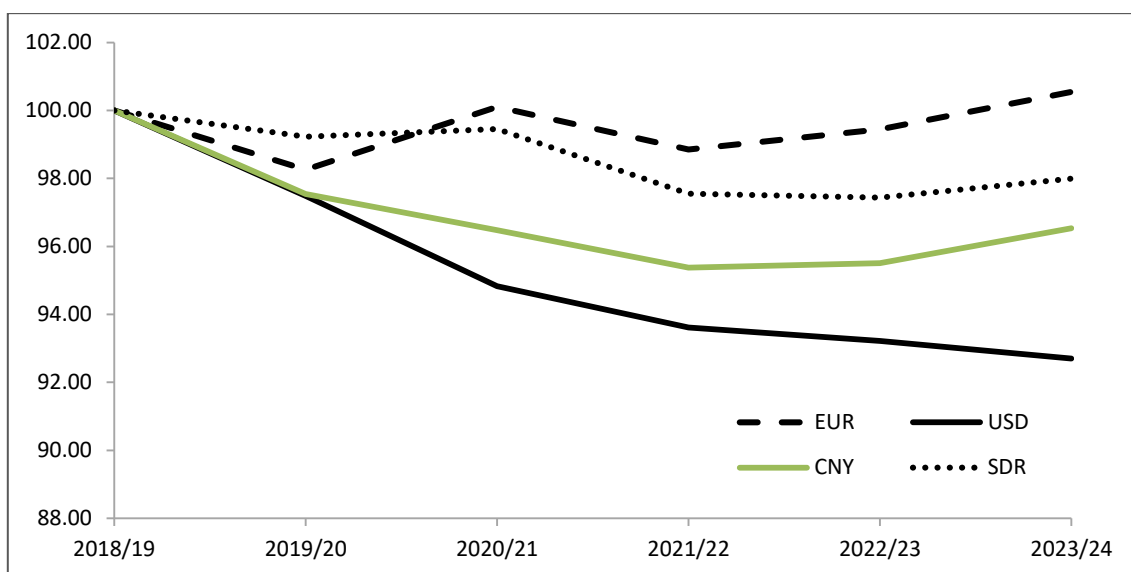
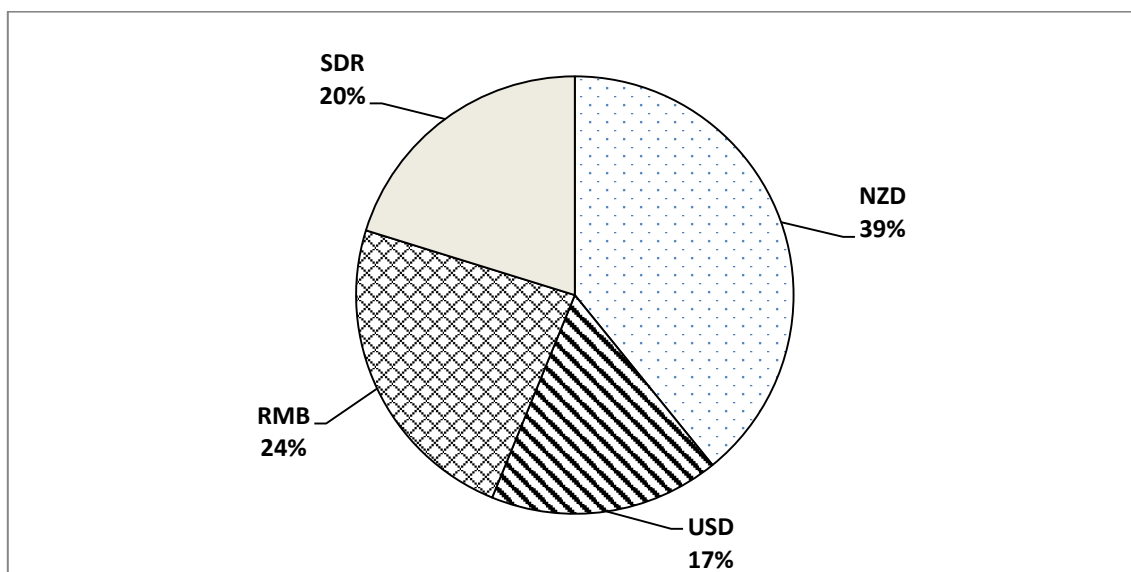


Figure 11-4 Overall Debt by Currency June 2020



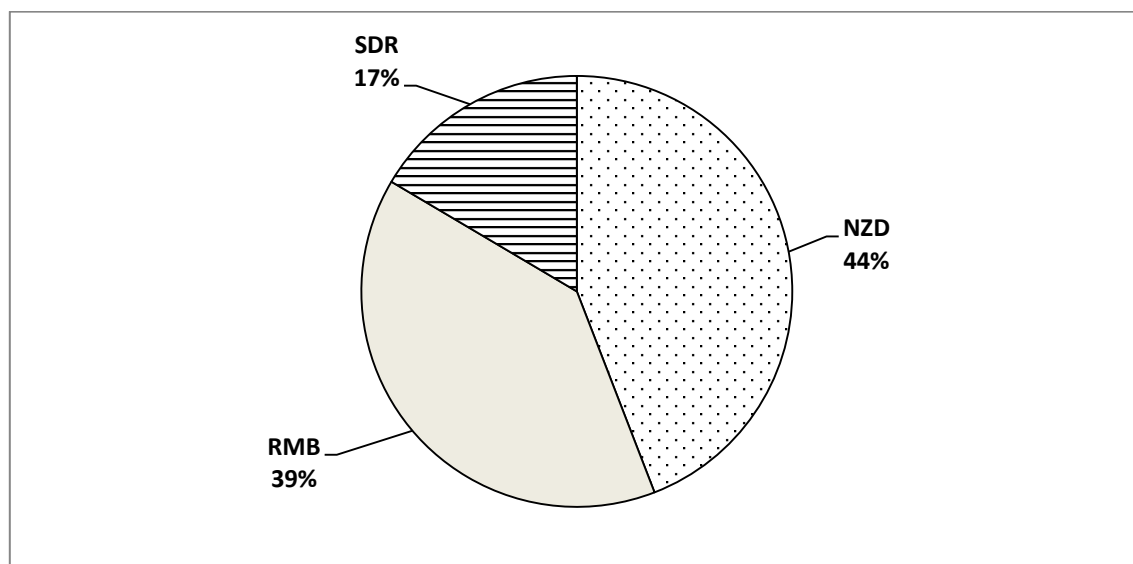
The NZD is forecasted to appreciate against our major trading currencies into the out years. Although 39 per cent of our total debt portfolio is held in the local currency, 71 per cent of debt is still held in foreign currencies. Managing the risk around exchange fluctuations remains a high priority for government.

11.3.2 Debt held directly by the Crown

The Crown direct debt, i.e. debt not held by or on behalf of SOE's, is estimated to be \$72.89 million at the end of the 2019/20 financial year, which includes \$13.95 million of Disaster Recovery loan which will only be used in the event of catastrophe.

Directly held Crown debt is mainly denominated in NZD with 44 per cent, the remaining 56 per cent are denominated in foreign currencies, 39 per cent in Chinese renminbi (RMB) and 17 per cent in International Monetary Fund's Special Drawing Rights (SDR), as shown in Figure 1.5.

Figure 11-5 Projected Composition of Direct Crown Debt at 30 June 2020 by Currency

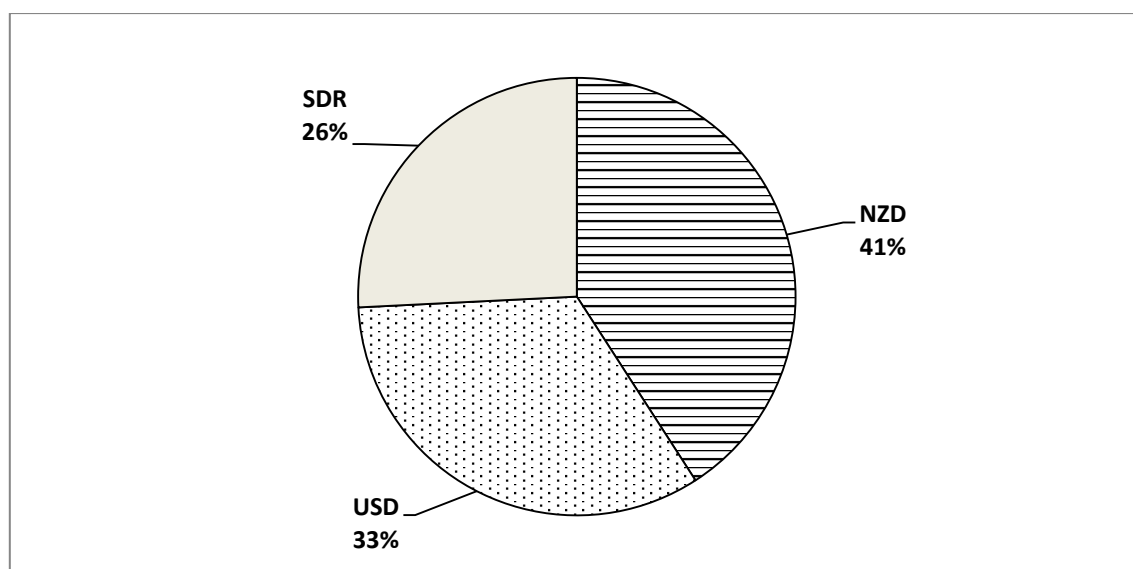


11.3.3 Debt held on behalf of SOE's

Debt held by Crown on behalf of and by SOE's is estimated to be \$56.27 million by the end of the 2019/20 financial year. The undisbursed loan for the undersea broadband cable is now classified as on-lent loan to Avaroa Cable Limited (ACL) – an SOE setup to manage the implementation of the cable services to telecom retailers.

Debt held under this category is also mainly denominated in the local currency with 40 per cent, followed by USD at 34 per cent and SDR with 26 per cent, as shown in Figure 1.6.

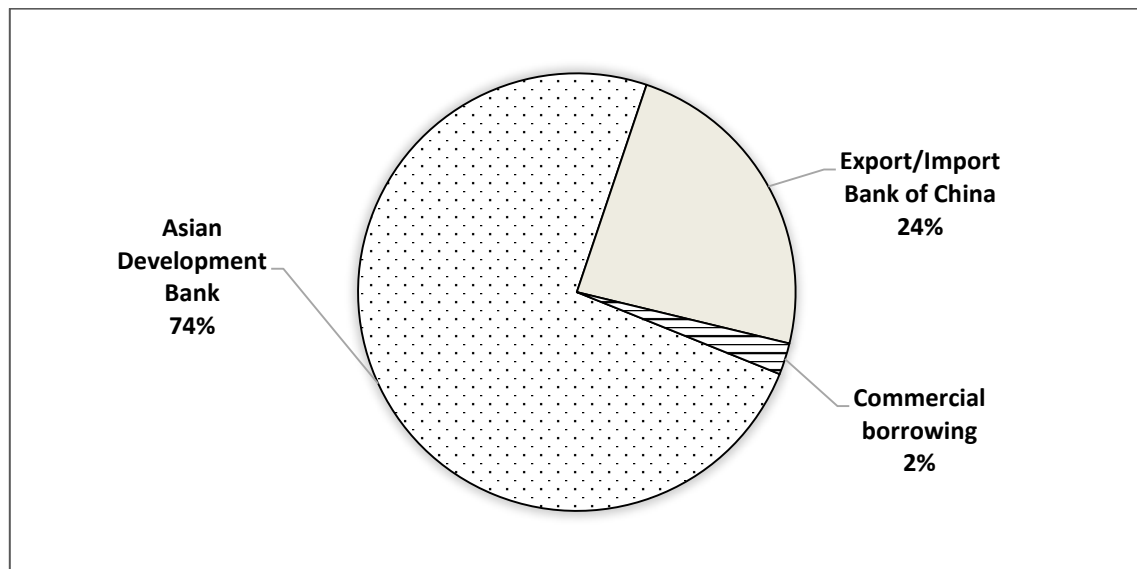
Figure 11-6 Projected Composition of SOE Debt at 30 June 2020 by Currency



11.4 Gross Debt by Lenders

11.4.1 Overall Gross Debt

Figure 11-7 Gross Crown Debt Estimates by Lender

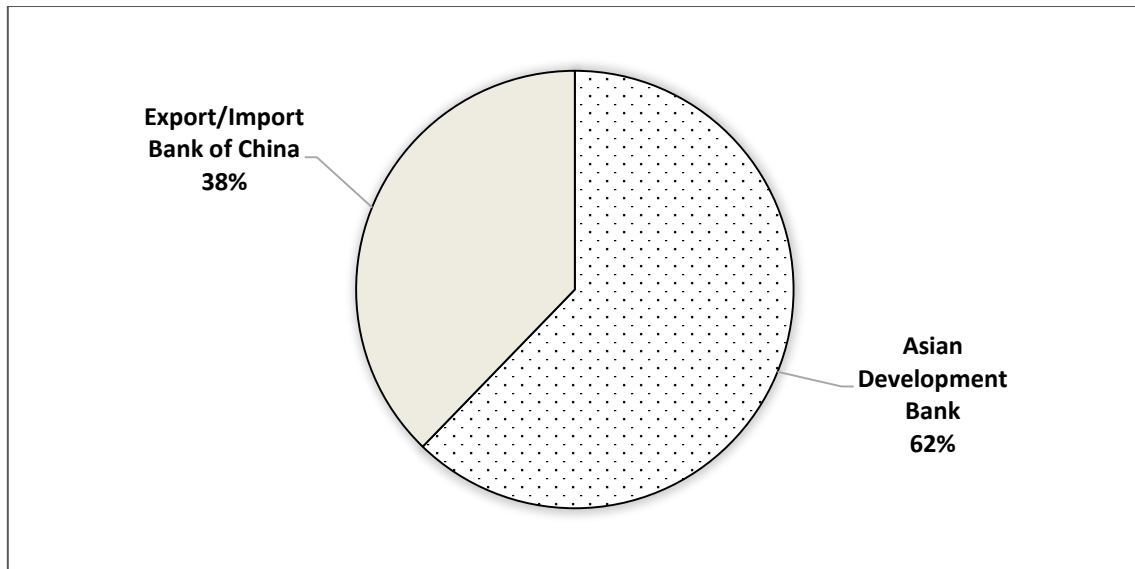


The Cook Islands government is estimated to have an overall gross committed debt of \$129.47 million by the end of June 2020. The ADB is our main lender with 74 per cent, followed by the Export/Import Bank of China (EXIM Bank) with 24 per cent and two per cent held by local commercial financial institutions.

11.4.2 Debt held directly by the Crown

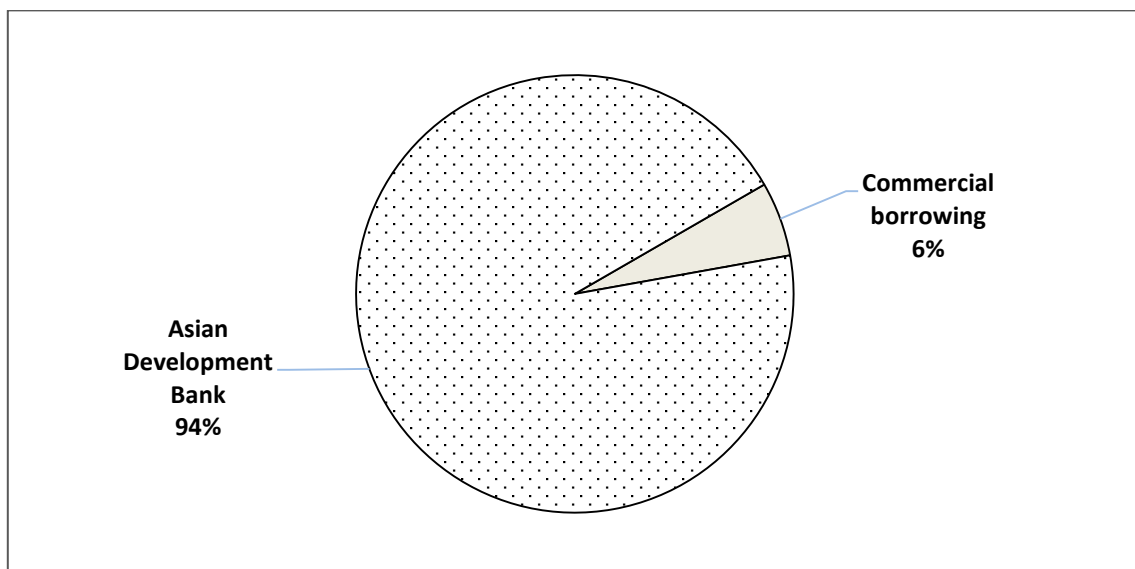
Direct gross debt is estimated to be \$72.89 million by June 2020 and is held by two key lenders, the ADB with 62 per cent and 38 per cent from the EXIM Bank.

Figure 11-8 Gross Direct Crown Debt Estimates by Lender



11.4.3 Debt held on behalf of SOE's

Figure 11-9 SOE Debt Estimates by Lender

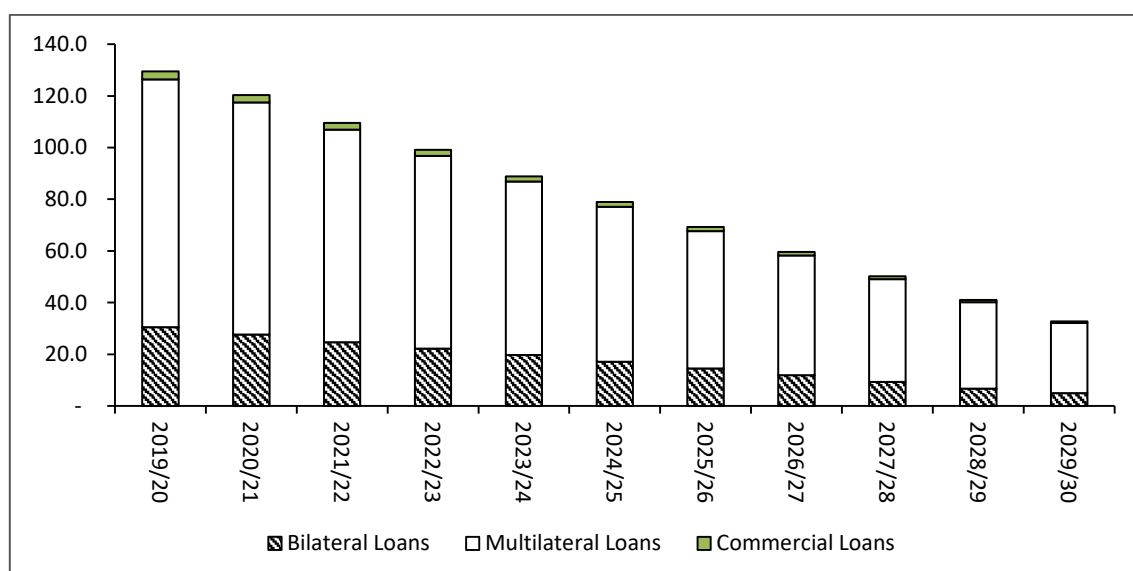


Debt held by Crown on behalf of and by SOE's is estimated to be \$56.57 million by the end of the 2019/20 financial year. The ADB holds 94 per cent with only six per cent coming from commercial sources related to funding towards the Rarotonga Airport ILS loan.

11.5 Gross Debt by Source

Figure 11-10 summarises the debt profile of existing loan agreements over the next 10 years, broken down by source - multilateral lenders (only the ADB) and bilateral lenders (predominantly EXIM Bank). The commercial loan relates to the direct loan taken by the Airport Authority with a commercial bank.

Figure 11-10 Gross Crown Debt Estimates by Source (\$million)



11.6 Net Debt

The internationally accepted definition of net debt is total gross debt (all public sector debt and currency on issue) less total financial assets corresponding to those debt instruments (for example cash). Under this definition, the Crown's net debt position would only be \$30.42 million or 5.23 per cent of GDP.

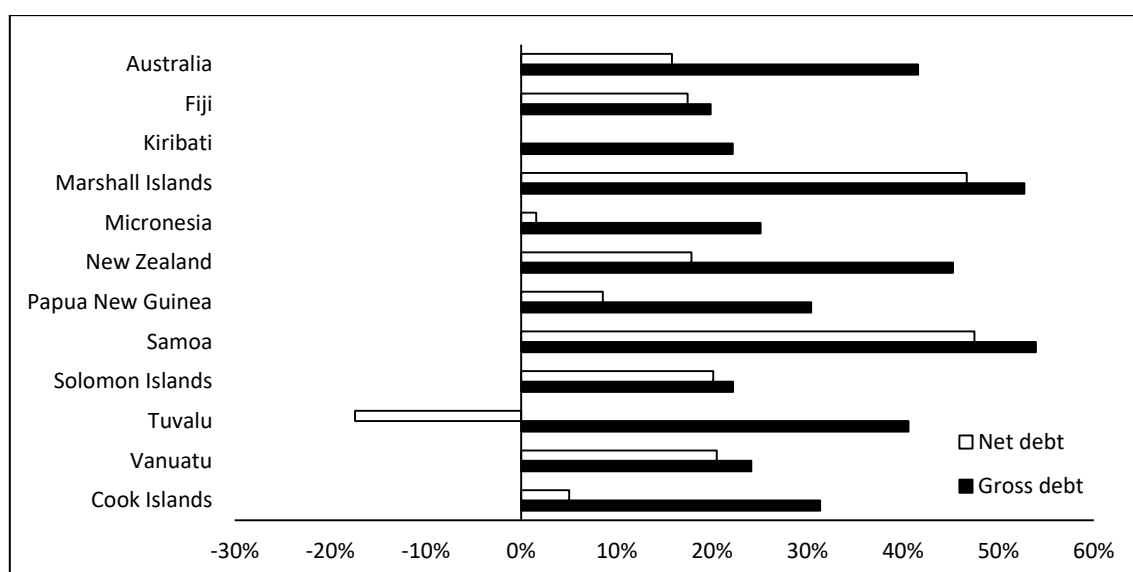
Table 11-5 Net Debt

| | |
|--|--------------|
| Gross Debt + Currency on Issue (\$4.1 million) | 133.57 |
| Less Financial Assets ¹⁶ | 103.15 |
| Net Debt | 30.42 |

International comparisons of net debt are made on the basis of the international definition of net debt. On this basis, the Crown's debt profile sits in the upper-mid-range of Pacific nations, including Australia and New Zealand.

¹⁶ – Financial Asset includes Cash and Cash Equivalent, Loan Repayment Fund and Stabilisation Fund (refer to chapter 4.4 on Establishment of Reserve Funds).

Figure 11-11 Regional Comparison of public debt profiles¹⁷



However, for the purpose of prudent fiscal management, the Crown excludes cash reserves and currency issued from the net debt definition. On that basis, the Crown's 'Net Debt' is equivalent to total gross debt net of the LRF (the difference between the total gross debt and funds held in the LRF).

Net debt under this more conservative definition is estimated to be \$108.04 million (19 per cent of GDP) by the end of June 2020.

11.7 Debt Headroom

Table 11-6 Current Borrowing Statement (\$ million)

| Current Statement | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|--------------------------------------|---------------|---------------|---------------|--------------|--------------|
| Gross Crown Debt | 129.47 | 120.32 | 109.48 | 99.08 | 88.91 |
| <i>Direct Crown Debt</i> | <i>63.68</i> | <i>57.75</i> | <i>51.68</i> | <i>46.17</i> | <i>40.90</i> |
| <i>SOE debt</i> | <i>51.83</i> | <i>48.61</i> | <i>44.44</i> | <i>40.70</i> | <i>36.97</i> |
| <i>Contingent (Disaster) debt</i> | <i>13.95</i> | <i>13.95</i> | <i>13.37</i> | <i>12.21</i> | <i>11.04</i> |
| ... net of LRF | 108.04 | 99.19 | 89.42 | 80.10 | 71.30 |
| ... net of LRF, as percentage of GDP | 19% | 16% | 14% | 12% | 11% |
| Loan Repayment Fund Held | 21.43 | 21.13 | 20.07 | 18.98 | 17.61 |
| Gross Debt Servicing | 9.84 | 10.75 | 12.05 | 12.50 | 12.35 |
| <i>Direct Crown Debt</i> | <i>6.92</i> | <i>6.62</i> | <i>7.10</i> | <i>7.67</i> | <i>7.56</i> |
| <i>SOE debt excl. Cable loan</i> | <i>2.71</i> | <i>2.79</i> | <i>2.77</i> | <i>1.98</i> | <i>1.30</i> |
| <i>Contingent (Disaster) debt</i> | - | - | - | 0.71 | 1.41 |
| Net Debt Servicing | 7.13 | 7.96 | 9.28 | 9.81 | 9.65 |
| ... as percentage of Total Revenue | 3.92% | 4.28% | 4.90% | 5.10% | 5.01% |

¹⁷ The data for Australia (obtained from the IMF) is federal government only, and the levels of debt for all levels of government would be higher than presented.

The GDP numbers have been revised upward, refer to the section on GDP, as a result the net Crown debt to GDP has been revised downward to 19 per cent, well within the fiscal responsibility ratio threshold of 30 per cent.

Figure 11-12 illustrates the projected levels of net Crown debt to GDP against the fiscal responsibility threshold.

Figure 11-12 Net Debt to GDP target to June 2020

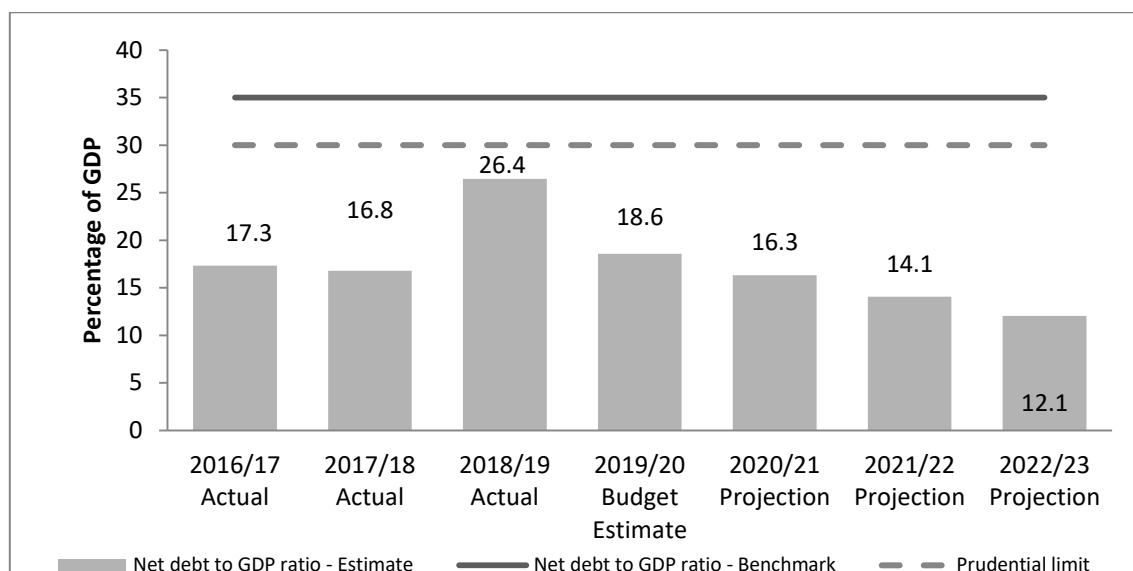
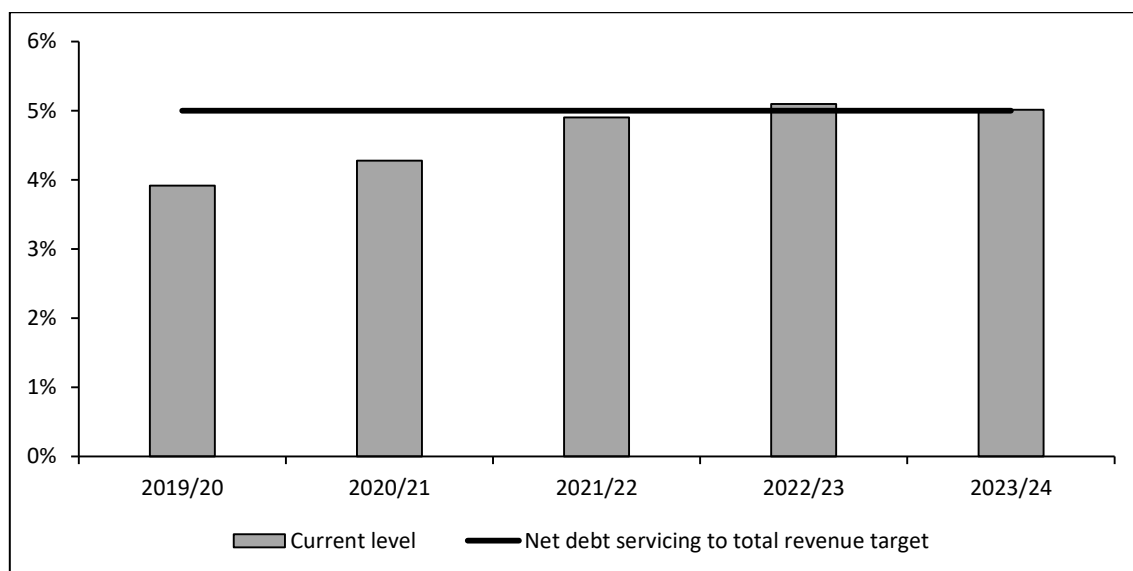


Figure 11-13 illustrates Crown's net debt servicing to total Revenue – the guide is for net debt servicing to total revenue to be less than five per cent.

Figure 11-13 Net debt servicing to total revenue target to June 2020



The current estimated debt servicing to total revenue for 2019/20 is within the guide limit at four per cent, however it is estimated to surpass this limit from 2022/23 onward due to the grace period terms of the Manatua submarine cable loan lapsing. This is based on the assumption that there are no recovery payments from the ACL. This assumption will be revised once we have more information on government's policy relating to the pricing and operation of the ACL.

The net debt servicing to total revenue target ensures that there are sufficient means to service debt from the operating revenue. This ratio measures how much debt servicing is crowding out other components of government spending.

An independent assessment undertaken by the ADB in 2013 concluded that the five per cent debt servicing to revenue ratio was likely too conservative and inconsistent with the debt to GDP ratio constraint. The review noted that a more reasonable and consistent ratio of debt servicing to revenue would be 10 per cent.

11.8 Crown Debt Sensitivity Analysis

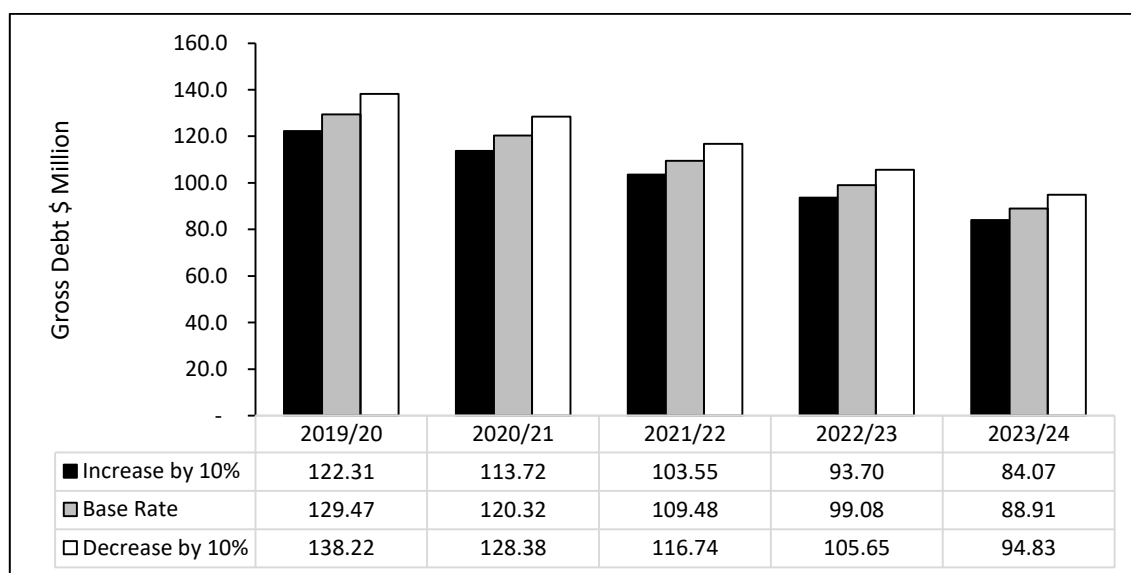
Table 11-7 Base exchange rates assumptions used in 2019/20 Budget with +/- 10 per cent

| Foreign Exchange Currency | -10% | Budget Assumption Rate | +10% |
|---------------------------|--------|------------------------------|--------|
| EUR | 0.5221 | 0.5801 | 0.6381 |
| USD | 0.6093 | 0.6770 | 0.7447 |
| RMB | 4.1522 | 4.6136 | 5.0750 |
| SDR | 0.4308 | 0.4787 | 0.5266 |

Movements in the value of the NZD against Crown's major trading currencies remains a risk. The sensitivity analysis demonstrates the impact of a 10 per cent appreciation or depreciation by the NZD to determine the impact on the gross borrowings and the debt servicing cost.

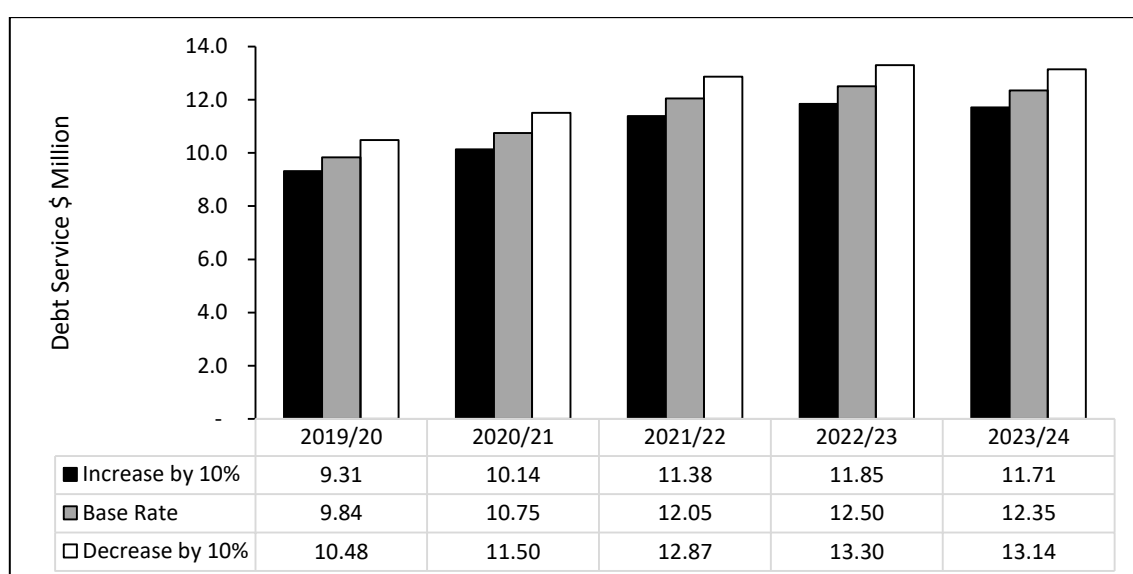
11.8.1 Sensitivity of Current Debt Stock to Exchange Rate Movements

Figure 11-14: Sensitivity of Direct Crown Gross Debt to NZD movements



If the relevant NZD exchange rates were to depreciate by 10 per cent against trading foreign currencies, Crown debt estimated to the end of June 2020 would increase by an estimated \$8.75 million compared to a \$7.16 million if the NZD were to appreciate by 10 per cent. This demonstrates the Crown's gross debt level is more adversely sensitive to depreciation of the NZD.

Figure 11-15 Sensitivity of Crown Debt Servicing Costs to NZD movements



A 10 per cent decrease in the foreign currency value of the NZD would increase debt servicing costs to the LRF by \$0.64 million in the 2019/20 year.

11.9 Long term debt projections and fiscal risks

Government does not have any immediate plans to take on additional direct borrowing.

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

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

11.10 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 (2020: \$3.024 million). The estimate for 2019/20 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.

The Airport Authority is considering further borrowings in the next 24 months to expand the passenger terminal facility at Rarotonga International Airport. This is currently estimated to cost an additional \$16.0 million. Other projects totalling \$8.0 million include the work to complete the RESA project, the building of the new VIP Lounge and the runway slab replacement project.

Te Aponga Uira

The Te Aponga Uira (TAU) is estimated to spend \$22.9 million in 2019/20 on renewable energy projects funded largely by Grant of \$10.7 million with the balance of \$12.2 million being self-funded. TAU is also anticipating an additional \$25.0 million on capital spending in the next four years following 2019/20, of which replacing the Cross-Island Feeder cables network is a major component, in addition to the ongoing renewable energy projects. Funding the additional work has not been confirmed but it is likely that TAU will consider external financing to meet its capital plans.

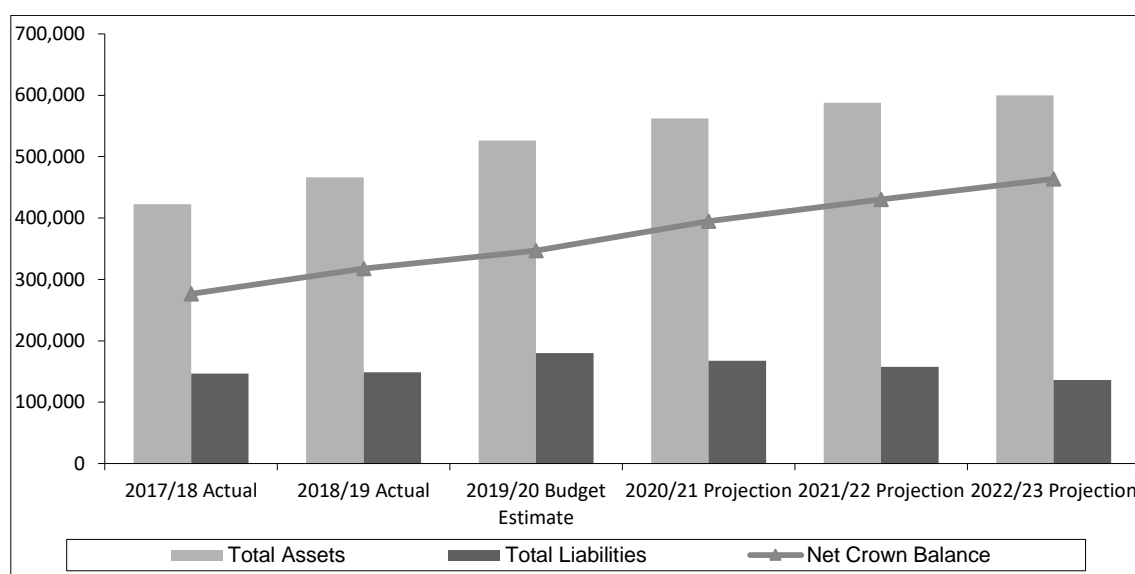
Ports Authority

The Ports Authority is currently repaying its loan obligations to the ADB (2020: \$18.96 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. Taking on any further debt is not a feasible option given the high gearing position the Authority is already in.

11.11 Net worth

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

Table 11-8 Net Worth 2019/20 to 2022/23, (\$'000)



The estimated net worth of the Crown as at 2019/20 has increased from the 2018/19 actuals of \$314.1 million to \$368.2 million. This is a net movement of \$54.1 million. This net movement is caused by an increase in total Crown assets from increased capital growth in plant, property and equipment and as a result of the establishment of the Stabilisation Fund.

The Crown's net worth is expected to increase in the outer years from 2019/20 as long as there is an estimated operating surplus.

12 National Sustainable Development Plan (NSDP) 2016-2020

This is a national scorecard to assess our progress in achieving our national development vision:



The NSDP articulates the Cook Islands development goals reflecting the priorities of our people across the social, cultural, economic and environmental dimensions of our Society underpinned by good governance and effective partnerships. There are 16 national goals which are interrelated, emphasizing the importance of partnership and collaboration. The NSDP guides Government in providing a clear policy direction and setting budget priorities for the medium term.

In 2018, saw the release of the second National Indicator report (2017) on the progress of the 66 national indicators spread across 16 national sustainable development goals in the NSDP 2016-2020 was released in September 2018¹⁸.

A summary of the goal results for 2017 (Year 2) are provided in Table 12-1.

12.1 Measuring our progress – a scorecard for development

The NSDP has since evolved over time to improve the outcome based indicators and strengthen the monitoring and evaluation framework that enables us to effectively measure our progress. Each year the Office of the Prime Minister will publish an Indicator Report which is presented to Parliament and the general public. This annual report will detail the status of each goal; where we are 'on track', 'of concern', and 'off track'.

The first annual Indicator Report (2016-2017) was released in March 2018 and reflects on the status of 66 indicators which measure progress towards achieving the 16 goals in the NSDP by 2020.

















Results show progress is 'on track' with a number of national goals including increasing economic opportunities; access to affordable, reliable energy and transport; availability of quality education; sustainable agriculture; management of oceans, lagoons and marine resources.

Indicators with 'of concern' status range from statistics on the matters of inequality and welfare; waste management and sanitation systems; rates of non-communicable diseases and mental health; environment; climate change and natural disasters; culture; population; governance, justice accessibility and law and order.

















¹⁸ In this report, some preliminary work has been done in identifying Sustainable Development Goals (SDG) relatively aligned to the national indicators – 18 SDG indicators was identified. The information provided in the Report is from either the 2016/17 or 2017/18 financial year to report on progress for the 2017 calendar year. The release of Household Income and Expenditure Survey ("HIES") 2016 and the Cook Islands Population Census 2016 will provide additional information in the next National Indicator Report.










The Government recognizes the need to focus on goals which are reported to be ‘of concern’ and priorities funding to finance projects related to such goals. In 2019/20 some of such projects include increasing the funding for the patient referral systems; increasing the funding for the management of the Suvarrow National Park; building Pa Enea Cyclone Centres; financing projects aimed at promoting good governance.

Table 12-1 National Sustainable Development Plan Status (2017)

| SDGs | NSDP Goal | Status Trend ¹⁹ | Summary of indicator results |
|---|---|---|---|
|   |  <p>Goal 1: Improve welfare, reduce inequity and economic hardship</p> |  | <p>‘Of concern’ with slow growth in lowest 20% of income with slight improvement in minimum livable income at NZD\$20,542; welfare goals progressing well with improvements in the equitable spread of wealth</p> |
|  |  <p>Goal 2: Expand economic opportunities, improve economic resilience and productive employment to ensure decent work for all</p> |  | <p>‘On track’ with steady but slow growth of real median income at NZD\$21,504. Strong growth in tourism but more information and effort required for diversification of economy; employee wellbeing in the public service is ‘on track’. Labor force survey to provide more information on national wellbeing of employees, especially with migrant workers.</p> |
|  |  <p>Goal 3: Promote sustainable practices and effectively manage solid and hazardous waste</p> |  | <p>‘Of concern’ with limited information on recycling for Rarotonga, Aitutaki and the rest of the Pa Enea. E-waste survey completed with report pending, but will require more information on the status and management of hazardous waste. MoU with private sector to repatriate recyclable and hazardous waste is on a ‘needs basis’.</p> |
|  |  <p>Goal 4: Sustainable management of water and sanitation</p> |  | <p>Mixed results with low property numbers reported that comply with sanitation standards as per Regulations. However, major improvements made with improved water storage capacity for the Pa Enea through aid funded water tank project.</p> |
|  |  <p>Goal 5: Build resilient infrastructure and ICT to improve our standard of living</p> |  | <p>Mixed results with concern of affordability of broadband offset by improvement in other ICT measures. Public asset register is being addressed but traction is a concern.</p> |

¹⁹ The report identifies nine status trends using the ‘traffic light system (green: “on track”, yellow: “of concern”, red: “off track”) to identify levels of concern or urgency; and trends using the arrows and circle (up: “positive”, down: “negative”, circle: “no change”)

| SDGs | NSDP Goal | Status Trend ¹⁹ | Summary of indicator results |
|---|---|---|--|
|  |  |  | <p>'On track' for renewable energy projects, with radical reduction of petrol, diesel and LPG imports. More information needed for affordability of electricity and transport connectivity.</p> |
|  |  |  | <p>'Of concern' with physical activity among youth, life expectancy, mental health and health expenditure. 'Off track' with the increase of sexually transmitted disease and slow decline of premature deaths from NCDs.</p> |
|  |  |  | <p>'On track' and continuous improvement of literacy and numeracy, early childhood and secondary school education. 'Off track' for vocational and tertiary qualifications, but data needs updating. 'Of concern' for education spending.</p> |
|  |  |  | <p>Mixed results with youth wellbeing and disability access still a concern. 'Off track' 15% political representation of women and 21% gender pay disparity for women.</p> |
|  |  |  | <p>'On track' for reported biosecurity outbreaks. 'Of concern' with early data of 12.6% of land use for agriculture for land used would be reducing slowly due to development and construction. Purchase and production of local food is 'off track' but information is lacking.</p> |
|  |  |  | <p>'Of concern' for extent of protected land, and biodiversity loss (kakeroi, tamanu, paua). 'Off track' for extent and state of wetland areas.</p> |
|  |  |  | <p>'On track' for extent of marine protected areas as established under the Marae Moana Act 2017, and tuna catch against maximum sustainable yields. 'Of concern' with lagoon water quality, and 'off track' for coral coverage and economic returns from marine resources.</p> |
|  |  |  | <p>'Of concern' with limited data for overall resilience; 'on track' for improved access to protection from cyclones in the Pa Enua, but 'off track' for cyclone readiness of public buildings and infrastructure.</p> |
|  | | | |

| SDGs | NSDP Goal | Status Trend ¹⁹ | Summary of indicator results |
|--|---|--|--|
|  |  <p>Goal 14: Preserve our heritage and history, protect our traditional knowledge, and develop our language, creative and cultural endeavors</p> |  | <p>'Of concern' with limited data on population involvement in cultural activities (Census to inform on this in the next report); and digitising of cultural resources has commenced with about 30% of cultural items digitised. 'On track' for Cook Island Maori literacy rates. National Cultural Policy and Strategy completed.</p> |
|  |  <p>Goal 15: Ensure a sustainable population, engaged in development for Cook Islanders by Cook Islanders</p> |  | <p>'Of concern' with the lack of information for the overall quality of life and the average performance of Government Ministries. 'On track' for voter turnout and research applications. Need to develop a national research agenda to better coordinate research needed for the Cook Islands. But 'off track' with the lack of local and foreign investment info and for the overall population decline despite the increase population for Rarotonga. More information from the Census 2016 required to update this measure.</p> |
|  |  <p>Goal 16: Promote a peaceful and just society and practice good governance with transparency and accountability</p> |  | <p>'Of concern' with limited information to access to justice except turnover of criminal cases disposed is 'on track'. No updated information provided for domestic violence, motor vehicle accidents caused by reckless driving; no information on reoffending rates; and low number of parliamentary sitting days is 'off track'. The financial responsibility index is progressing slowly, with the backlog of consolidated crown accounts audit a major concern. The financial management information system project will soon improve on this.</p> |

12.2 Investment by NSDP goal priorities for the 2019/20 and the medium term

The 2019-2020 Budget Policy Statement reflects the initiation of the Government's new Medium Term Financial Strategy (MTFS) and identifies the key fiscal priorities for the 2019/2020 budget through the Medium Term Goal Priorities. The MTFS has been developed with the aim of smoothing Government expenditure over the course of the economic cycle and outline Governments commitments and goal priorities over the medium term as below.

Table 12-2 Medium-term NSDP Goal Priorities 2019/20-2022/23

| 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|--|--|--|
|  <p>Goal 9: Gender & the Vulnerable</p> |  <p>Goal 8: Education</p> |  <p>Goal 3: Waste Management</p> |  <p>Goal 1: Welfare & Equity</p> |
|  <p>Goal 16: Good Governance, Law & Order</p> | |  <p>Goal 6: Transport & Energy</p> |  <p>Goal 2: Economic Opportunities</p> |
|  <p>Goal 7: Health</p> | |  <p>Goal 12: Ocean Lagoon and Marine Resources</p> |  <p>Goal 15: Population</p> |
|  <p>Goal 13: Resilience and Climate Change</p> | | | |
|  <p>Goal 11: Environment & Biodiversity</p> |  <p>Goal 10: Agriculture & Food Security</p> |  <p>Goal 14: Culture</p> |  <p>Goal 7: Health</p> |
|  <p>Goal 5: Infrastructure & ICT</p> | | | |
|  <p>Goal 4: Water & Sanitation</p> | | |  <p>Goal 8: Education</p> |

The 2019-2020 Budget will confirm our commitment to several goal areas which have been prioritised by the indicator trend. For 2019/20 these are:

- Goal 4: Water and Sanitation**
 Water and Sanitation: Ensuring appropriate supply of water and quality for drinking water purposes. Ensuring appropriate and effective Sewage and sanitation systems which are managed appropriately.
- Goal 5: Infrastructure and ICT**
 Infrastructure and ICT: Ensuring fit for purpose infrastructure in line with sustainable development and supporting the ICT sector infrastructure and workforce to deliver affordable and accessible connectivity and services.

- **Goal 7: Health**
Focusing attention on Non Communicable diseases through emphasizing Primary Healthcare whilst maintaining and strengthening the curative aspects of the health system. Further support for mental health services to be prioritized looking at behavioural issues.
- **Goal 9: Gender & the Vulnerable**
Gender and the Vulnerable: focusing attention on appropriate facilities and care for elderly, infirm and disabled people together with emphasis on youth well-being.
- **Goal 11: Environment & Biodiversity**
Supporting integrated protection and support for wetlands and protected lands and the need for sustainable development in these areas. Noting the increased risk of biosecurity at our borders-ensuring strengthening of capacities and capabilities for better prevention especially with invasive species. This includes looking at chemicals and pesticides and their effective disposal.
- **Goal 13: Resilience and Climate Change**
Ensuring that we as a country build resilience in our infrastructure, people and communities and provide effective support to mitigate and adapt to the changing climate and its effects. Climate Financing is an area that needs advocating and support throughout.
- **Goal 16: Good Governance, Law & Order**
Supporting the Law and Order Sector to provide appropriate services and emphasizing a need for better data and information systems including offender management and justice access; supporting important legislative mandates.

12.3 Expenditure by Budget Policy Statement 2019/20 goal

This section sets out estimated new operating expenditure and capital over the budget year and forward period by priority NSDP goal as set out in the Budget Policy Statement for the 2019/20 financial year. It should be noted that assigning projects to goals is quite subjective as initiatives may directly and indirectly support multiple goals. In this analysis funding initiatives are allocated only against a single goal.

12.3.1 Goal 1: Welfare & Equity

Improve Welfare, reduce inequality and economic hardship

Cook Islands is considered one of the most prosperous countries in the region. The Government understands the importance of ensuring that not a single citizen is left behind as our economy expands even further. Our social welfare system is based on providing equal opportunity and caring for the most vulnerable in order to promote the wellbeing of the society.

In the next four years the Government is committed to spending over \$3 million on various initiatives focused on assisting the citizens. Some of such initiatives include raising the pensions from \$660 per month to \$700 per month for the beneficiaries over the age of 70. In addition, the allowance for caregivers has increased to \$200 per month to ensure that those who are for the vulnerable get compensated.

Table 12-3 Goal 1 total expenditure, 2019/20 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|---|----------------|----------------|----------------|------------------|------------------|
| Internal Affairs - Operating adjustment | 250,000 | 300,000 | 470,000 | 470,000 | 1,490,000 |
| Internal Affairs | 298,794 | 384,178 | 469,287 | 554,016 | 1,706,275 |
| TOTAL | 548,794 | 684,178 | 939,287 | 1,024,016 | 3,196,275 |

12.3.2 Goal 2: Economic Opportunity

Expand economic opportunities, improve economic resilience and productive employment to ensure decent work for all

In the past years Cook Islands saw positive economic growth which is expected to continue in the forward years. It is important to ensure that the benefits from such growth are evenly distributed across the society. The Government is focused on promoting healthy work environment, increasing economic diversity and increasing compensation for the working population.

Table 12-4 Goal 2 total expenditure, 2019/20 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|--|----------------|----------------|----------------|----------------|----------------|
| BTIB | 100,000 | 100,000 | 90,000 | 90,000 | 380,000 |
| Internal Affairs | | | 11,038 | 11,038 | 22,076 |
| Financial Services Development Authority | 100,000 | | 10,000 | 10,000 | 120,000 |
| TOTAL | 200,000 | 100,000 | 111,038 | 111,038 | 522,076 |

12.3.3 Goal 3: Waste Management

Promote sustainable practices and effectively manage solid and hazardous waste

Waste management is an important factor when it comes to protecting the environment and ensuring the wellbeing of the population. In the recent years the Governments stressed the importance of recycling and committed to ensuring the proper management of hazardous waste. No new funding has been allocated towards waste management, however existing programs continue.

12.3.4 Goal 4: Water & Sanitation

Sustainable management of water and sanitation

Safe drinking water and good sanitation are basic necessities for sustaining health and economic prosperity within any community. This year the Government is allocating \$12.621 million to projects focused on managing, developing and improving water and sanitation in the Cook Islands. Te Mato Vai is the largest project in this goal, comprising \$9 million of funding in 2019/20, for the development of potable water. The Government is also allocating \$1.1 million to To Tatou Vai which was set up to manage the assets of the Te Mato Vai project.

Another major project for this year is the Mei Te Vai Ki Te Vai which is focused on designing long-term measures for wastewater management and improving the water quality of the lagoons in Rarotonga and Aitutaki.

It is expected that these projects not only have a positive impact on the quality of life of Cook Islanders, but also on the environment and the tourism industry.

Table 12-5 Goal 4 total expenditure, 2019/20 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|---------------------------------------|-------------------|------------------|------------------|------------------|-------------------|
| Mitiaro Water Upgrade | 250,000 | | | | 250,000 |
| Establishing new water galleries | 200,000 | | | | 200,000 |
| Te Mato Vai - Rarotonga Water Upgrade | 9,000,000 | 4,000,000 | | | 13,000,000 |
| Mei Te Vai ki Te Vai | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 4,000,000 |
| Pa Enua Water Infrastructure | 1,050,000 | 500,000 | 500,000 | 500,000 | 2,550,000 |
| Avatiu Valley Stream embankment | 21,500 | | | | 21,500 |
| To Tatou Vai | 1,100,000 | 930,000 | 355,000 | | 2,385,000 |
| To Tatou Vai – Capital requirements | 150,000 | | | | 150,000 |
| TOTAL | 12,771,500 | 6,430,000 | 1,855,000 | 1,500,000 | 22,556,500 |

12.3.5 Goal 5: Infrastructure & ICT

Build resilient infrastructure and ICT to improve our standard of living

In order to meet our environmental, economic and social needs it is essential to ensure that our infrastructure is built to standard and that it is fit to meet our ambitious development aspirations. This includes reliable connectivity and access to the internet and the media, which are highly correlated with educational and economic opportunities.

This year the Government will be spending \$21.5 million on infrastructure and ICT projects to improve the standards of living and ensure further economic development. In 2019/20, Over \$14 million is allocated to roads, bridges and drainage on both Rarotonga and the Pa Enua. With the increase in traffic in the recent years the existing pavement has deteriorated and requires upgrade. The purpose of the project is to improve the road infrastructure and provide economic returns in decreased maintenance costs, decreased costs for vehicle operation and provide improved safety measures. It will enable safe transportation and socioeconomic development.

Approximately \$2 million has been allocated toward government facilities, both buildings and ICT infrastructure, to reinforce existing systems and increase capacity in order to support the rollout of the Financial Management Information System (FMIS).

Table 12-6 Goal 5 total expenditure, 2019/20 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| 3 Building Repair | 550,000 | 0 | 0 | 0 | 550,000 |
| MFEM Building | 540,000 | 0 | 0 | 0 | 540,000 |
| School Upgrade | 480,000 | 350,000 | 0 | 0 | 830,000 |
| Government Building Project | 500,000 | 150,000 | 0 | 0 | 650,000 |
| Orongo Development Master Plan and Centre reconstruction (Ports Authority) | 500,000 | 500,000 | 0 | 0 | 1,000,000 |
| Government Building Project | 60,000 | 170,000 | 450,000 | 0 | 680,000 |
| Vaikapuangi Government Building | 600,000 | 4,000,000 | 10,000,000 | 10,000,000 | 24,600,000 |
| Manea Games Upgrade | 100,000 | | | | 100,000 |
| Road Asset Management | 8,000,000 | 7,000,000 | 7,000,000 | 7,000,000 | 29,000,000 |
| Bridges & Structures Improvement | 2,580,000 | 3,300,000 | 2,800,000 | 3,800,000 | 12,480,000 |
| Drainage Improvement | 1,800,000 | 1,500,000 | 1,500,000 | 1,500,000 | 6,300,000 |
| Government IT Network | 650,000 | 300,000 | 100,000 | 100,000 | 1,150,000 |
| FMIS | 468,836 | 0 | 0 | 0 | 468,836 |
| Atiu Road Improvement | 570,000 | 0 | 0 | 0 | 570,000 |
| Land Acquisition | 2,000,000 | 2,000,000 | 1,000,000 | | 5,000,000 |
| Land Rentals | 0 | 500,000 | 500,000 | 500,000 | 1,500,000 |
| Infrastructure Cook Islands - operating | 455,000 | 745,000 | 745,000 | 745,000 | 2,690,000 |
| ICT Support Team | 250,000 | 250,000 | 0 | 0 | 500,000 |
| Road Asset Maintenance | 470,000 | 650,000 | 370,000 | 370,000 | 1,860,000 |
| Bridges and Drainage Maintenance | 600,000 | 600,000 | 600,000 | 600,000 | 2,400,000 |
| Emergency Work | 200,000 | 200,000 | 200,000 | 200,000 | 800,000 |
| Avaroa Cable | 150,000 | 150,000 | 0 | 0 | 300,000 |
| TOTAL | 21,523,836 | 22,365,000 | 25,265,000 | 24,815,000 | 93,968,836 |

12.3.6 Goal 6: Transport & Energy

Improve access to affordable, reliable, sustainable, modern energy and transport

Cook Islands has a goal to transfer to 100% Renewable Energy by 2020. The Government is committed to ensuring that everyone in the country has affordable, reliable and sustainable energy while protecting the environment and minimising the effects of climate change. In addition the goal is focused on ensuring proper transportation. Given the geography of Cook Islands, there are challenges in ensuring that each of the islands has proper transportation linkages. The Government is focused on addressing the issue with transport connectivity between the islands to ensure that all people in the Cook Islands have adequate and reliable transport via shipping and air links.

Table 12-7 Goal 6 total expenditure, 2019/20 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|---|------------------|------------------|------------------|------------------|------------------|
| Nassau Ferry | 350,000 | | | | 350,000 |
| Renewable Management Project Management and Support | 250,000 | | | | 250,000 |
| Transport - Operating adjustment | 440,000 | 570,000 | 570,000 | 570,000 | 2,150,000 |
| Renewable Energy Maintenance | 250,000 | | - | - | 250,000 |
| Education - Bus Service | 26,325 | 26,325 | 26,325 | 26,325 | 105,300 |
| CDF - Vehicle | 800,000 | 800,000 | 800,000 | 800,000 | 3,200,000 |
| Total | 2,116,325 | 1,396,325 | 1,396,325 | 1,396,325 | 6,305,300 |

12.3.7 Goal 7: Health

Improve health and promote healthy lifestyle

A good health care system is an essential component of maintaining the social foundation of any society. It is important to not only focus on the treatment but also on the prevention and timely diagnosis of diseases. Investing in Health is one of Government's priority goals in 2019/20 with the objective of improving the quality of life and the standard of living in the Cook Islands.

In 2019/20 additional funds of \$2.975 million is provided to strengthen the existing health care service through recruitment of specialist positions and a CT Scanner which will allow for more effective diagnosis on Rarotonga.

Table 12-8 Goal 7 total expenditure 20/19 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|--|------------------|------------------|------------------|------------------|-------------------|
| Rarotonga Health Project | 800,000 | 200,000 | 0 | 0 | 1,000,000 |
| Fund to be Prioritised by Health for Technical Equipment | 300,000 | 300,000 | 300,000 | 300,000 | 1,200,000 |
| CT Scanner | 100,000 | 1,300,000 | 100,000 | 0 | 1,500,000 |
| Health - Operating adjustment | 1,475,500 | 3,880,000 | 3,880,000 | 3,880,000 | 13,115,500 |
| Patient Referrals - Administrative adjustment | 300,000 | 300,000 | 300,000 | 300,000 | 1,200,000 |
| TOTAL | 2,975,500 | 5,980,000 | 4,580,000 | 4,480,000 | 18,015,500 |

12.3.8 Goal 8: Education

Ensure inclusive and equitable quality education and promote life-long learning opportunities

Good education is a key driver to economic development and prosperity. Cook Islands Government is committed to supporting the education system from the initial focus of helping the youngest members of our society develop reading and writing skills to helping the older students acquire tertiary qualifications. This is done by making the education feasible and affordable.

Ministry of Education received a reinstatement of capital funding which enables it to suitably maintain or replace both electronic equipment and furniture across the school network.

Table 12-9 Goal 8 total expenditure, 2019/20 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|-------------------------------------|----------------|----------------|------------------|------------------|------------------|
| Fund to be Prioritised by Education | 360,000 | 360,000 | 360,000 | 360,000 | 1,440,000 |
| Education - Operating adjustment | | | 1,759,000 | 1,759,000 | 3,518,000 |
| School Security | 30,000 | 30,000 | 30,000 | 30,000 | 120,000 |
| Government Funded Scholarships | | 119,600 | 119,600 | 119,600 | 358,800 |
| Total | 390,000 | 509,600 | 2,268,600 | 2,268,600 | 5,436,800 |

12.3.9 Goal 9: Gender & Vulnerable

Accelerate gender equality, empower all women and girls, and advance the rights of youth, the elderly and disabled

Gender equality is an essential component in the path to economic prosperity. The Government is focused on increasing the representation of women in politics and advancing gender equality in the workplace. Gender equality does not entail that men and women have to become the same but rather that their rights and opportunities do not depend on gender.

The Government also puts an emphasis on promoting and protecting the vulnerable i.e. the youth, the elderly and those living with disabilities to ensure safe, secure and accepting environment for everyone in the Cook Islands.

In 2019/20 \$539,931 will be provided to promote a range of projects focused on gender equality as well as supporting the vulnerable.

Table 12-10 Goal 9 total expenditure, 2019/20 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|---|----------------|----------------|----------------|----------------|------------------|
| Caregivers Allowance & Special Assistance | 307,391 | 309,055 | 310,111 | 311,120 | 1,237,677 |
| Social Impact Fund | 179,000 | 579,000 | 579,000 | 579,000 | 1,916,000 |
| Cook Islands Student Association Support | 5,000 | 5,000 | 5,000 | 5,000 | 20,000 |
| Children's Forum | - | 20,000 | - | - | 20,000 |
| Youth Program | 45,000 | 45,000 | 45,000 | 45,000 | 180,000 |
| TOTAL | 536,391 | 958,055 | 939,111 | 940,120 | 3,373,677 |

12.3.10 Goal 10: Agriculture & Food Security

Achieve food security and improved nutrition, and increase sustainable agriculture

In the recent years one of the Government's primary objectives has been to reduce Cook Islands dependency on imports by investing in to the local Agriculture and promoting import substitution. Also it is important to remember that due to the geographical isolation, Cook Islands is susceptible to biological threats. For instance, one invasive pest could potentially wipe out all the produce if such pest does not have a natural predator on the island. Therefore, it is very important to hold a close focus on the biosecurity.

Table 12-11 Goal 10 total expenditure, 2019/20 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|------------------------------------|----------------|----------------|----------------|----------------|------------------|
| Agriculture - Operating Adjustment | 340,000 | 490,000 | 390,000 | 390,000 | 1,610,000 |
| Total | 340,000 | 490,000 | 390,000 | 390,000 | 1,610,000 |

12.3.11 Goal 11: Environment & Biodiversity

Promote sustainable land use, management of terrestrial ecosystems, and protect biodiversity

The Cook Islands is surrounded by two million square kilometres of ocean which is home to a large number of unique and diverse species. Government recognises and accentuates that protection of the environment is our national, cultural and moral responsibility.

This year the Government allocates additional funds of \$100,000 for the management of Suvarrow Park situated roughly 800 kilometres northwest of Rarotonga. The uninhabited remote atoll is home to a great diversity and abundance of birds. In 1978 the Government declared Suvarrow a National Park in order to protect the wildlife on the island.

Further funding has also been allocated to strengthen the Environmental Impact Assessments performed by the National Environment Service.

Table 12-12 Goal 11 total expenditure 2019/20 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|------------------------------------|----------------|----------------|----------------|----------------|------------------|
| Environment - Operating adjustment | 291,852 | 196,852 | 196,852 | 196,852 | 882,408 |
| National Heritage Trust | - | 40,000 | 40,000 | 40,000 | 120,000 |
| Management of Suwarrow Park | 100,000 | 100,000 | 100,000 | 100,000 | 400,000 |
| EIA Process | 150,000 | 200,000 | 200,000 | 200,000 | 750,000 |
| TOTAL | 541,852 | 536,852 | 536,852 | 536,852 | 2,152,408 |

12.3.12 Goal 12: Ocean Lagoon and Marine Resources

Sustainable management of oceans, lagoons and marine resources

Despite the Cook Islands small land mass, the country's islands are surrounded by large areas of water. It is our National commitment to protect all the surrounding water and its biodiversity. Due to the global warming the health of the coral reef became of the main concerns which needs to be urgently addressed while there is still time to do so. It is also of great importance to manage sustainable fisheries, improve water quality and maintain our water for the generations to come.

Funding has been added to maintain functions of the Pearl Authority, including the Pearl Exchange, as well as strengthen fisheries management.

Table 12-13 Goal 12 total expenditure, 2019/20 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|---|----------------|----------------|----------------|----------------|------------------|
| Marine Resources - Operating adjustment | 400,000 | 590,000 | 740,000 | 740,000 | 2,470,000 |
| Total | 400,000 | 590,000 | 740,000 | 740,000 | 2,470,000 |

12.3.13 Goal 13: Resilience and Climate Change

Strengthen resilience to combat the impacts of climate change and natural disaster

Cook Islands' geographic location makes it one of the most beautiful places on Earth but also one of the most vulnerable when it comes to extreme forces of nature. The Government is focused on maintaining a firm stand on the matter of climate change and natural disasters by building resilience to minimise the potential damage and protect the people of our paradise islands.

In order to achieve these targets, the Government is allocating a total of \$7.8 million over the next years to finance the construction of the Pa Enua Cyclone Centres.

Table 12-14 Goal 13 total expenditure 2019/20 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|-------------------------------|------------------|------------------|----------------|----------------|-------------------|
| Pa Enua Cyclone Centre | 4,200,000 | 3,600,000 | 0 | 0 | 7,800,000 |
| Rutaki Foreshore | 250,000 | | | | 250,000 |
| Red Cross | 50,000 | 50,000 | 50,000 | 50,000 | 200,000 |
| Pa Enua Marine Infrastructure | 150,000 | 3,500,000 | 0 | 0 | 3,650,000 |
| TOTAL | 4,650,000 | 7,150,000 | 540,000 | 540,000 | 11,900,000 |

12.3.14 Goal 14: Culture

Preserve our heritage and history, protect our traditional knowledge, and develop our language, creative and cultural endeavours

While Cook Islands is striving to economic prosperity it is important to remember and invest into our unique cultural heritage. The Government understands the importance of keeping the history alive and invests resources to promote a wide range of cultural activities. These span from promoting the language and increasing the Cook Islands Maori literacy rate to ensuring inclusive engagement into cultural activities of all members of our society.

Funding has been allocated to assist the Ministry of Cultural Development to support its activities in this space, including a dedicated Cultural Fund to support the Cook Islands participation in regional and global events where we can highlight our culture.

Table 12-15 Goal 14 total expenditure, 2019/20 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|---|----------------|----------------|------------------|----------------|------------------|
| Cultural Development - Operating adjustment | 90,000 | 325,000 | 348,000 | 348,000 | 1,111,000 |
| Te Maeva Nui Constitution Celebrations | - | - | 2,000,000 | - | 2,000,000 |
| Audio and Visual Digitization | 40,000 | - | - | - | 40,000 |
| Cook Islands Cultural Fund | 200,000 | 200,000 | 200,000 | 200,000 | 800,000 |
| Total | 330,000 | 525,000 | 2,548,000 | 548,000 | 3,951,000 |

12.3.15 Goal 15: Population

Ensure a sustainable population engaged in development by Cook Islanders for Cook Islanders

Population decline has been one of the concerning issues for the Cook Islands in the recent years. One of the Governments key priorities is to ensure that every citizen is satisfied, engaged and financially secure in order to minimize the need for migration. Funding has been allocated to strengthen the statistics function within the Cook Islands Government, a necessary role for the accurate measurement and interpretation of demographic shifts and trends.

Table 12-16 Goal 15 total expenditure, 2019/20 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|---------------------|---------------|---------------|---------------|---------------|----------------|
| Senior Statistician | 50,000 | 50,000 | 50,000 | 50,000 | 200,000 |
| Total | 50,000 | 50,000 | 50,000 | 50,000 | 200,000 |

12.3.16 Goal 16: Good Governance, Law & Order

Promote a peaceful and just society and practice good governance with transparency and accountability

In order to maintain peace and economic prosperity it is essential to maintain a fair, reliable and transparent governance system.

This is done by ensuring that people have access to justice institutions in a fair and timely manner. The Government is also determined to reduce domestic violence, motor vehicle accidents, support effective corrective services, improve public service performance, improve sustainable public financial management and provide the public with more confidence in the mechanisms of good governance.

Funding of \$8.95 million is provided to projects aligned to Goal 16 in 2019/20 with the four year funding totalling to \$41.0 million. This funding includes a substantial strengthening of the various government agencies to support them in delivering their services effectively.

Substantial new funding has also been allocated to the Law & Order sector to facilitate personnel retention and hiring, with the aim to improve service and capacity in key areas (Police, Corrections, Justice).

Table 12-17 Goal 16 total expenditure 2018/19 to 2022/23

| Description | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|--|------------------|-------------------|-------------------|-------------------|-------------------|
| Integrated Communication System | 70,000 | - | - | - | 70,000 |
| Vaka Maintenance Capital Projects | 50,000 | 50,000 | 50,000 | 50,000 | 200,000 |
| MFEM Extension - Furniture and materials | 100,000 | - | - | - | 100,000 |
| Audit (PERCA) | 40,000 | 90,000 | 150,000 | 150,000 | 430,000 |
| Corrective Services - Operating adjustment | 400,000 | 600,000 | 800,000 | 1,000,000 | 2,800,000 |
| Crown Law - Operating adjustment | 200,000 | 200,000 | 250,000 | 250,000 | 900,000 |
| Finance and Economic Management - Operating adjustment | 1,256,068 | 2,062,861 | 2,158,568 | 2,063,824 | 7,541,321 |
| Foreign Affairs - Operating adjustment | 444,400 | 444,400 | 619,400 | 619,400 | 2,127,600 |
| Head Of State - Operating adjustment | - | - | 14,113 | 14,113 | 28,226 |
| Justice - Operating adjustment | 900,000 | 1,000,000 | 1,000,000 | 1,200,000 | 4,100,000 |
| Office of the Ombudsman - Operating adjustment | 40,043 | 40,043 | 90,043 | 90,043 | 260,172 |
| Parliamentary Services - Operating adjustment | 65,000 | 100,000 | 185,000 | 185,000 | 535,000 |
| Cook Islands Police Service - Operating adjustment | 450,000 | 500,000 | 500,000 | 500,000 | 1,950,000 |
| Office of the Prime Minister - Operating adjustment | 224,075 | 615,000 | 615,000 | 615,000 | 2,069,075 |
| Public Service Commission - Operating adjustment | 120,000 | 170,000 | 255,000 | 255,000 | 800,000 |
| 7th Minister - Operating adjustment | 290,000 | 290,000 | 290,000 | 290,000 | 1,160,000 |
| Total Outer Islands - Operating adjustment | 644,145 | 1,333,000 | 1,333,000 | 1,333,000 | 4,643,145 |
| PERC Salaries and Administration Costs | 15,000 | 15,000 | 15,000 | 15,000 | 60,000 |
| BEPS Subscription | 35,000 | 35,000 | 35,000 | 35,000 | 140,000 |
| Civil List - Personnel | 800,000 | 800,000 | 800,000 | 800,000 | 3,200,000 |
| House of Ariki | 120,000 | 120,000 | 120,000 | 120,000 | 480,000 |
| Parliamentary Sitting Expenses | 30,000 | 30,000 | 30,000 | 30,000 | 120,000 |
| MP Travel and Allowances (local and overseas) | 200,000 | 200,000 | 200,000 | 200,000 | 800,000 |
| Infrastructure Committee | 75,000 | 75,000 | 75,000 | 75,000 | 300,000 |
| Judges Allowances | 123,000 | 123,000 | 123,000 | 123,000 | 492,000 |
| HOM's Salaries | 368,760 | 368,760 | 368,760 | 368,760 | 1,475,040 |
| Post Tax Amnesty Work | 483,621 | - | - | - | 483,621 |
| Public Sector Strengthening-processes and systems | 200,000 | 200,000 | 200,000 | 200,000 | 800,000 |
| Standard and Poor's Subscription | 10,000 | 10,000 | 10,000 | 10,000 | 40,000 |
| Arbitration Case | 300,000 | - | - | - | 300,000 |
| Head of State Rent | 13,000 | 13,000 | 13,000 | 13,000 | 52,000 |
| Special Select Committee | 100,000 | 100,000 | 50,000 | 50,000 | 300,000 |
| Pa Enua Mechanical Overseer | 130,000 | 100,000 | 100,000 | - | 330,000 |
| Serious Crime Investigations | 50,000 | 50,000 | 50,000 | 50,000 | 200,000 |
| Te Kukupa - Biannual Slipping | - | 150,000 | - | - | 150,000 |
| CISNOC Grant | 150,000 | 200,000 | 200,000 | 200,000 | 750,000 |
| Conduct of the National Census | - | - | 300,000 | - | 300,000 |
| Production of new currency | 450,000 | - | - | - | 450,000 |
| BCI – Social Assistance Subsidy | 8,000 | 8,000 | 8,000 | 8,000 | 32,000 |
| TOTAL | 8,955,112 | 10,093,064 | 11,007,884 | 10,913,140 | 40,969,200 |

13 State-owned Enterprises

13.1 CIIC

The vision for CIIC is “effective and efficient public assets that improve the wellbeing of Cook Islands people”

- ‘effective and efficient’ meaning well-managed and operated assets consistent with modern commercial practices and good governance principles;
- ‘public assets’ which include Crown and leased land, Government houses and buildings, infrastructure and utilities such as the ports and airports of Rarotonga and Aitutaki, Te Aponga Uira Power Authority and Aitutaki Power Supply, the Bank of the Cook Islands together with investments in reticulated water and sanitation, Avaroa Cables, Punanga Nui Market and Seabed mineral assets; and
- ‘Improve the well-being’ meaning adding value to the lives of Cook Islands people and meeting Government’s social policy objectives.

13.1.1 Upcoming Milestone

Aitutaki Solar

Aitutaki Power Supply (APS) is a subsidiary of CIIC. APS, with the OPM’s Renewable Energy Team, will be installing a solar farm project beside the APS power station in early FY2019/20. This first stage is completed and is expected to generate approximately 30% of Aitutaki’s electricity demand.

Other Milestones

Other upcoming milestones related to the asset management division of CIIC are detailed in the Capital Expenditure.

13.2 Airport Authority

The Airport Authority facilitates the safe and efficient movement of passengers and aircraft through our airports and airspaces. We are committed to aviation safety standards, preserving high levels of staff competencies and maintaining confidence in quality and safety management systems.

We want to be the leading small airports company in the region and we will achieve that through prudent management of our airports, being more customer focused, more effective in the provisions of services, being a good employer and benchmarking against the best in the business.

13.2.1 Developments and Investments

Developments for the 2019/20 financial year include further runway strengthening work, acquiring the land needed for a runway end safety area, constructing the runway end safety area, upgrading the airport storm water system, rebuilding part of the Aitutaki runway strip, upgrading transformers, electrical switch gears and other electrical systems and constructing a new cargo building for Air New Zealand

13.2.2 Social contributions costs and dividends

The Airport Authority has a number of community service obligations and social contributions costs, shown in Capital Expenditure (9.2.1).

Table 13-1 Social contribution costs

| | 2019/20 Budget |
|--|----------------|
| The Provision of Fire Service to the Rarotonga Community | 67,323 |
| The provision of a rent free VIP lounge to government | 48,246 |
| Net contribution to government | 115,569 |

The Airport Authority expects to pay a small dividend in this financial year. It projects this amount to be about \$150,000 and will be determined by the performance of the Airport Authority and the final profit made.

13.3 Avaroa Cable Limited (ACL)

A subsidiary of CIIC, Avaroa Cable Limited (ACL) has been formed to operate and manage the Cook Islands stake in the Manatua Cable project. Avaroa Cable Limited is a Cook Islands limited liability company and the implementing entity for the Manatua Cable Project. The Manatua Cable Project will connect Rarotonga and Aitutaki to a submarine fibre optic cable. The Manatua Cable will connect Samoa and French Polynesia with spurs to Niue, Rarotonga, Aitutaki and Bora Bora. The project is expected to be completed by late 2020. CIIC has established an independent board to manage and oversee ACL including recruitment and appointment of a CEO. ACL currently consists of 2 staff with the CEO commencing employment in January 2019 and the Project Manager in April 019. Further staff are expected to be recruited in the 2019/20 year.

13.4 Bank of the Cook Islands (BCI)

The Bank of the Cook Islands Holding Corporation (the Corporation) was established under the *Bank of the Cook Islands Act 2003* to assume all rights and obligations of the Cook Islands Development Bank (CIDB) and the Post Office Savings Bank.

The Bank of the Cook Islands Limited (BCI) was registered under the *Companies Act 1970-71* in March 2004 with the objective of providing banking services throughout the Cook Islands. BCI is fully licensed as required by the *Banking Act 2011* and operates in compliance with the requirements of the *Financial Supervisory Commission Act 2003* and the *Financial Transaction Reporting Act 2017*.

The Crown's investment in BCI as at 30th June 2018 was \$18.5 million.

13.4.1 Developments and investments

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

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

Table 13-2 Social contribution costs and dividends

| | 2016/17 Actual | 2017/18 Actual | 2018/19 Actual |
|--|-------------------|-------------------|-------------------|
| Dividend | 229,000 | 337,000 | 248,000 |
| Social Obligation of providing banking services* | 120,000 | 120,000 | 120,000 |
| Net contribution to government | 109,000 | 217,000 | 128,000 |

* Note the CIG funds the social obligation of BCI.

13.5 Ports Authority

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

CIPA is the sole sea port services provider maintaining and operating the Port of Avatiu, the alternative Cruise Ship Tender landing in Arorangi, and the Port of Arutanga in Aitutaki. CIPA serves the cross-border supply chain needs of most of the Cook Island's trade goods.

13.5.1 Social contributions costs and dividends

The CIPA continues to accommodate the Government's community service obligations (CSO's). The following table estimates the costs incurred by CIPA for Rarotonga and Aitutaki in the provision of CSO's.

Table 13-3 Community Service Obligations

| | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget | 2020/21 Forecast |
|--|-------------------|---------------------|-------------------|---------------------|
| Rarotonga | | | | |
| Recurring Cost | 51,559 | 55,225 | 62,838 | 62,838 |
| Approved Waived Port Charges | 928 | 2,500 | 2,700 | 2,700 |
| Aitutaki | | | | |
| Approved waived Charges | 3,483 | 1,000 | 1,000 | 1,000 |
| Total Community Service Obligation Cost | 55,970 | 58,725 | 66,538 | 66,538 |

Ports Authority notes the Shareholder's desire to receive dividends and will use its best endeavours to accommodate that desire within the constraints imposed by the significant scale of loans that have had to be taken out to provide facilities to enable modern international ships to call at Rarotonga, and the Directors' obligations to act in accordance with their statutory duties and in the best interests of the Company.

As a result of these financial pressures, no dividend is envisaged and Ports Authority must take its cash flow commitments into consideration, specifically its obligations to pay interest and loan capital repayments, prior to being able to pay dividends.

Table 13-4 Cook Islands Ports Authority operating summary

| | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget | 2020/21 Forecast |
|---|-------------------|---------------------|-------------------|---------------------|
| Revenue | 3,784,232 | 3,950,864 | 4,086,811 | 4,124,699 |
| Expenses | 3,360,676 | 3,494,529 | 3,769,830 | 3,608,916 |
| Operating profit before foreign exchange | 423,556 | 456,335 | 316,981 | 515,783 |

13.6 Te Aponga Uira

Te Aponga Uira (TAU) was established as a Government Business Enterprise in 1991 with its statutory objectives being:

1. To provide energy to all consumers in a reliable and economical manner.
2. To operate its facilities in an efficient and profitable manner having due regard to the interest of the community.

The primary function of Te Aponga Uira (TAU) is the provision of electricity to the people of Rarotonga in a reliable, safe and economical manner.

Over the past decade TAU has also accepted generation from renewable energy sources from both privately owned solar and wind generators as well as investing in its own solar generation assets. Whilst TAU has maintained a hold on all new renewable energy generation interconnected to its grid over the past two years, given the high intermittency of solar at higher levels of generation, it has defined its investment plan in its Rarotonga Renewable Energy Program Summary (March 2019) which seeks to successfully manage the challenge of intermittency, coordinate the range of generation points to meet customer demand, and at the lowest cost point possible. This clean energy future will also provide space for new energy transitions in the transportation sector and provide smarter platforms for how the customer engages with energy.

13.6.1 Developments and investments

Recent Milestones:

- Release of the Rarotonga Renewable Energy Program to 2020/21
- Acquisition of 3MW/12MWh in Energy Storage for Rarotonga
- Completion of the first TAU Customer Satisfactory Survey
- Acquisition of a fleet of V2G (Vehicle to Grid) Electric Vehicles and charging station
- Completion of a modernization of the Customer Relationship Management ICT System

Upcoming milestones:

- Release of the Private Renewable Energy Generator Policy
- Reorienting TAU structure and resource allocation to what matters most
- Expansion of Rarotonga's Renewable Energy Capacity
- Tariff restructure
- Biofuel testing
- Office Rebuild

There will be ongoing investments in both the infrastructure associated with achieving the national renewable energy (RE) target and general infrastructure.

Funding has been secured from Global Environment Facility (GEF), GCF and PEC for 3MW/12MWh in battery storage systems and 1.4 MW in PV panels. TAU will need to spend \$7.3 million, within the next two years to fund the support infrastructure which is required at the same time as the storage systems. TAU has progressed the tender of its control and communications system being the core infrastructure needed to increase renewable contributions on Rarotonga beyond its current levels.

From a commercial end, TAU has progressed a review of its existing customer tariffs with a view to expanding its product offers and utilizing price signals that encourage the achievement of the renewable energy goals in partnership with the private sector suppliers and customers.

13.6.2 Social contribution costs and dividends

TAU's social obligations include the provision and maintenance of street/amenity lights and uneconomic network extensions, the cost of which is summarized in Table 13-5.

TAU has consistently met the dividend requirements of the Shareholder over the years. However, given the above investment requirements, TAU will focus on building its reserve to prevent the need for borrowing as much as possible. TAU was invoiced for a \$370,000 special dividend during the 2017-18 financial year to the Cook Islands Investment Corporation.

Other Social Responsibility assistance from Government of \$380,000 includes funding for Uneconomic Power Lines of \$50,000.

Table 13-5 Social contributions costs and dividends

| | 2017/18 | 2018/19 | 2019/20 |
|---|----------------|-----------------|----------------|
| | Actual | Estimate | Budget |
| Dividend | 370,000 | 370,000 | 0 |
| Other social responsibility costs – street and amenity lighting – new lights and maintenance including operational costs. | 380,000 | 380,000 | 380,000 |
| Total Contribution to Government | 750,000 | 750,000 | 380,000 |

13.7 To Tatou Vai Limited

As a subsidiary of CIIC, To Tatou Vai (TTV) has begun establishment as a Water Supply Utility (WSU) for delivery of a potable and reliable water supply service (initially) in Rarotonga. TTV is to ultimately assume responsibility for the Te Mato Vai (TMV) Project (Stages 1 and 2) assets, and incorporating the existing water and associated fixed assets of Infrastructure Cook Islands (ICI). TTV is a state-owned-enterprise, currently a limited liability company, pending the passage and assent of enabling legislation expected in 2019. Currently consisting of 8 staff, TTV is governed by a Board of five directors, with management of TTV through the CEO appointed in 2018. Up to a further 20 staff are expected to be recruited in the 2019/20 year.

The vision of TTV is to be a community-trusted supplier of water services with a mission statement of providing a reliable water supply that is safe to drink improving the wellbeing of the Cook Islands people.

14 Public Sector Staffing

14.1 Introduction

The Cook Islands is a constitutional monarchy within the Realm of New Zealand, with Her Majesty Queen Elizabeth II as Head of State and the Queen's Representative her formal representative in the Cook Islands. The *Cook Islands Constitution Act 1964* established the Westminster system of Government in the Cook Islands and provides for various constitutional posts which include: the Queen's Representative, House of Ariki, Cabinet (Prime Minister and Ministers of the Crown), Secretary to the Cabinet, Members of Parliament, Speaker and Deputy Speaker of Parliament, Clerk of Parliament, Chief Justice, Judges of the High Court and Court of Appeal and Justices of the Peace, Public Expenditure Review Committee, Public Service Commissioner and the Cook Islands Public Service Board of Appeal.

The posts of Solicitor-General, Ombudsman, Commissioner of Police and the Director of the Public Expenditure Review Committee and Audit are appointed by the Queen's Representative.

The Public Service, of which there are 31 Agencies, is part of the Public Sector. The Public Sector as a whole, comprises the Public Service as well as 21 other Agencies classified as State Services by the Public Service Act 2009. State Services include Crown Agencies, Ministerial Support Offices and State Owned Enterprises.

Within the Public Service, the *Public Service Act 2009* identifies 13 Public Service Departments under the authority of the Public Service Commissioner and recognises all other agencies as State Services. The 14th Public Service Department, the Ministry of Corrective Services – was established in July 2018. The Island Government Act 2012/13 identifies 10 Island Administrations in the Pa Enua reporting to Island Governments; and various statutes have established 8 statutory Agencies and 7 State Owned Enterprises reporting to Statutory Boards/Ministers.

The *Public Service Amendment Act 2016* requires the Public Service Commissioner to provide to the Minister of the Public Service as well as to Parliament, an Annual Report concerning the state of the machinery of Government; and the outcome of any reviews or inquiries conducted by the Commissioner. The 13 Public Service Departments have continued to provide Annual Reports to the Commissioner, for summation in the Commissioner's consolidated Annual Report to Parliament for each fiscal period ended 30 June.

Figure 14-1 Cook Islands Public Sector

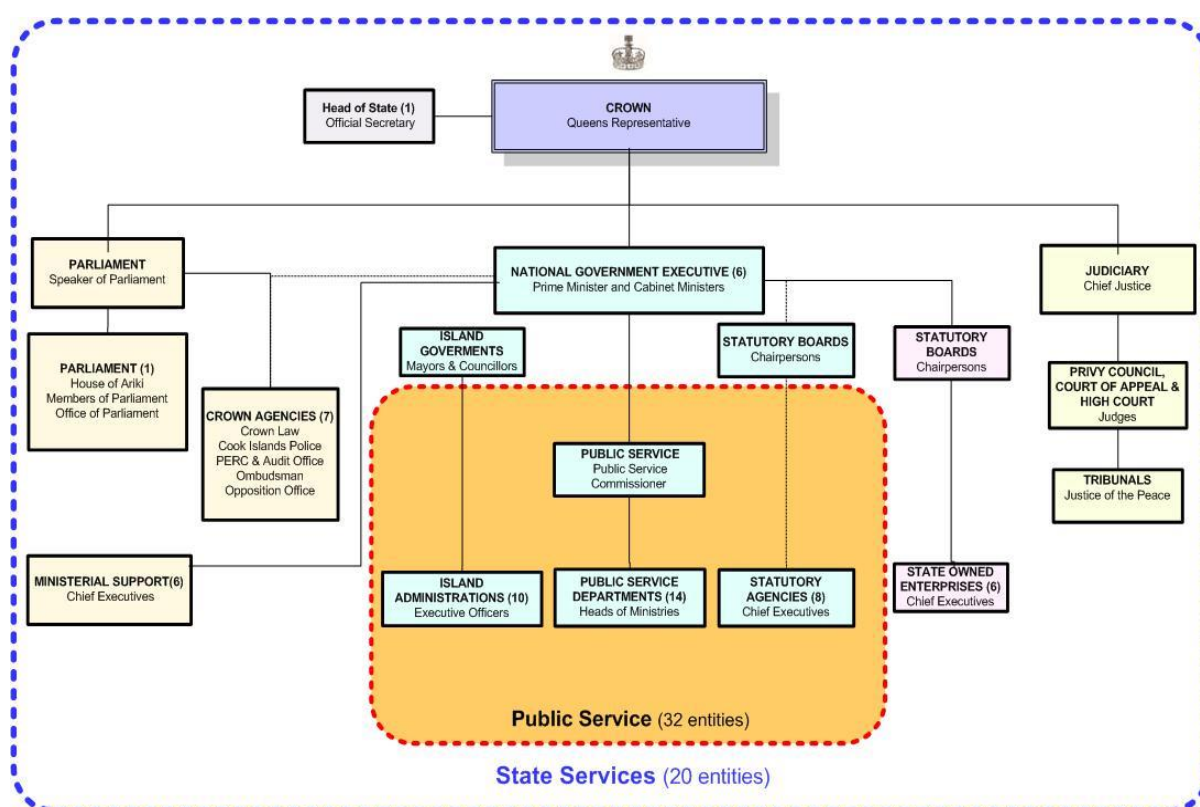


Table 14-1 Public Sector Agencies

| Public Service (14) | Island Governments (10) | Crown Agencies (7) |
|---|--|--|
| Ministry of Agriculture (<i>Pae Angaanga Tanutanu</i>) | Aitutaki | Head of State |
| Ministry of Corrective Services (<i>Te Tango Akatanotano</i>) | Atiu | Office of the Ombudsman |
| Ministry of Cultural Development (<i>Tauranga Vananga</i>) | Mangaia | PERC and Cook Islands Audit Office |
| Ministry of Education (<i>Maraurau o te Pae Apii</i>) | Manihiki | Cook Islands Police |
| Ministry of Foreign Affairs and Immigration | Mauke | Crown Law Office |
| Ministry of Finance and Economic Management | Mitiaro | Opposition Office |
| Ministry of Health (<i>Te Marae Ora</i>) | Palmerston | Parliamentary Services |
| Ministry of Justice (<i>Te Tango Tutara o te Ture</i>) | Penrhyn | |
| Ministry of Internal Affairs (<i>Te Tango 'Akarangatira'anga Ora'anga</i>) | Pukapuka/Nassau | |
| Infrastructure Cook Islands (<i>Te Tango Angaanga o te Kuki Airani</i>) | Rakahanga | Ministerial Support Offices (6) |
| Ministry of Marine Resources (<i>Tu'anga o te Pae Moana</i>) | | |
| Ministry of Transport (<i>Te Mana Tumotu o te Kuki Airani</i>) | Statutory Agencies (7) | State Owned Enterprises (6) |
| Office of the Prime Minister (<i>Kōutu Mana Tutara o te Ipukarea</i>) | Business Trade and Investment | Bank of the Cook Islands |
| Office of the Public Service Commissioner (<i>Paepae Ropi'anga o te Kavamani</i>) | Seabed Minerals Authority | Cook Islands Airport Authority |
| | Tourism Corporation | Cook Islands Ports Authority |
| | Financial Supervisory Commission | Te Aponga Uira o Tumutevarovaro |
| | Financial Services Development Authority | Cook Islands Investment Corporation* |
| | National Environment Service | Cook Islands Government Property Corporation |
| | Natural Heritage | |

* Includes staff from the Punanga Nui Market and Aitutaki Power Supply

14.2 Public sector employee numbers

Table 14-2 Employee summary by groupings

| Agency | Female | Male | Total 30 April 2019 | Total 30 June 2018 |
|--|---------------|-------------|------------------------------------|-----------------------------------|
| Public Service | 607 | 380 | 987 | 991 |
| Crown/Statutory Agencies | 113 | 117 | 230 | 238 |
| Island Governments | 65 | 292 | 357 | 351 |
| Parliament | 12 | 27 | 39 | 40 |
| Ministerial & Opposition Support Offices | 14 | 18 | 32 | 29 |
| State Owned Enterprises | 141 | 164 | 305 | 305 |
| Total | 952 | 996 | 1950 | 1954 |

Source: HRMIS 30 April 2019 (except FSC and SOE's which provided their agency numbers at 30 June 2018)

Noting that the 2019 data is up to 30 April, the total number of full time equivalent (FTE) employees from 2018 is relatively unchanged. The Public Service Departments represent 50.7 per cent of all FTEs, followed by Island Government employees at 16.7 per cent, State Owned Enterprises (SOE's) at 15.5 per cent and Crown/Statutory Agencies at 11.8 per cent. The increases in FTEs have been in the Island Administrations and Ministerial and Opposition Support Offices, while all other groups remained relatively the same.

The breakdown of employees by gender across Agencies is shown in the tables on the following page, State Owned Enterprises report a total of 303 employees as at 30th June 2018.

Table 14-3 Employees by Agency and Gender

| Agency Names | Female | Male | Total |
|---|---------------|-------------|--------------|
| <u>Public Service Departments</u> | | | |
| Ministry of Agriculture | 11 | 19 | 30 |
| Ministry of Corrective Service* | | 1 | 1 |
| Ministry of Cultural Development | 13 | 7 | 20 |
| Ministry of Education | 212 | 56 | 268 |
| Ministry of Finance and Economic Management | 59 | 31 | 90 |
| Ministry of Foreign Affairs and Immigration | 13 | 6 | 19 |
| Ministry of Health | 186 | 94 | 280 |
| Infrastructure Cook Islands | 9 | 50 | 59 |
| MFEM - Te Mato Vai | 3 | 2 | 5 |
| Ministry of Internal Affairs | 21 | 12 | 33 |
| Ministry of Justice | 37 | 37 | 74 |
| Ministry of Marine Resources | 15 | 28 | 43 |
| Ministry of Transport | 5 | 13 | 18 |
| Office of the Prime Minister | 16 | 23 | 39 |
| Office of the Public Service Commissioner | 7 | 1 | 8 |
| Public Service Total | 607 | 380 | 987 |
| <u>Crown/Statutory Agencies</u> | | | |
| Audit Office | 16 | 7 | 23 |
| Business Trade Invest. Board | 7 | 3 | 10 |
| Cook Islands Pearl Authority | 3 | 1 | 4 |
| Cook Islands Police Department | 34 | 75 | 109 |
| Cook Islands Seabed Mineral | 2 | 1 | 3 |
| Crown Law Office | 8 | 1 | 9 |
| Financial Service Dev. Authority | 1 | | 1 |
| Head of State | 1 | 2 | 3 |
| National Environment Services | 9 | 16 | 25 |
| Natural Heritage | | 2 | 2 |
| Ombudsman Office | 4 | 1 | 5 |
| Parliamentary Services | 7 | 2 | 9 |
| Tourism Cook Islands | 21 | 6 | 27 |
| Crown/Statutory Agencies Total | 113 | 117 | 230 |

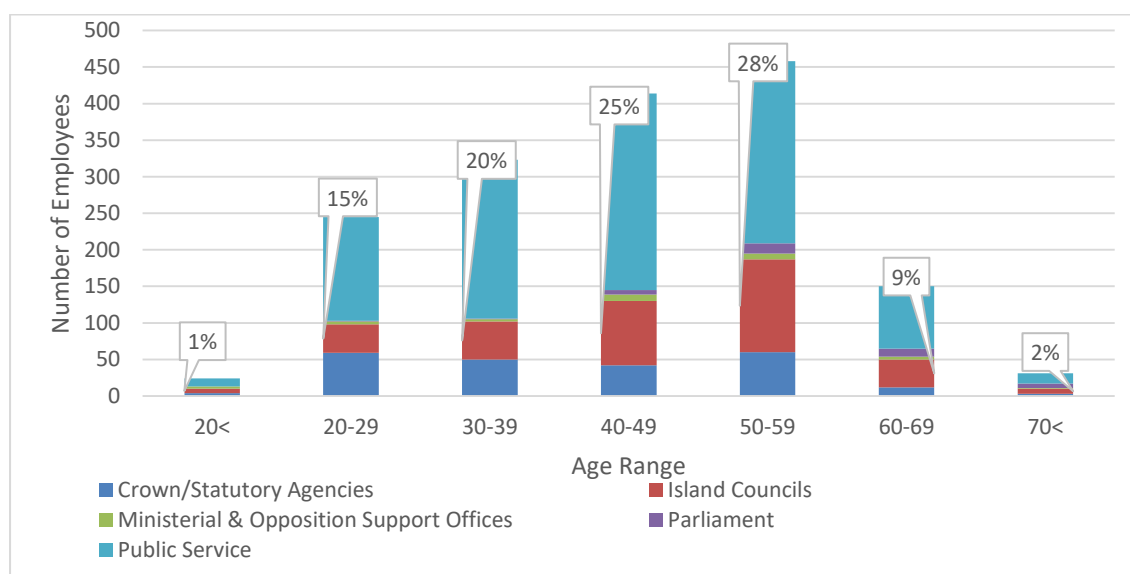
| Agency Names | Female | Male | Total |
|---|------------|------------|-------------|
| <u>Island Governments</u> | | | |
| Aitutaki Island Government | 7 | 49 | 56 |
| Atiu Island Government | 7 | 41 | 48 |
| Mangaia Island Government | 4 | 42 | 46 |
| Manihiki Island Government | 8 | 32 | 40 |
| Mauke Island Government | 6 | 34 | 40 |
| Mitiaro Island Government | 11 | 18 | 29 |
| Nassau Island Government | 1 | 4 | 5 |
| Palmerston Island Government | 2 | 7 | 9 |
| Penrhyn Island Government | 3 | 24 | 27 |
| Pukapuka Island Government | 13 | 20 | 33 |
| Rakahanga Island Government | 3 | 21 | 24 |
| Island Governments Total | 65 | 292 | 357 |
| <u>Ministerial Support Entities</u> | | | |
| Leader of the Opposition Office | 3 | 3 | 6 |
| Minister Brown Support Office | 2 | 2 | 4 |
| Minister Maggie Support Office | 1 | 2 | 3 |
| Minister Mokoroa Support Office | 2 | 2 | 4 |
| Minister Tapaitau Support Office | 2 | 5 | 7 |
| Minister Toki - Brown Support | 2 | 1 | 3 |
| Prime Minister Support Office | 2 | 3 | 5 |
| Ministerial Support Entities Total | 14 | 18 | 32 |
| <u>Parliament</u> | | | |
| Civil List | 8 | 17 | 25 |
| House of Ariki | 4 | 10 | 14 |
| Parliament Total | 12 | 27 | 39 |
| <u>State Owned Enterprises (SOE's)</u> | | | |
| Ports Authority | 17 | 4 | 21 |
| Bank of Cook Islands | 59 | 20 | 79 |
| Airport Authority | 31 | 83 | 114 |
| Te Aponga Uira | 11 | 30 | 41 |
| Financial Supervisory Commission | 8 | 4 | 12 |
| Cook Islands Investment Corporation | 15 | 23 | 38 |
| SOE's Total | 141 | 164 | 305 |
| Grand Total | 811 | 998 | 1950 |

*For the purposes of the 2018/19FY, staff in this new Ministry were still treated as being staff of the Ministry of Justice. The 1 staff being referred to here is the HOM.

14.3 Public sector age profile

Table 3.2.1 shows the age distribution of employees across the Public Sector. In terms of age distribution, the majority (88 per cent) of employees are in the age range of 20 to 59 years. Island Governments generally have a higher number of employees and councilors in older age brackets (50-59 years). Overall, there is a slight increase in the number of 40-59 year olds of 2 per cent. The 20-39 year old age brackets are consistent, remaining the same as 30 June 2018, at 35 per cent.

Table 14-4 Public sector age profile



Source: HRMIS - Not stated includes: SOE's and the Financial Supervisory Commission.

14.4 3.3 Public sector remuneration profile

The remuneration data displayed Table 14-5 shows that around 71 per cent of employees earn less than \$40,000 per year, with the largest cohort (29 per cent) of employees receiving salaries under the \$20,000 range from the Public Service and Island Governments. For Island Governments, part-time work is more commonly paid within the \$11,000 to \$16,000 annual salary range. Island Mayors, Deputy Mayors and Councilors receive sitting allowances of between \$1,000 and \$8,600 per year. The total minimum sitting allowance is \$8,580 per year based on 12 meetings a year. Depending on the extra meetings the Councils have, this amount can vary.

Just over 3 per cent of Public Service employees earn over \$60,000 per year similar to the remuneration profile as at 30th June 2018.

Table 14-5 Remuneration

| Salary Range | Public Service | Crown Agencies | Island Govt. | Ministerial Support Offices | Parliament | SOE | Total |
|--------------------|----------------|----------------|--------------|-----------------------------|------------|------------|-------------|
| 20,000< | 222 | 20 | 309 | 8 | 14 | | 573 |
| 20,001 - 30,000 | 217 | 106 | 33 | 9 | 1 | | 366 |
| 30,001 - 40,000 | 374 | 56 | 5 | 1 | | | 436 |
| 40,001 - 50,000 | 97 | 19 | 9 | 4 | 11 | | 140 |
| 50,001 - 60,000 | 35 | 10 | 1 | 4 | 5 | | 55 |
| 60,001 - 70,000 | 13 | 2 | | 1 | | | 16 |
| 70,001+ | 29 | 17 | | 5 | 8 | | 59 |
| Not Stated | | | | | | 303 | |
| Grand Total | 987 | 230 | 357 | 32 | 39 | 303 | 1948 |

Source: HRMIS.

14.5 Public sector strengthening – Our journey to excellence

14.6 Introduction

The Cook Islands Government Public Sector Strategy 2016-2025 has three key areas of focus: people, structures and systems to achieve the Government's vision for Public Service Excellence.

The Strategy recognizes the need for innovative transformation specific to the Cook Islands context to ensure the public service can deliver and support the achievement of our National Sustainable Development Plan. The Strategy outlines public sector strengthening in three key phases:

- Phase 1 – Preparing for change (2016 to 2018)
- Phase 2 – Implementing change (2018 to 2025)
- Phase 3 – Sustaining change (2025 onwards).

14.6.1 Phase 2 achievements to date

People

- Seven new Heads of Ministries were recruited to the Public Service for the following agencies: Agriculture, Corrective Services, Infrastructure Cook Islands, Justice, Marine Resources, Office of the Prime Minister, Transport.
- The Office of the Public Service Commissioner (OPSC) facilitated the recruitment of the new Clerk of Parliament and the new Director for the National Environment Service.
- The Government Remuneration framework was reviewed in March 2019 to determine whether the current framework allows the Public Service to remain competitive in the labour market in terms of recruitment and retention.
- Over the past 2 years, OPSC has been promoting employment opportunities in the Cook Islands Public Sector by participating in Cook Islands Tertiary Students organized events held in New Zealand around graduation week.
- OPSC has delivered 15 successful Public Service Induction programmes from 1 July 2018 – 1 June 2019 to over 1,100 public servants to strengthen understanding of the role of public servants and how the machinery of Government operates.
- The Heads of Ministries (HOMs) Manual was updated in December 2018. The Manual provides information that will support HOMs in their roles as strategic Public Sector managers – on the Public Service vision, values and Code of Conduct; on Government structures, performance management and other policy matters.
- To strengthen the Public Sector's ability to critique HRM policies and evaluate all public sector jobs, the Terms of Reference of the HR Taskforce has been reviewed and membership renewed. The HR Taskforce is made up of 40+ members from the public and private sectors.
- A number of Policies have been reviewed and updated:
 - Code of Conduct (Aug 2018),
 - Leave (Aug 2018),
 - Motor Vehicle (Sep 2018),
 - Employment Disputes (Aug 2018), and
 - Leaving the Service (Jul 2018).

Structures

- The Cook Islands Pearl Authority will be wound up and its residual functions transferred to the Ministry of Marine Resources in the new financial year.
- A transition plan to expand the current roles and functions of the Ministry of Transport over the medium term to enable it to evolve into a Ministry that will manage safety regulation, absorbing safety and compliance functions and oversight currently performed within other Agencies.

- A Capacity Assessment has been completed for the Ministry of Agriculture (MOA); the purpose of which is to measure current capacity of the Ministry to implement its Strategy and Sector Policy.
- The Organisational Structures for the following Ministries were reviewed and updated to ensure that they were fit for purpose:
 - Transport (Aug 2018),
 - Corrective Services (Oct 2018),
 - Agriculture and Health (Jan 2019),
 - Development and Cooperation Division of MFEM,
 - Infrastructure Cook Islands (Feb 2019)
 - Business Trade and Investment Board (Feb 2019),
 - Justice (Mar 2019)
 - The Office of the Public Service Commissioner (Apr 2019);
 - Manihiki Island Government (Mar 2019), and
 - the Pukapuka-Nassau Island Government (Apr 2019).

Systems

- Establishment of 41 out of 50 agencies (1,500 users including short and long-term consultants) on a centralized ICT network to ensure better communication and connectivity across the sector
- Continued progress made with online tax lodgements for VAT, PAYE, personal income tax, Company tax and withholding tax.
- Progressing phase 1 of the financial management information system (FMIS) for the whole of government to strengthen financial reporting and accountability with the expectation that it should be live for MFEM by end of the 2018/19 financial year. Phase 2 and 3 of the project will be brought on throughout the next two years.
- A Recruitment Portal is being established on the OPSC website to centralize and advertise all current vacancies in the Public Service.

15 The Pa Enea

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

15.1 The Pa Enea Funding Model

The purpose of the model is to determine central Government spending in Pa Enea. More specifically, the model outlines the minimum required spending and additional funding for economic development of the islands.

This system was first introduced in the 2012/13 Budget to ensure fair and transparent funding of the outer islands and since then it has proved to be effective. The model also takes into account the unique challenges of each island and allows adequate funding for the delivery of public services. This funding forms the Island Government's cash appropriation, with trading revenue forming an additional source of revenue that the Island Governments can use for local development.

The Funding Model may suggest a different level of funding compared to the current allocation (either higher or lower). Assuming no change in the total funding to the Outer Islands, each island administration will only have its operational funding adjusted toward the suggested allocation by a maximum of three per cent in a given Budget year, although the recent changes have been closer to one per cent. This ensures that increases and, more importantly, decreases suggested through the model are iterative, rather than a stepped 'jump'.

Table 15-1 summarises the major cost factors used in the Funding Model. These cost factors were determined based on relevance and reliability. The Funding Model does not include depreciation (as this is a non-cash item), capital spending (which goes through the Infrastructure Committee process), or agency spending (which is determined within the individual budgets of those agencies).

Table 15-1 Cost factors of the Pa Enua Funding Model

| Factor/Output | Parameter | Basis for costing |
|--|--|--|
| <u>Administration</u> | Population as per the Census | 3 staff per island, plus 1 additional administrative staff per 250 residents, up to an additional 3 |
| <u>Councils</u> | The number and wages of councillors, Ui Ariki and Aronga Mana as per the <i>Outer Islands Local Government Act 2012/13</i> | Base salary, plus top-up payment based on island tier as determined by OPM |
| <u>Infrastructure</u> | | |
| Water | Population as per the Census | \$250 per person |
| Road maintenance | | |
| <i>Sealed</i> | Kilometres of road | \$4,897.55 per km |
| <i>Unsealed</i> | Kilometres of road | \$7,372.50 per km |
| Maintenance (machinery & vehicles) | Schedule of Regular Capital Needs | 3-7% of asset replacement value, as determined by the Infrastructure Committee |
| Airstrip | Length of runway | \$58,254.17 per km |
| Waste Management | Population as per the Census | \$56.40 per person; \$26,920 fixed cost |
| Lighterage (unloading of boats) | Island Administrations to cost recover | Nil |
| Beautification | Per km of road | \$2,300 per km |
| Building maintenance | Funding and services provided through the Cook Islands Investment Corporation | Nil |
| <u>Energy (electricity generation)</u> (excl. Aitutaki) | Estimation of generation cost <i>minus</i> estimated trading revenue from appropriate usage charges Separately averaged per person usage across of the Northern Group and the Southern Group | A cost of 90-95 cents per kWh A charge of 60 cents per kWh to local users Average consumption in the Northern Group (incl. Palmerston) Average consumption in the Southern Group (excl. Aitutaki) |
| <u>Other costs¹</u> | Varies by island | Operational costs for inter-motu ferries (\$3,000 for Manihiki, \$6,000 for Penrhyn) |

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

In 2018 a number of changes were made to the value of infrastructure parameters. The maintenance price of a sealed kilometer of road has decreased by \$1,602.45, while the maintenance price of an unsealed kilometer of road has increased by \$872.5. The cost of airstrip maintenance has decreased by \$11,746 per kilometer. Waste management prices dropped by \$54 per person, however a fixed cost of \$26,920 was added to consider those costs faced by all Pa Enua, regardless of population level. Road beautification prices have increased by \$1,000 per kilometer of road.

The Funding Model also includes a 10 per cent modifier on operating expenses to account for the remoteness of the Northern Group and Palmerston. This was estimated on the average cost of landed diesel on island as a proportion of total operating costs (not including personnel). This number is halved to 5 per cent for energy operating costs as all the Northern Group have access to renewable energy systems; this dramatically reduces the need for importing diesel and oils, and shifts the burden of costs to the capital replacement budget (which is borne by the central Budget).

15.2 2019/20 Pa Enua Funding Model results

In 2019/20 the funding pool for the Pa Enua has increased by \$644,145 to a total of \$8.3 million and further increased by \$1.3 million to include government wide salary adjustment taking the total funding to \$9.6 million in 2020/21. This year's increase is split in accordance to each island's special needs to cover for the increased personnel expenses.

The total funding is estimated to cover for basic service needs for the outer islands.

These figures exclude the trading revenue generated by the Island Governments outside of estimated energy revenues and the increase in the minimum wage and employment liability insurance.

Approximately 64.8 per cent of the total funding given to the Island Governments goes to the Southern Group (excluding Palmerston) and 35.2 per cent goes to the Northern Group and Palmerston. As background, 75 per cent of the population of the Pa Enua live in the Southern Group excluding Palmerston. The mild preference of the Funding Model to give proportionally more funding to the remote and less populous islands is due to the fixed cost parameters (such as administration and asset maintenance) that are independent of population, and the premium given to shipping costs to the more remote islands. A summary of the Funding Model results are provided in Figure 15-1.

Figure 15-1 Allocation of total funding across Island Governments

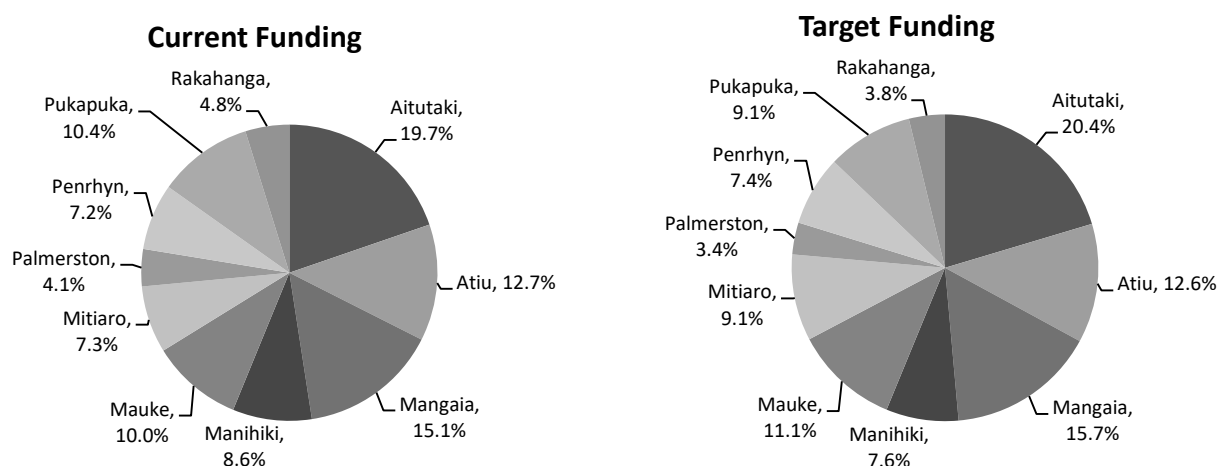


Table 15-2 Pa Enua Funding Model results for 2019/20 (\$)

| | 2018/19 Budget Cash Funding | Current percentage of total Cash Funding | Formula Results | | | 2019/20 Cash Funding |
|-------------------|-----------------------------------|---|-------------------------|--|---------------------------------|-------------------------|
| | | | Minimum Cash Funding | Target percentage of total Cash Funding | Adjustment towards target | |
| Aitutaki | 1,445,586 | 19.7% | 1,635,373 | 20.4% | 7,037 | 1,499,833 |
| Atiu | 931,970 | 12.7% | 1,007,569 | 12.6% | (6,641) | 977,296 |
| Mangaia | 1,107,032 | 15.1% | 1,256,507 | 15.7% | 5,389 | 1,151,015 |
| Manihiki | 632,331 | 8.6% | 612,810 | 7.6% | (4,506) | 686,567 |
| Mauke | 732,699 | 10.0% | 888,399 | 11.1% | 3,567 | 781,295 |
| Mitiaro | 536,429 | 7.3% | 731,010 | 9.1% | 2,611 | 628,401 |
| Palmerston | 297,377 | 4.1% | 270,135 | 3.4% | (2,119) | 319,158 |
| Penrhyn | 531,012 | 7.2% | 591,968 | 7.4% | 2,585 | 644,541 |
| Pukapuka | 760,169 | 10.4% | 727,539 | 9.1% | (5,417) | 899,080 |
| Rakahanga | 351,685 | 4.8% | 304,743 | 3.8% | (2,506) | 383,248 |
| Total | 7,326,290 | | 8,026,053 | 100.0% | 0 | 7,970,434 |

For the complete appropriation of each Island Government, refer to Schedule 1 of the Appropriation Bill or the relevant section of Budget Book 2.

15.3 Other agency support targeting the Pa Enua

The funding provided for the Pa Enua is not limited to that distributed via the Pa Enua Funding Model. In addition to Island Government appropriations, Rarotonga-based agencies and development partners also mobilise significant resources to assist communities in the Pa Enua. Much of this assistance is crucial for the well-being of local communities. This is especially true in the case of major capital works and heavy machinery.

Assistance to the Pa Enua is not a mandated requirement for financial reporting, so survey methods are necessary to determine estimated levels of support. Table 15-3 summarises the estimated assistance given by each agency to the Pa Enua.

Table 15-3 Estimated agency expenditure in the Pa Enua (\$'000)

| | 2019/20 Budget Estimate | | | |
|------------------------------------|-------------------------|--------------|-----------------|---------------|
| | Operational | Personnel | Trading Revenue | Capital |
| Ministry of Marine Recourses | 71 | 420 | 0 | 0 |
| Ministry of Health | 518 | 2,284 | 10 | 275 |
| Ministry of Education | 298 | 3,947 | 0 | 360 |
| Infrastructure Cook Islands | 238 | 111 | 0 | 6,870 |
| Official Development Assistance | 2,638 | 0 | 0 | 10,834 |
| Cook Island Police Service | 64 | 478 | 3 | 19 |
| Internal Affairs | 28 | 157 | 4 | 69 |
| Cook Island Investment Corporation | 0 | 0 | 0 | 1,540 |
| Ports Authority | 80 | 172 | 659 | 545 |
| Airport Authority | 200 | 224 | 0 | 2 |
| National Environment Service | 121 | 239 | 3 | 10 |
| Office of the Prime Minister | 13.5 | 178 | 0 | 650 |
| Ministry of Finance | 500 | 0 | 0 | 110 |
| Total | 4,771 | 8,215 | 679 | 21,284 |
| Social Welfare | 6,105 | 0 | 0 | 0 |
| Scholarships / Other Education | 130 | 0 | 0 | 0 |
| Total | 11,006 | 8,215 | 679 | 19,900 |

¹ Official Development Assistance (ODA) is delivered through numerous agencies, both local and foreign. Figures of ODA spending are at best a good estimate as the funding is split between Pa Enua and Rarotonga. For more information refer to the ODA chapter.

Note: Due to the close integration of Pa Enua support in general agency programs, this data should be taken as an estimate only.

15.3.1 Ministry of Health

The Ministry of Health allocates personnel funding for health positions held in the Pa Enua. These positions can include nurses, doctors and dentists. The Ministry of Health contributes to the operational costs of the hospitals and health centres in the Pa Enua. Non Communicable Disease promotional activities that include or are held in the Pa Enua are covered through the \$195,000 provided by Government for the NCD initiative. In addition to this, patients who are required to be referred from the Pa Enua to Rarotonga and on to New Zealand for health issues are covered through the patient referral program that is administered by the Ministry of Health at the cost of \$1,000,000. All costs are funded by the Cook Islands Government, and are not included above.

In addition to this, the Ministry of Health estimate operating expenditure of \$518,900, with personnel expenditure of \$2,284,000. Each year the health care system is able to collect \$10,000 in trading revenue. This mostly comes from the unsubstantial fixed costs required to be paid prior to seeing a physician.

The Ministry of Health has a baseline funding of \$275,000 to assist in the purchasing of specialized health equipment to assist both the Pa Enua and Rarotonga Hospitals.

15.3.2 Ministry of Education

Outside of social welfare payments, the Ministry of Education is the single largest contributor to operational funding in the Pa Enua. In 2019/20, the Ministry anticipates personnel costs of \$3 million with an additional \$298,000 for ongoing operational expenditure at the school level. These costs include text books, stationery, property, teacher salaries and other expenses.

This year the Ministry is allocating \$130,000 to scholarships and \$523,600 to assist students from the Pa Enua studying in Rarotonga. Furthermore, the Ministry supports Tekaaroa School in Aitutaki (in addition to all schools except that on Palmerston).

The Ministry also anticipates spending approximately \$57,000 on Laptops and Ipads replacement plan, in addition to its regular capital purchases. All Pa Enua schools are included in replacement plans for ICT including printers and copiers as well as school furniture.

15.3.3 Infrastructure Cook Islands (ICI)

ICI has appropriated \$6.9 million for capital projects in the Pa Enua during 2019/20. This investment will mainly be dedicated towards the work on Pa Enua Cyclone Centers. The works will continue to 2020/21 with a budget totaling to \$7.6 million. Details of these capital projects are provided in the Capital Chapter.

Table 15-4 Estimated ICI capital projects in the Pa Enua (\$'000)

| Island | PROJECT/PROGRAMME | 2019/20 | 2020/21 | 2021/22 |
|---|----------------------------------|-----------------|--------------|------------|
| | | Budget Estimate | Projection | Projection |
| Aitutaki | Establish New Water Galleries | 200 | 0 | 0 |
| Atiu | Atiu Road Improvement Programme | 570 | 0 | 0 |
| Mitiaro | Mitiaro Water Upgrade | 250 | 0 | 0 |
| Pukapuka | Nassau Ferry | 350 | 0 | 0 |
| Pa Enua | Manea Games | 100 | 0 | 0 |
| Pa Enua | Pa Enua Cyclone Centre | 4,200 | 3,600 | 0 |
| Pa Enua | Water Infrastructure Improvement | 1,050 | 500 | 500 |
| Pa Enua | Pa Enua Marine Infrastructure | 150 | 3,500 | 0 |
| CIG funded Infrastructure Cook Islands | | 6,870 | 7,600 | 500 |

15.3.4 Official Development Assistance

ODA is an important element of Government spending. Total ODA estimated to be spent on the Pa Enua development in 2019/20 is \$11 million. Chapter 16 has more detail on specific ODA projects, with Chapter 9 outlining all capital spending.

The biggest projects included in the ODA schedule for 2019/20 are the Ridge to Reef project, Southern Group Renewable Energy Project, Pa Enua Action for Resilient Livelihood and Phase II of the Northern Water Project.

15.3.5 Cook Islands Police Service

Police Services are planned to spend close to \$478,650 on the Pa Enua. Most of the funding is allocated to Personnel leaving around \$64,000 for operations. Furthermore, \$25,200 is provided to cover all addition expenses encountered by the islands' police services.

15.3.6 Ministry of Internal Affairs

Total welfare payments to the Pa Enua in 2019/20 are estimated at \$6.1 million. Full details of the breakdown between the islands and welfare categories are shown in Table 15-5. The amounts presented do not include the welfare benefits received by beneficiaries on Palmerston, as these benefits are paid into accounts held in the Rarotonga branch of the Bank of the Cook Islands.

Table 15-5 Estimated Social Welfare Payments in the Pa Enua for 2019/20 (\$'000)

| | Aitutaki | Mangaia | Atiu | Mauke | Mitiaro | Pukapuka | Penrhyn | Manihiki | Rakahanga | Total |
|---------------------|--------------|--------------|------------|--------------|------------|------------|--------------|------------|------------|--------------|
| Old Age Pension 60+ | 700 | 322 | 212 | 178 | 109 | 148 | 37.6 | 82.6 | 51 | 1,840 |
| Old Age Pension 70+ | 832 | 384 | 260 | 198 | 136 | 124 | 48.2 | 75.7 | 38 | 2,096 |
| Child Benefit | 594 | 132 | 119 | 51.6 | 55.2 | 221 | 93.6 | 80.4 | 27.6 | 1,374 |
| Newborn Allowance | 28 | 2 | 7 | 2 | 3 | 8 | 2 | 2 | 1 | 55 |
| Destitute Benefit | 12 | 4.8 | 9.6 | 2.4 | 0 | 0 | 2.4 | 2.4 | 0 | 34.6 |
| Infirm Benefit | 84 | 38.4 | 26.4 | 19.2 | 7.2 | 14.4 | 7.2 | 4.8 | 4.8 | 206.4 |
| Maternity Leave | 28.5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 28.5 |
| Caregivers | 35.6 | 21.8 | 9.9 | 11.9 | 17.8 | 31.7 | 5.9 | 4 | 2 | 140.6 |
| Christmas Bonus | 38.1 | 11.8 | 9.5 | 5.9 | 4.3 | 12.3 | 4.8 | 4.5 | 1.9 | 93.2 |
| Funeral Allowance | 19.2 | 12 | 7.2 | 10.8 | 2.4 | 26.4 | 7.2 | 9.6 | 1.2 | 96 |
| Power Subsidy | 13 | 13.7 | 6.7 | 8.2 | 1.4 | 2.9 | 1.4 | 4.1 | 0.24 | 51.6 |
| Special Assistance | 36.4 | 0 | 20.7 | 1.2 | 4.4 | 0 | 0 | 0 | 0 | 89.8 |
| Total | 2,448 | 942.1 | 688 | 489.2 | 340 | 589 | 210.4 | 270 | 128 | 6,104 |

15.3.7 Cook Islands Investment Corporation (CIIC)

CIIC anticipates capital spending of \$1.54 million in the Pa Enua during 2019/20. The major project for this year is the commencement of the Orongo Development Master Plan and Centre Reconstruction. The new development of the southern marina area will assist in increasing tourism further. The deepening and widening of the existing channel will allow yachts, cruise ships tenders and ships to berth in the harbour. Other major projects for this year include Penrhyn Government Building as well as Atiu School Building.

Table 15-6 Estimated CIIC capital projects in the Pa Enua (\$'000)

| Island | PROJECT/PROGRAMME | 2019/20 Budget Estimate | 2020/21 Estimate | 21/22 Projection |
|---|--|--|-----------------------------|-----------------------------|
| Aitutaki | Orongo Development Master Plan and Centre Reconstruction | 500 | 500 | 0 |
| Aitutaki | Aitutaki Government Building Project | 60 | 170 | 450 |
| Atiu | School Building Project | 480 | 350 | 0 |
| Penrhyn | Government Building Project | 500 | 150 | 0 |
| CIG funded Cook Islands Investment Corporation | | 1,540 | 1,170 | 450 |

15.3.8 The Ports and Airport Authorities

The Ports Authority manage assets on Aitutaki. In 2019/20, \$172,366 is allocated to personnel and \$80,145 is allocated to operational expenses. Operating expenditure includes utilities, bulk fuel and other operating expenses. Personnel expenditure includes remuneration, overtime, leave, allowances, training and superannuation. Repair and maintenance includes \$140,000 to assist towards improvement of Aitutaki channel dredging. And depreciation accounts for new capital expenditures. The rest of the budget is used to cover repair/maintenance as well as the costs associated with depreciation.

The total expenditure estimate for the Aitutaki Airport is \$424,698 which includes personnel cost of \$241,000 and operational cost of \$184,000. The airport also has a depreciation cost of \$427,200 as well as repair and maintenance costs amounting to \$27,000.

15.3.9 National Environment Service (NES)

NES estimates expenditure of \$239,743 on environment officers in the Pa Enua including Suvarrow during 2019/20, with operational expenditure of \$121,000 and trading revenue of \$3,000.

NES is also taking on one of the leading roles in implementing Ridge to Reef Project which is focused on building climate change resilience and implementing sustainable environment management. Some of the major projects this year include the installation of binoculars on Atiu, Turtle monitoring programs on Mauke, Manuae and Takutea, Mitiaro Fan Palm and Mitiaro Daisy, Technical and community training in Bird surveying/monitoring, and the implementation of Aitutaki Lagoon Master Plan.

15.3.10 Office of the Prime Minister (OPM)

OPM provide resources to assist with development in the Pa Enua, including delivery of the Pa Enua renewable energy projects. All the Renewable Projects on the Southern Group is completed with the exception of Mauke to be commissioned and tested during the 1st quarter of 2019/20. The Power Upgrade for Mauke and Mitiaro are also to be completed in the 2nd quarter of 2019/20.

An appropriation of \$250,000 is provided for the management oversight of Renewable Energy Projects in Rarotonga and Pa Enua.

15.3.11 The Ministry of Finance and Economic Management (MFEM)

MFEM manages the small capital fund \$110,000 for the Island Governments to make funding requests related to capital under the value of \$5,000. This \$110,000 is distributed amongst the 10 Pa Enua. In addition, MFEM has two finance officers dedicated to the financial reporting of each island. \$500,000 is baselined for a shipping subsidy to the Pa Enua. The pilot to this subsidy was undertaken in 2018 and the results from this should inform the ongoing subsidy put in place.

15.3.12 Total agency expenditure in the Pa Enua

Table 15-7 represents total funding provided to Pa Enua.

The level of investment by the Government in the Pa Enua is significant by any measure, representing the importance of the Pa Enua to the Cook Islands Government.

Table 15-7 Total Central Government expenditure in the Pa Enua (\$'000)

| Island | Government Support through Agencies | Fiscal transfer from Central Government | Welfare transfers | Total current public spending |
|------------------------|-------------------------------------|---|-------------------|-------------------------------|
| Aitutaki | 3,869 | 1,993 | 2,448 | 8,378 |
| Atiu | 883 | 1,471 | 688 | 3,267 |
| Mangaia | 1,345 | 1,857 | 942 | 4,144 |
| Manihiki | 771 | 1,214 | 270 | 2,373 |
| Mauke | 635 | 1,246 | 489.2 | 2,483 |
| Mitiaro | 577 | 783 | 340 | 1,761 |
| Palmerston | 1,362 | 412 | 0 | 1,794 |
| Penrhyn | 1,135 | 828 | 210.4 | 2,248 |
| Pukapuka/Nassau | 1,352 | 1,188 | 589 | 3,204 |
| Rakahanga | 307.4 | 507 | 128 | 992 |
| Suvarrow | 119.7 | 0 | 0 | 0 |
| General Support | 22,660 | | - | 22,899 |
| Total Pa Enua | 35,016 | 11,499 | 6,105 | 53,424 |

Note: The welfare benefit payments received by beneficiaries in Palmerston is not reflected in this table as these are paid to beneficiaries accounts at the BCI branch in Rarotonga. Also note that trading revenue is not shown here as that revenue is generated on-island, and hence not transferred from the central budget.

15.4 The Pa Enua economic context

15.4.1 Introduction

The Cook Islands are spread across 1.8 million square kilometres of ocean, making the economic integration of the Pa Enua with Rarotonga and global markets a challenge. This requires novel solutions and substantial levels of subsidisation. By Pacific standards, Rarotonga is a small and remote market, with the islands of the Pa Enua being even smaller and even more remote. Over the past 40 years, the economic prospects of the Pa Enua have been further eroded by continued depopulation.

This does not mean that economic development is impossible – it simply means that the Pa Enua face development challenges that need to be acknowledged, and are separate from those faced in Rarotonga. There are examples of successful businesses and initiatives in the Pa Enua that have significantly benefitted their local communities, as well as activities that have capitalised on the booming tourist growth in Rarotonga (such as parrotfish from Palmerston and on-travel to Aitutaki).

The general challenges of transport, poor local infrastructure and poor access to labour, are almost universal, but this section attempts to summarise any recent economic developments unique to each particular island. Reliable data makes full analysis difficult, but highlights the need for economic reporting in the Pa Enua as a general issue.

15.4.2 Aitutaki

Aitutaki remains the Pa Enua leader in the tourism sector. On average, the island welcomes 84 per cent of all the visitors traveling to the Pa Enua with 38,777 visiting in 2018 (including locals) an increase of approximately 5 per cent on 2017. Increases in the Rarotonga tourism sector positively contribute to the Aitutaki tourism as around 22 per cent of visitors travel on to Aitutaki.

Last year the Aitutaki Road Sealing Program was further progressed, with only around 5 kilometres remaining to be sealed. The program will lead to a positive impact on businesses, individuals and the tourism industry on the island, although lack of accommodation still remains an issue. According to estimates there are around 200 available rooms on Aitutaki of which only a few can be classified as “family-friendly”.

This year capital funds have been appropriated for the implementation of Aitutaki Government Building Project to undergo substantial maintenance work and the Orongo project to further assist the tourism sector of the island.

15.4.3 Atiu

Atiu Island is also referred to as Enuamanu which is translated as the land of birds. It is located 187 km northeast of Rarotonga and is home to nearly 500 residents.

In 2018, 2,667 people including (including locals) visited Atiu. There are two ways of getting to the island. One being the direct Air Rarotonga flight which provides a regular domestic service to Atiu. The second way is to fly through Aitutaki which currently has 4 links a week allowing tourists to visit both of the islands. Visitors to the island can indulge in the natural beauty of the island and discover over 26 unspoiled beaches. The island also has a number of caves to be explored by the visitors. One of such caves, called Anataketake is home to one of the rare indigenous birds called the Kopeka.

Atiu’s geography is very different from Rarotonga or Aitutaki, with untouched jungle and a diverse number of bird species, allowing it to attract adventure travelers.

The Atiu Road Improvement Program was a major project in 2018/19. Since then 14.2 additional kilometers of the roads were sealed through the main villages of the island. Better infrastructure will benefit communities, aid in local economic development and ensure that Atiu has adequate infrastructure to support increased tourist arrivals. In 2019/20, \$570,000 was re-appropriated from previous year to further assist in the completion of the Road improvement program.

15.4.4 Mangaia

Mangaia is believed to be the oldest island in the Pacific. Traditionally it is known as A’Ua’U Enua meaning terraces. It is not only the most southern island but also the second largest in Cook Islands. It allures tourists with its ancient history, traditional way of life, long sandy beaches, secret caves and rare bird species.

Total arrivals (including locals) to Mangaia in 2017 were recorded at 2,198. In 2018 the total arrivals were recorded at 2,908, an increase of 30%. This can be mostly attributed to the Tri Series being held in Mangaia in 2018 – a biennial sporting event. The island accounts for 5 per cent of all travelers to the Pa Enua and surpassing Atiu as the second most visited Pa Enua destination.

In the past years Mangaia has benefited from development partner assistance in the form of coolers and ice making machine for the local fishing club. While fishing catch fluctuates between months, most of the catch never reaches storage facilities as it is sold on the wharf or presold to waiting customers. There are plans for the local fishing club and school to teach school children about fishing from an early age.

A quarry site at Karanga Nui has become operational to maintain the main coastal roads to an acceptable standard.

Last year ICI took on a project to improvement water supply in Tamarua Village with total Government funding of \$250,000. The project included the construction of a new intake structure, a rising main from the new intake and two 25,000 litre water storage tanks.

Mangaia has made progress in agriculture in recent years, with produce now being shipped to Rarotonga for sale. This is expected to be further supported by the PEARL project (see Chapter 16.3).

15.4.5 Manihiki

Manihiki is located 1,200 kilometres north of Rarotonga. The islands is often referred to as the “islands of pearls” as 40 tiny islets encircle a lagoon which makes it a perfect nesting ground for the pearl farming. Fishing is also one of the major activities although the catch is mostly for local consumption. Recently the Manihiki Lagoon Clean-Up Project was successfully completed. As a result seven pearl farmers have applied to the island government to expand into the cleaned farm areas. The immediate economic benefit of the project was the approximately \$100,000 put into the Manihiki economy through wages, rentals and purchases by the contractors. Nearly \$27,000 worth of equipment was given to the Manihiki Island Government and \$5,000 worth of equipment handed over to community and staff.

While the clean-up was focused on the pearl farms, improving the lagoon had wider benefits as the lagoon is an important source of food for the Manihiki Community.

15.4.6 Mauke

Mauke is located in the south-east corner of Cook Islands. It is a raised atoll named after its legendary founder, Uke. Most of the island is flat and it raises only 30 meter above the sea level.

Prior to the 2013 drought, the availability of ground water on the island was sufficient for irrigation purposes and production of vegetables for the Rarotonga market. However, following the drought, the sector is in the process of recovering. Further support to agriculture is expected through the Pa Enua Action for Resilient Livelihoods (PEARL) project.

Mauke is participating in the Southern Group Renewable Energy Program. The island has completed the civil work array of the project and is soon to transfer to solar energy. The station is part of the Southern Renewable Energy Project financed by grants from the European Union and Global Environment Facility, Japan’s Pacific Community funds and loans from the Asian Development Bank.

The recent construction of the harbour at Taunganui is aiding in improving cargo handling and shipping services on the island. This allows to ensure safe, efficient and reliable transportation of the goods and people, thereby fostering economic growth and prosperity for the Mauke.

15.4.7 Mitiaro

Mitiaro is the fourth largest of the Southern Cook Islands. In the past years around 2 per cent of all the outer island visitors chose to travel to Mitiaro. In 2018, 976 people visited the island, again the highest number in the last 10 years.

In 2016/17 the Government expressed concern with some of Mitiaro’s water galleries. In 2019, Mitiaro completed construction of 10 concrete 20,000 litre water tanks and purchased a mobile water tank to transfer water to remote areas as well as to assist in the case of emergencies. The project received a funding of \$115,500 from the Government of Japan through GAP and is focused on building Mitiaro’s resilience to the impacts of climate change.

15.4.8 Palmerston

Palmerston is a coral atoll located about 500 kilometers northwest of Rarotonga. Due to the distances, ships are only able to visit the island a few times a year.

The construction of the Palmerston Cyclone Shelter was completed in 2018/19. This project will provide secure and reliable shelter for up to 80 people and assist in post disaster recovery during adverse weather conditions.

Furthermore, July 8th, 2019 was chosen for the Palmerston House Opening Ceremony. The new building will serve as a hostel and solve accommodation challenges on the island. Prior to this, Palmerston was the only outer island without a hostel. The chosen date holds a great significance as that was the date when late William Palmerston and his family first landed on the island in 1863.

15.4.9 Penrhyn

Penrhyn lies only 9 degrees below the equator. It is considered to be one of the largest atolls in the Pacific. Penrhyn is 1,400 kilometres from Rarotonga and 350 kilometres from its nearest neighbours Manihiki and Rakahanga.

Diving and harvesting natural pearls or pipi on Penrhyn has been a key source of local income, often involving whole family units. There are two overseas buyers involved in the industry and working directly with the community. The economic returns from harvesting pipi have resulted in a decline in the production of woven handicrafts. There is concern over current harvesting practices and the future sustainability of the pipi may be under threat. In response, the council have placed a temporary ban on pipi harvesting which will be lifted as soon as the population improves.

Fishing is generally reserved for family consumption, with little excess for sale or export to Rarotonga. While shellfish like paua or clams present opportunities for the islanders, the harvesting of it is locally regulated to ensure sustainability, thus restricting revenue from this resource to specific times of the year. There are concerns around the seashell food population based on indications of an increase in coral bleaching which affects clam populations.

In 2018/19, ICI undertook a \$250,000 project aimed at scoping the Omoka Harbour. Construction to upgrade the harbor is prioritised to take place over the medium term.

15.4.10 Pukapuka and Nassau

Pukapuka is one of the most remote islands on earth. Due to limited air connections the island is unlikely to become a major tourist destination in the near future.

Economic activity is low with food production for local consumption being the mainstay. Due to the remoteness of the island, shipping costs from Rarotonga are high. The Government has introduced a pilot subsidy on some voyages to the Northern Islands with a requirement to reduce freight charges.

In 2018/19 an estimated funding of \$500,000 was allocated by the Government for the reconstruction of the Pukapuka hospital.

Nassau is located 88 km from Pukapuka. The Government is proposing to construct cyclone shelters on the two sister islands. This will be programed by ICI.

Nassau is currently undergoing an EU-GIZ ACSE²⁰ Northern Island Water Project Phase II which aims to improve the island's capacity to collect, store and manage water resources. Similar developments are being carried out in Penrhyn and Palmerston.

15.4.11 Rakahanga

Rakahanga is the sister island of Manihiki. It is a rectangular atoll famous for huge coconut crabs and sea turtles.

Unlike most of the other Pa Enua islands, Rakahanga is unsuitable for pearl farming. Although the island benefits from fishing activities and abundant vegetation. Every January the island hosts a tuna fishing contest. On average the boats return with 200 or more fish a day.

The island generates extra revenue for the residents by engaging in dried fish production.

²⁰ Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) - Adapting to Climate Change and Sustainable Energy (ACSE) Programme. More information available at <http://acsePacific.org/about/>

16 Official Development Assistance

16.1 Summary

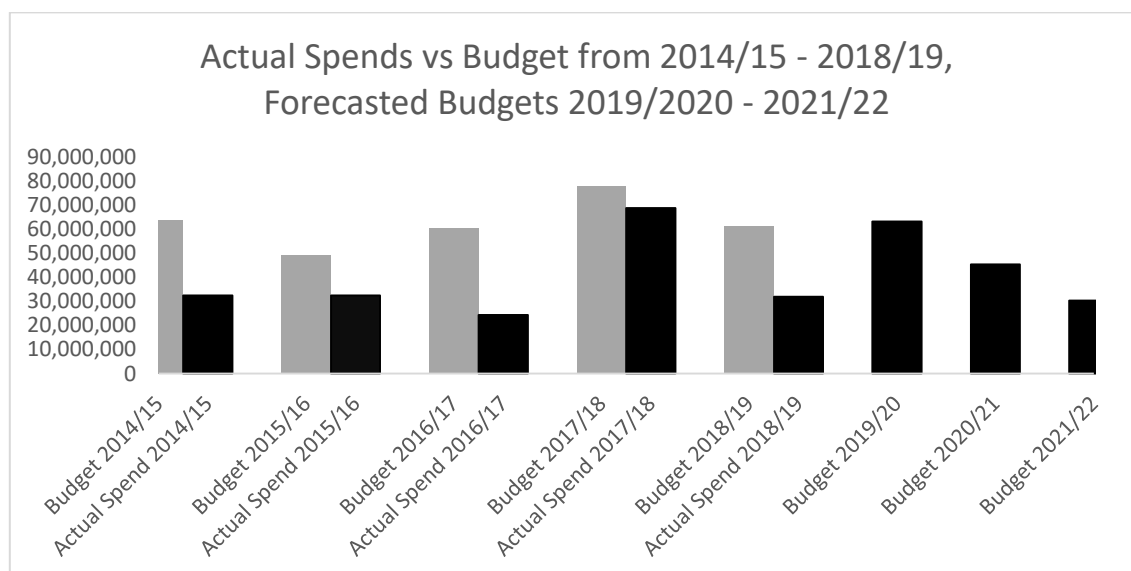
16.1.1 Introduction

The Official Development Assistance (ODA) chapter highlights ODA projects and their contributions to Government priorities. This chapter should be read in conjunction with the capital chapter as only ODA-funded infrastructure projects are detailed here.

Actual expenditure for ODA in 2018/19 was \$31.9 million of the \$61 million estimated in Budget 2018/19, a conversion rate of around 52 per cent. Total expenditure was predominantly driven by the implementation of large infrastructure projects such as Te Mato Vai, Mei Te Vai Ki Te Vai, Manatua Cable, the Renewable Energy Project as well as the continuous roll out of Core Sector Support.

Figure 16-1 shows actual expenditure of ODA funds from 2014/15 to 2018/19, and budgets for 2019/20 and the forward estimates. Expenditure in 2014/15 and 2015/16 was similar, with a slight drop the following year due to expenditure on large infrastructure projects planned for 2016/17 being implemented in 2017/18. 2017/18 saw the largest expenditure of ODA funds for the Cook Islands to date with a slight decrease in spend during the 2018/19 financial year due to delays in finalizing various grant funding arrangements, in particular for New Zealand.

Figure 16-1 Cook Islands ODA actual and estimated expenditure, 2014/15 – 2020/21



The ODA estimate for 2019/20 is \$64.7 million and is mostly comprised of the following major infrastructure projects:

- New Zealand Core Sector Support is estimated at \$9 million
- Te Mato Vai (TMV) and Mei Te Vai Ki Te Vai (MTVKTV) estimated at \$4 million to be funded through the remaining balance of New Zealand grants received at the end of last financial year;
- Manatua Submarine cable project estimated at \$6 million; and
- Renewable Energy at \$8 million
- Asset Management at \$12 million.

New Zealand has committed \$50 million towards the bilateral program for the next three years. Negotiations on priorities and the design of individual Grant Funding Arrangements are currently underway and were not confirmed at the time of publishing the annual budget. It is important to note that New Zealand support will continue to be allocated towards existing priorities such as the Core Sector Support (CSS – Health, Tourism, Education and strengthening public sector initiatives) and Sanitation. The estimated budget towards CSS has been based on the previous baseline which has been pre-approved by New Zealand in anticipation of a finalised Grant Funding Arrangement.

The Cook Islands Government also contributes to ODA-funded projects through its Capital budget contribution, human resources, operational budgets and taxation exemptions which have not been highlighted in past Budgets. For the financial year 2018/19, an estimated \$2.3 million in foregone taxation revenue was provided for project implementation, where taxation duties were exempted as part of project delivery. This has been provided through an ODA exemption on imported materials for projects, as well as exemptions on value-added tax for purchases of goods and services.

The above investments highlight the Government's continued commitment to its National Sustainable Development Plan (NSDP) 2016-2020 'Te Kaveinga Nui', with a majority of ODA directed towards, but not limited to:

- Goal 4 - Sustainable management of water and sanitation;
- Goal 5 - Building resilient infrastructure and ICT to improve our standard of living; and
- Goal 6 - Improving access to affordable, reliable, sustainable, modern energy and transport.

CIG will continue with its ambitious development agenda in the coming financial year with the continuation of infrastructure implementation and assessing the implications of ODA graduation.

ODA graduation

In July 2017, the OECD granted the Cook Islands an extension to provide Gross National Income (GNI) data. Prior to this, the OECD had been using GDP data to determine the Cook Islands' eligibility for ODA. The argument successfully put to the OECD, was that GDP and GNI can be significantly different in many countries, particularly small island nations that are open to trade, and that the Cook Islands should be given an extension to develop the GNI data.

Process Undertaken

Following the approval from the OECD, the Cook Islands Statistics Office engaged the assistance of PFTAC to review current data and to develop new series. In particular, PFTAC provided assistance in refining current GDP data and funded the first round of technical assistance to develop thorough Balance of Payments (BOP) data. A key aspect of the BOP is primary income, this assesses specific funds flowing in and out of the country and is added to GDP to determine GNI.

Impact of Graduation

Although graduation is expected to be confirmed in the coming months, this is not officially triggered by the OECD until 1 January 2020, meaning that any funding provided prior to that date is still classified as ODA. Following that date, ODA graduation may have an impact upon the level of foreign aid received, however this impact is only expected on OECD countries.

Confirmation from other donors, including multilaterals, on their level of support for the Cook Islands following graduation would allow MFEM to consider all of the fiscal costs of graduation and budget for these over the medium-term. At present, the loss of donor funding for some capital projects and local development projects has been considered, however the provision of technical assistance and travel has not. A clear list of donor support (who and what) would facilitate this work.

Cook Islands Core Sector Support

The previous Core Sector Support (CSS) Grant Funding Arrangement (GFA) with New Zealand, which was valued at \$20.1 million and allocated over 2016/17 to 2017/18, has come to an end. A new GFA is currently under negotiation and is predicted to provide \$36 million over four years. In the meantime a one-year Grant Contribution provides bridge funding of \$9,083,062 to allow for continued work under the same priorities in 2018/19. The goal of the support is to enhance the Cook Islands self-sufficiency by enabling predictable, efficient and effective delivery of priority development objectives coupled with practical policy reform. A recent independent evaluation of the first iteration of CSS has found that the CSS GFA is the preferred modality to implement bilateral funds with NZ and it was re-confirmed that the arrangement has achieved the Government's desired results.

Green Climate Fund

The Cook Islands can now access climate related finance of up to approximately \$76.3 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) was approved as an accredited entity to the fund at the 22nd GCF board meeting in Manama, Bahrain in October 2018.

This means that MFEM can now source direct funding of up to \$76.3m from the GCF per project – avoiding the need to go through other accredited entities as has been done in the past – to support projects and programmes addressing climate change in the Cook Islands.

MFEM has been working on accreditation to the GCF since June, 2016. The lengthy process involved the need to strengthen internal processes, requiring MFEM to establish an Environmental and Social Safeguards, a Gender Policy and a Grants Awards System within its national financial systems, in order to meet fiduciary standards of the GCF's accreditation criteria. The Climate Change Cook Islands division (CCCI) of the Office of the Prime Minister, as the country's focal point to the GCF, assisted the accreditation process in terms of providing guidance. However, it has ultimately been MFEM's responsibility to ensure that all the requirements of the GCF were met throughout the process.

The Ministry of Finance together with the Office of the Prime Minister are now working together on the first project proposal under the Simplified Approval Process to the Green Climate Fund. The project is focused on the Health Sector and will be submitted to the GCF board in October 2019.

The second readiness support proposal is currently in the 2nd year of implementation and is scheduled to be completed by September 2019. MFEM and OPM have been working on a 4th readiness support proposal during the year which has been submitted to the GCF for consideration. If approved, the readiness proposal will commence in June 2019.

16.2 Cook Islands ODA Budget by development partner

A list of our current development partners and their estimated contributions over the forward years is provided in Table 16-1. It should be noted that forward year estimates are premature as there are currently very few signed and endorsed agreements that go beyond the 2019/20 financial year. A further review of these numbers will occur through the analysis of the impact of ODA graduation.

Table 16-1 Cook Islands ODA Budget by development partner 2019/20 – 2022/23 (\$)

| Development Partner | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total (4yr Forecast) |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|----------------------|
| Asian Development Bank | 111,504 | - | - | - | 111,504 |
| Australia | - | - | - | - | - |
| China | 10,837,524 | - | - | - | 10,837,524 |
| EU-German Development Cooperation | 21,338 | - | - | - | 21,338 |
| European Union | 2,876,866 | 1,714,030 | - | - | 4,590,896 |
| FAO | - | - | - | - | - |
| Forum Fisheries Agency | 266,667 | 266,667 | 266,667 | 266,667 | 1,066,668 |
| Global Environment Facility | 2,980,959 | 1,761,988 | 318,389 | - | 5,061,336 |
| Green Climate Fund | 11,085,375 | 11,034,311 | 2,354,428 | 2,000,000 | 26,474,114 |
| India | 680,000 | - | - | - | 680,000 |
| Japan | 2,010,654 | 1,903,972 | - | - | 4,164,626 |
| Multilateral Fund | - | - | - | - | - |
| New Zealand | 32,021,777 | 19,200,000 | 19,200,000 | 9,200,000 | 82,621,777 |
| Other | 100,000 | 100,000 | 100,000 | 100,000 | 400,000 |
| Secretariat of the Pacific Community | 40,000 | - | - | - | 40,000 |
| UN Adaptation Fund | 1,826,957 | 538,021 | - | - | 2,364,978 |
| UNDP | 155,758 | 90,000 | 90,000 | - | 335,758 |
| UNESCO | - | - | - | - | - |
| UNICEF | - | - | - | - | - |
| WHO | 204,545 | - | - | - | 204,545 |
| Grand Total | 65,219,924 | 36,608,989 | 22,329,484 | 11,566,667 | 138,975,064 |

Figure 16-2 shows total expenditure against the budgeted amount for the 2018/19 financial year, by development partner. This highlights significant underspends against some budgeted providers.

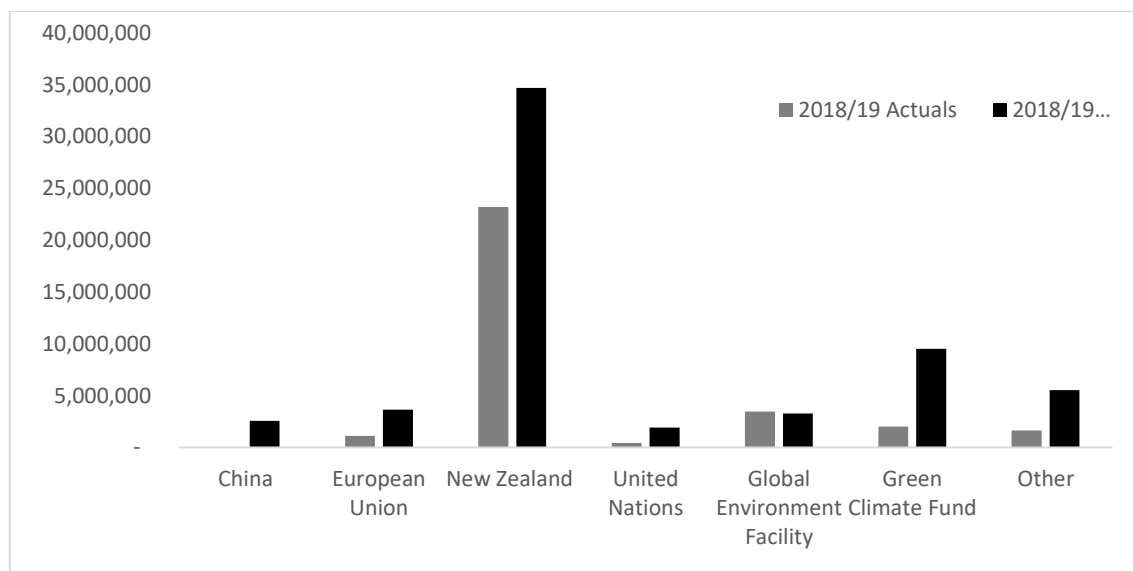
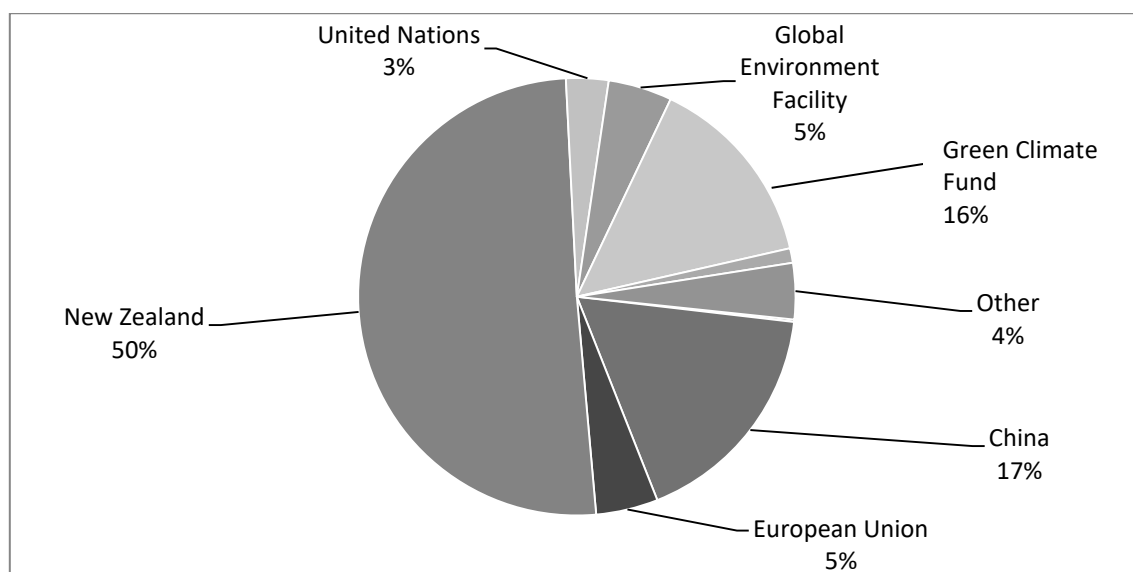
Figure 16-2 ODA Budget by development partner, 2018/19 budget vs actual

Figure 16.3 demonstrates the budget allocation for 2019/20 based on donor contributions. New Zealand is our largest partner contributing 50 per cent of our total budget, followed by the China at 17 per cent, Green Climate Fund at 16%, the European Union and the Global Environment Facility at 5 per cent.

Figure 16-3 Cook Islands ODA Budget by Development Partner Budget 2019/2020



Further details on key ODA activities are provided below, including the capital initiatives budget.

16.3 Ministry of Finance and Economic Management

E-Government TA Support

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------|---------|---------|---------|---------|
| Recurrent | 111,504 | 0 | 0 | 0 |

The Government recognizes the potential of ICT and its ability to deliver Government services to its people. It improves Government processes, empowers and connects people to information and services and it promotes good governance. The output of this work will be in 2 streams:

1. A report consisting of a complete scoping of the current situation of ICT in Government with recommendations towards the necessary developments (infrastructure, hardware/software, organization structure, human resource, policies/legislations) for the implementation of e-Government with a piloted set of recommended services to demonstrate its capability.
2. Pilot implementation of the recommended services that includes the establishment of the necessary requirements (infrastructure, hardware/software, organization structure, human resource, policies/legislations). Indicative program implementation timeline is from March 2018 to November 2021.

Manatua Submarine Cable (ICT cable) – New Zealand Grant

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---------|-----------|---------|---------|---------|
| Capital | 6,071,777 | 0 | 0 | 0 |

In early April 2017 an agreement with the Governments of Niue, French Polynesia and Samoa was signed to facilitate the design, construction, operation and maintenance of the regional submarine cable system that will connect these countries, and the islands of Rarotonga and Aitutaki.

The Government of New Zealand are providing a grant of \$15 million to the Cook Islands Government to support the project. TE Subcom have submitted detailed plans for design reviews, land and marine surveys, subsequent cable fabrication and installation works. The project is on track for installation by Jan-2020 and ready for service in May-2020.

India Grant Fund

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------|---------|---------|---------|---------|
| Recurrent | 408,000 | 272,000 | 0 | 0 |

A total of \$964,000 was granted for 16 approved grass roots projects in the 2016/17 Round. The main focal area of the grant funding from the Government of India is to support, promote, and/or develop social, economic and/or cultural and development cultural, economic and social development and sustainability. An additional prerequisite was the alignment to Te Kaveinga Nui Framework National Sustainable Development Plan 2016-2020.

The 2016/17 round addressed a variety of grass root community areas such as agriculture and fisheries development, disability support, sports development, assistance to community halls and clinics, road safety and infrastructure.

Out of the 16 approved projects, 14 have been successfully completed to date. The remaining two projects are at their final stages of completion and progress reports are provided as per Grant Funding Arrangement requirements. New timeframe for these projects to be completed by May 2019.

The next round of funding for 2018/19 was advertised in November 2018. A total of 19 concept notes were received in December 2018 and of these 11 were deemed successful and received the full application templates to complete and submit by 23rd January 2019. These applications were vetted by the Grant Award Evaluation Committee in April 2019. A full list of the Committee's results will be provided to the National Sustainable Development Committee (NSDC) for their recommendations to be forwarded to the Government of India for final approval.

General Budget Support- European Development Fund

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------|-----------|-----------|---------|---------|
| Recurrent | 2,288,136 | 1,419,665 | 0 | 0 |

The focus of the incentivised 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. The implementing agency for this program is the Ministry of Health with support from the Development Coordination Division of MFEM.

Cook Islands Core Sector Support

The Core Sector Support GFA with New Zealand is progressing well and the budget support type modality is the preferred way to implement the Cook Islands development program going forward. The budgeted figures are based on current negotiations between the governments of the Cook Islands and New Zealand, and changes may be made to the estimates once negotiations have concluded. The new GFA is predicted to provide \$36 million over four years to align with Cook Islands' Medium-term Fiscal Strategy. In the meantime a one-year Grant Contribution ensures bridge funding of \$9,083,062 to allow for continued work under the same priorities in 2018/19.

The CSS Program includes direct budget support to the Ministry of Education, Cook Islands Tourism and the Ministry of Health. The investment is provided to improve indicators that directly relate to the NSDP of the Cook Island. This component of CSS continues to demonstrate an endorsement and confidence in national systems, simplifies our bilateral and development relationship, and allows us to focus on outcomes and results.

An additional output under CSS provides funding towards technical assistance and other support for economic governance and public sector strengthening. It funds projects that have been identified as priorities by the Cook Islands and then go through a process of mutual agreement between the two governments. While the budget support component of CSS provides predictability of funding, this output allows for a flexible response to needs as they arise.

China Grant Fund – Economic Technical Cooperation Agreements

| | 2019/20 | 20120/21 | 2021/22 | 2022/23 |
|--------------------|------------|----------|---------|---------|
| Recurrent expenses | 10,837,524 | 0 | 0 | 0 |

The Cook Islands Government continues to expand co-operation with the Government of the People's Republic of China. In December 2018, the two governments signed through their respective diplomatic envoys in Wellington a new Economic and Technical Cooperation Agreement (ETCA) for the provision of RMB Yuan 50,000,000 (approximately NZ\$10,000,000) by China to the Cook Islands in grant funding for a project yet to be determined by the Cook Islands Government.

Aid Effectiveness

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------|---------|---------|---------|---------|
| Recurrent | 100,000 | 100,000 | 100,000 | 100,000 |

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.

Pacific Parliamentary Development Project – UNDP

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------|---------|---------|---------|---------|
| Recurrent | 75,758 | 0 | 0 | 0 |

The Pacific Parliamentary Development Project (PPDP) aims to increase women's political participation, increase Parliament's capacity to engage and respond to key development issues and mainstream gender across the project. This initiative is being funded and directly managed by UNDP, with an indicated funding of US\$50,000 for 2018/19, as well as further support over three to four year duration. This project will be a partnership between Cook Islands Parliamentary Services, Ministry of Internal Affairs and UNDP, Pacific Centre. Initiatives planned for this period include capacity development for new members of Parliament and progressing caucus for women in Parliament and participation in programs for Commonwealth Parliamentarians.

Economic and Social Sector Programme 2018 – Japanese Machinery and Equipment

| | 2019/20 | 2020/21 | 2021/22 | 2022/2023 |
|---------|---------|-----------|---------|-----------|
| Capital | 766,656 | 1,603,972 | 0 | 0 |

The purpose of the 2018 grant is to purchase products and/or services to implement this programme, which is to enhance public sector agency efforts towards infrastructure rehabilitation. The capital goods/equipment list submitted by public sector agencies to MFEM as well as previous request via DCD for ODA support, formed the finalised items list to be considered for procurement. The list received approval by cabinet and the government of Japan. In addition, Japan International Cooperation Systems (JICS), was approved as the procurement agent. Using JICS processes, five (5) items were selected to be procured, manufactured and shipped to Rarotonga. The Indicative implementation timeline is from March 2019 to December 2020.

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.

Grant Assistance for Grassroots Projects (GGP) - Japan

| | 2019/20 | 2020/21 | 2021/22 | 2022/2023 |
|---------|---------|---------|---------|-----------|
| Capital | 376,160 | 0 | 0 | 0 |

The Japanese Government offers a financial assistance program for development projects designed to meet the diverse needs of developing countries. Known as "Grant Assistance for Grassroots Projects (GGP)". This assistance supports projects proposed by various bodies such as non-governmental organizations (NGOs) and local government authorities.

In February 2019, four grant contracts were signed by Minister/deputy head of mission from the Embassy of Japan and the designated authorised person for each of the four projects. Management of the project deliverables and financing is directly between the Japan and the grant contract recipients. The budget reflected here relate to the three NGO projects, which are:

1. Mitiaro - to construct 10 concrete water tanks in eight sites and purchase a mobile water tank for the transfer of water to remote areas as well as for the fire emergencies.
2. Mangaia, Puna Tavaenga Village-to construct a water catchment shed and install an irrigation system which includes six water tanks for water collection and storage.
3. Rarotonga, Ngatangia - to construct and upgrade the Health Center.

The fourth project is being implemented by Infrastructure Cook Islands (ICI). For information related to this project refer to the ICI section

Non Project Grant Aid Japan – Palmerston Cyclone Centre

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---------|---------|---------|---------|---------|
| Capital | 103,926 | 0 | 0 | 0 |

This project will improve security and resilience of the island community, by delivering a structurally sound, safe, reliable, durable cyclone shelter that will provide protection from extreme weather events and also provide for post disaster recovery. The contract works awarded to Landholdings is completed. A 12 month defect period is in place before the project can be signed off as fully completed.

Purpose-Built Shipping Vessel for Inter-Island Services – TA Support

| | 2019/20 | 2020/21 | 2021/22 | 2022/2023 |
|---------|----------------|----------------|----------------|------------------|
| Capital | 250,000 | 0 | 0 | 0 |

The Government has requested support from the Government of Japan in developing a project to deliver a purpose-built shipping vessel for inter-island services. The Government anticipates that this will be a two-stage project, with Stage 1 delivering a comprehensive business case to inform a Government decision on proceeding to Stage 2 – detailed design, construction and operation of the vessel. Funding has been allocated for 2019/20 for Stage 1 technical assistance from Japan International Cooperation Agency.

New Zealand Volunteers Services Abroad (NZVSA) – New Zealand

| | 2019/20 | 2020/21 | 2021/22 | 2022/2023 |
|-----------|----------------|----------------|----------------|------------------|
| Recurrent | 196,283 | 0 | 0 | 0 |

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.

For this period, volunteer service abroad (VSA) who takes up these tasks together with the Government will aim to ensure that assignments are locally identified, locally relevant, and locally delivered. 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.

Mei Te Vai Ki Te Vai (MTVKTV)

| | 2019/20 | 2020/21 | 2021/2022 | 2022/23 |
|---------------------------------|----------------|----------------|------------------|----------------|
| Capital | 3,858,000 | 10,000,000 | 10,000,000 | 0 |
| Environmental Investigation MMR | 142,000 | 0 | 0 | 0 |

The Mei Te Vai Ki Te Vai project is steadily advancing since work began in January 2017. A roadmap has been developed in consultation with key stakeholders that takes into account relevant actions in regards to governance, legislation, policy and regulation, finance and funding, and environment and health. For more information please visit our website <https://www.totatouvai.co/>

| Milestones | 2019/20 Financial year |
|--|---|
| Business Case | Review concept designs, economic analysis and recommendations for Government on MTVKTV |
| Environmental Impact Assessment | Evaluating the likely environmental impacts of MTVKTV, taking into account inter-related socio-economic, cultural and human-health impacts, both beneficial and adverse |
| Environmental Investigation | MMR will be supporting the PMU in undertaking the Environmental Monitoring through provision of marine ecological services |
| Land | Secure Land |
| Reticulation Tender Design | Completion of detailed design documentation of reticulation system |
| Treatment Plant Design | Completion of Treatment design |
| Tender | All documentation prepared and finalised ready for Tender |
| Sanitation Masterplan | Planning process and implementation plan for a Sanitation programme for Rarotonga. |

Assets Management

| | 2019/20 | 2020/21 | 2021/2022 | 2022/23 |
|---------|------------|---------|-----------|---------|
| Capital | 12,750,000 | 0 | 0 | 0 |

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).

The TMV Remediation project commenced in February 2019. Design is well underway with majority of the works estimated to commence in June 2019. For more information please visit our website <https://www.totatouvai.co/>

| Milestones | 2019/20 Financial year |
|------------------------------|--|
| Tender | All documentation prepared and finalised ready for Tender |
| Material supply | Preparation of documents and a contract available for Construction |
| Construction Contract | Contract preparation is finalised and ready for market |

Pa Enua Action for Resilient Livelihoods (PEARL)

| | 2019/20 | 2020/21 | 2021/22 | 2022/2023 |
|---------|-----------|---------|---------|-----------|
| Capital | 1,826,957 | 538,021 | 0 | 0 |

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:

3. Strengthening disaster risk governance to manage disaster risk and enhancing disaster preparedness for effective response to “Build Back Better” in recovery, rehabilitation and reconstruction
4. Integrated water security management planning and implementation
5. Revitalised agricultural production systems strengthening island food sources and livelihoods in the Pa Enua

The first tranche of funding was received July 2018. The project officially commenced in December 2018 with an Inception Workshop followed by the submission of the Inception Report to AF. In March 2018 a National Workshop for stakeholders in the Pa Enua Southern Group was held in Rarotonga. Scoping missions to the Pa Enua to determine each island’s requirements are ongoing.

Green Climate Fund Readiness

| | 2019/20 | 2020/21 | 2021/22 | 2021/23 |
|-----------|---------|---------|---------|---------|
| Recurrent | 769,087 | 718,023 | 354,428 | 0 |

Accreditation to the fund

The Government applied for accreditation to the GCF in the area of “Grants” at the “small scale” funding modality which allows the Cook Islands access of funds up to US\$50 million. The Ministry of Finance and Economic Management were successful in gaining accreditation to the fund in October 2018.

The readiness programme is into the second year of implementation and has been progressing well against planned activities.

The completed activities carried out during the first year of implementation was substantial resulting in two new documents developed, the Climate Change Policy Document and the Country Programme document under the Office of the Prime Minister.

Within the Ministry of Finance, the following new policies and procedures were developed to meet the fiduciary accreditation standards of the GCF and are now in operation.

New policies and procedures in place for MFEM:

- MFEM Anti-money laundering and counter terrorism financing policy
- MFEM Antifraud anticorruption policy
- MFEM Whistleblowing Procedure
- MFEM Environmental and Social Safeguards framework
- MFEM Gender policy and tools
- MFEM Compliance and Risk Management
- MFEM Grant System
 - MFEM Grant evaluation system
 - MFEM Grant procedures

The recent India Grant project administered by MFEM is the first that has adopted the newly developed Grants Award System.

Climate Change Development and Resilience Round Table meeting

The planned Climate Change Development and Resilience Round Table meeting was a success. This was held on Thursday 14th and Friday 15th March 2019. The key objectives of the Climate Change Development and Resilience Roundtable were to:

- strengthen country ownership through coordination and coherence on how the Cook Islands aims to address climate change

- implement the Country Program within a development context and through enhanced partnerships among the development and climate finance community to deliver pipeline program
- ensure capacity and technical constraints are an integral part of all partnership approaches

The Roundtable meeting was attended by various high level officials from all over the world like New Zealand, Australia, China, Japan, Spain, Belgium and also various regional organisations such as the Pacific Community (SPC) and Secretariat of the Pacific Regional Environment Programme (SPREP) to name a few.

The outcome of the round table meeting with the GCF was an Aide Memoire document which captures all engagement with the GCF to date and record of planned activities that the Cook Islands will be looking to complete in the next year. Some of these activities include BCI's accreditation, development and approval of a Simplified Approval Process (SAP) and Enhanced Direct Access (EDA), approval of a 4th readiness programme to name a few.

In addition to the round table meeting, the Cook Islands were also fortunate to host a 3 day technical workshop in partnership with the GCF Secretariat which is the first ever carried out in the Pacific. The workshop was very useful for stakeholders in country. The purpose of this workshop was to build capacity within the Cook Islands to develop concept notes and project proposal documents in the format and templates of the GCF and more importantly to guide participants on how to build a strong climate change rationale when developing project proposals.

Readiness Proposal No. 4

MFEM have also been working closely with OPM to finalise the 4th readiness proposal which is predominately based on capacity building within OPM, MFEM, BCI and the Private sector. It is envisioned that the proposal will be approved by June 2019 so that urgent activities such as BCI's accreditation to the fund and the completion of the SAP Health proposal and development of an EDA Project Proposal can commence immediately.

MOH Building Resilient and healthy Cook Islands Communities – SAP

| | 2019/20 | 2020/21 | 2021/22 | 2021/23 |
|-----------|-----------|-----------|-----------|-----------|
| | | 2,000,000 | | |
| Recurrent | 2,000,000 | 00 | 2,000,000 | 2,000,000 |

This is a 5 year programme at the total value of \$10,000,000 which builds on the Adaptation Funded "Strengthening the Resilience of our Islands and Communities to Climate Change" and "Pa Enua Adaptation Resilient Livelihoods" programmes, with a greater focus on building resilience to the impacts of climate variability and change in the health sector. This will transform the way in which climate change is integrated into the work of the health sector to minimize impacts on the health and livelihoods of communities in the Cook Islands. The proposal also enables the health sector to contribute towards the achievement of the Cook Islands national renewable energy target of 100% electricity supplied by renewable sources by 2020.

This proposal was developed by OPM, MFEM and MOH and will be the first programme to be implemented under MFEM as the National Implementing Entity (NIE) to the Green Climate Fund.

16.4 Ministry of Health

World Health Organisation Technical Cooperation Biennium Budget

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------|---------|---------|---------|---------|
| Recurrent | 204,545 | 0 | 0 | 0 |

Biannual funding to the Cook Islands is for human resource development, including fellowships aligned to the Clinical Workforce Development Plan.

The ongoing focus is also on activities targeting non-communicable diseases, vaccine preventable diseases, mental health, violence and injuries, nutrition, promoting health through life-course, environmental health, health information systems, preparedness, surveillance and responses.

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

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------|---------|---------|---------|---------|
| Recurrent | 90,000 | 0 | 0 | 0 |

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 centers, training of community volunteers, community awareness and training of health staff on contact tracing.

16.5 Ministry of Marine Resources

Project Development Fund (PDF) - US Fisheries Treaty

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------|---------|---------|---------|---------|
| Recurrent | 236,364 | 236,364 | 236,364 | 236,364 |

The US Multilateral Treaty for Fisheries includes an annual allocation under the economic assistance package of US\$150,000 for Pacific Island party development projects in support of fisheries. The funds are held in trust by the Treaty secretariat at the Forum Fisheries Agency in Honiara and administered by the Ministry of Marine Resources.

Multiyear (Fisheries) Policy Support - EU Partnership

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|------------------|---------|---------|---------|---------|
| Recurrent | 588,730 | 294,365 | 0 | 0 |

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 third year of implementation and to date approximately EUR\$1 million has been received.

Japan Trust Fund - Western and Central Pacific Fisheries Commission (WCPFC)

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------|---------|---------|---------|---------|
| Recurrent | 210,521 | 0 | 0 | 0 |

Two areas of work supported under this fund are: Capacity development of MMR staff and related agencies, to ensure effective participation of the Cook Islands in international fisheries meetings. In particular the WCPFC; and to undertake a comprehensive review of MMR's offshore fisheries to competent authority programs.

16.6 National Environment Services

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

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------|-----------|-----------|---------|---------|
| Recurrent | 1,284,003 | 1,712,028 | 318,389 | 0 |

A full extension request for the project lifespan was completed with Biodiversity Steering Committee support and endorsement and submitted to UNDP for approval. This will enable all stakeholders to implement their existing activities and work programmes in order to achieve the overarching goal of the project. Some key highlights include:

- The R2R Project Manager taking on the responsibility of the R2R finance officer until a replacement is found. To date a number of key roles have resigned from their R2R positions. Pending the outcome of the extension, recruitment of these positions will be carried out.
- The Ministry of Marine Resources (MMR) is conducting the Aitutaki Lagoon Master Plan stakeholder consultations as well as surveys, water testing in Rarotonga and Aitutaki and capacity building in the Pa Enua.
- The Cook Islands Tourism Corporation launched the ‘Green Expo’ to support the initiative to go Green in the Accreditation scheme with Tourism
- The Ministry of Agriculture continue their work with Crop Bank initiatives as well as capacity building and providing technical support in the Pa Enua
- Marae Moana finalized the sustainable financing mechanism TA with the contract currently drafted and due to commence in Quarter 4

Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------|---------|---------|---------|---------|
| Recurrent | 120,430 | 49,960 | 0 | 0 |

The primary objective of this project is to develop and implement a National Access and Benefit Sharing (ABS) Legal Framework, build National Capacities and support an ABS Agreement based on Traditional Knowledge and a Public-Private Partnership.

The request for an extension of this project has been extended to 05th October 2019 to allow completion of remaining project activities. No funding has been received for the new financial year, however third party payments have continued to be made to Matheson’s Enterprises Ltd as well as for reimbursement of ABS Project Activities over the last year.

16.7 Infrastructure Cook Islands

Grant Assistance for Grassroots Projects (GGP) Japan - Resource Recovery Centre Upgrades

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---------|---------|---------|---------|---------|
| Capital | 178,391 | 0 | 0 | 0 |

The project will improve working conditions and contribute to sustainable waste and resource management and financing is directly to Infrastructure Cook Islands. There are two key components to this project. 1) to concrete the main working area where staff are exposed to dust and unsteady ground during rainfall and 2) the installation of an industrial glass crusher whereby producing a valuable resource (crushed glass) and preventing glass bottles going to landfill.

16.8 Office of the Prime Minister (OPM)

Preparation of the Third National Communication (TNC) under UN Framework Convention on Climate Change (UNFCCC)

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------|---------|---------|---------|---------|
| Recurrent | 200,000 | 0 | 0 | 0 |

The Third National Communications Report under the UNFCCC is moving positively forward with thirty percent of the report completed to date.

The TNC has received one cash advance in 2018 and will be requesting funds for 2019/2020.

The report is to be completed and submitted by December 2019 and the project is scheduled to end by June 2020.

Global Environment Facility (via Asian Development Bank)

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---------|---------|---------|---------|---------|
| Capital | 891,365 | 0 | 0 | 0 |

The BESS contract awarded to MPower will be commissioned by the end of June 2019.

In February 2019 approval was received to utilize remaining grant funds towards additional scope and services required to support development of solar photovoltaic power systems for the subprojects developed on the Aitutaki, Atiu, Mangaia, Mauke and Mitiaro islands. The procurement of Goods, Works and Consulting Services shall be subject to and governed by ADB Procurement Guidelines.

Green Climate Fund – Renewable Energy Battery Storage (via Asian Development Bank)

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---------|-----------|-----------|---------|---------|
| Capital | 8,316,288 | 8,316,288 | 0 | 0 |

The second additional financing received from the Green Climate Fund amounts to USD 12,000,000. This will be used to install three units of BESS with a total preliminary capacity of 3.0 MW and 12.0 MWh, which will provide (i) load shifting to offset renewable generation at the planned 6.0 MW solar PV facilities in Rarotonga, and (ii) grid-stabilization to manage the impact of fluctuations in generation on the grid, so as to permit more renewable energy generation to be integrated while maintaining power quality and system reliability. This will help reduce fossil fuel consumption and enhance the level of energy security on the island.

Due to unforeseen procurement delays this grant is being extended to be processed through the budget over three fiscal years. Unspent funds allocated to the 2018/19 budget will be recalculated and evenly split over the next two consecutive years.

The Airport South BESS (LOT 2) contract was awarded to Vector. The Tesla battery system FAT testing and guarantees is to be completed in June 2019 with final installation and commissioning late 2019 early 2020.

The procurement of the Power Station (LOT1) contract is planned to take place in the next financial year.

Northern Water Project (Phase 2)

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---------|---------|---------|---------|---------|
| Capital | 21,338 | 0 | 0 | 0 |

This project aims to improve the resilience of Penrhyn, Nassau and Palmerston to natural disasters, including drought proofing by increasing their capacity to collect, store and manage their water resources. A total amount of EUR 400,000 was provided for this project.

A request to EU-GIZ was made for a no cost extension to the project extending the completion date from 31st March 2019 to 31st December 2019. The implementation of the project has encountered major impediment in shipping of materials to project site as well as costs associated with transportation of construction support personnel to the Northern Islands project sites.

The team along with the assistance of the Palmerston Island Government staff is finalizing the placement of the catchment buildings and will have the roofing complete. ASSMC contractor whom is responsible to fabricate, supply and install the tank covers is expected on Palmerston Island to complete his conditions of the contract. The project is progressing according to the amended timeline schedule.

16.9 Cook Islands Red Cross Society

Global Environment Facility – Small Grants Programme

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------|---------|---------|---------|---------|
| Recurrent | 485,161 | 0 | 0 | 0 |

This is the only in country development partner agency outside of government reporting administration of a development programme targeted at Cook Islands civil society organisations as small environment projects executive agencies. 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.

There are six projects which are currently active under Operational Phase 5 (OP5), with one pending approval.

The Operational Phase 6 (OP6) country programme strategy (Jul 2017 – Jun 2018) outlines the OP6 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 confirmation of OP6 is actually US\$0.20 million for expenditure allocation no later than December 2019.

17 Schedules

17.1.1 Statement of Fiscal Responsibility (Operating)

Operating Statement (\$'000)

| | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--|-------------------|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| Operating Revenue | | | | | | |
| Taxation Revenue | 140,587 | 144,635 | 151,626 | 156,384 | 159,508 | 162,631 |
| Other Crown Revenue | 18,051 | 31,731 | 19,607 | 18,295 | 15,077 | 15,087 |
| Trading Revenue | 7,503 | 6,646 | 4,927 | 4,929 | 4,949 | 4,949 |
| Interest on Loans to Subsidiaries | 1,158 | 518 | 830 | 830 | 830 | 830 |
| Dividends | 3,293 | 2,209 | 2,370 | 2,451 | 2,451 | 2,451 |
| Interest on Balances | 2,360 | 2,519 | 1,740 | 1,740 | 1,740 | 1,740 |
| Core Sector Support | 7,730 | 7,730 | 7,730 | 7,730 | 7,730 | 7,730 |
| Total Operating Revenue (excluding Bonus) | 180,683 | 195,989 | 188,830 | 192,360 | 192,286 | 195,419 |
| <i>Performance Based Budget Support - Bonus Payment</i> | 120 | 0 | 0 | 0 | 0 | 0 |
| Total Operating Revenue (including Bonus) | 180,803 | 195,984 | 188,830 | 192,360 | 192,286 | 195,419 |
| Operating Expenditure | | | | | | |
| Ministry Outputs | | | | | | |
| <i>Personnel</i> | 109,006 | 130,355 | 133,443 | 137,017 | 141,476 | 139,522 |
| <i>Operating</i> | 50,437 | 56,241 | 62,493 | 67,383 | 71,065 | 71,422 |
| <i>Administered Payments</i> | 20,199 | 21,153 | 20,380 | 21,691 | 21,702 | 21,710 |
| <i>Depreciation</i> | 33,587 | 45,586 | 43,604 | 40,977 | 41,743 | 39,424 |
| POBOC | 4,783 | 7,375 | 6,966 | 6,966 | 6,966 | 6,966 |
| Airport Authority subsidy | 0 | 0 | 0 | 0 | 0 | 0 |
| Airport Authority Capital | 0 | 0 | 0 | 0 | 0 | 0 |
| Bank of the Cook Islands - social assistance subsidy | 0 | 0 | 0 | 0 | 0 | 0 |
| Provisional for Doubtful Debts | 6,781 | 0 | 0 | 0 | 0 | 0 |
| Cook Islands Primary Schools 50 year Saver | 0 | 0 | 0 | 0 | 0 | 0 |
| Public Sector Strengthening | 0 | 0 | 0 | 0 | 0 | 0 |
| Ports Authority - subsidy | 0 | 0 | 0 | 0 | 0 | 0 |
| Te Aponga Uira - social assistance subsidy | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt Interest Contribution to LRF | 2,063 | 2,670 | 2,133 | 1,906 | 1,684 | 1,687 |
| Asset Management (CIIC) | 0 | 0 | 0 | 0 | 0 | 0 |
| Crown Infrastructure Depreciation | 4,603 | 4,603 | 4,603 | 4,603 | 4,603 | 4,603 |
| Transfer to Emergency Response Trust Fund | 50 | 50 | 50 | 50 | 50 | 50 |
| Depreciation Contingency Fund | 3,957 | 2,174 | 2,174 | 2,174 | 2,174 | 2,174 |
| <i>Chinese Equipment</i> | 663 | 0 | 0 | 0 | 0 | 0 |
| <i>Rarotonga Water Network</i> | 694 | 803 | 803 | 803 | 803 | 803 |
| <i>Northern Pa Enua Renewable Energy System</i> | 400 | 400 | 400 | 400 | 400 | 400 |
| <i>Southern Pa Enua Renewable Energy System (excl. Aitutaki)</i> | 1,200 | 971 | 971 | 971 | 971 | 971 |
| <i>Other Assets</i> | 1,000 | 0 | 0 | 0 | 0 | 0 |
| Contingency Funds - Operating | 682 | 365 | 100 | 100 | 100 | 100 |
| Contributions to CISWF | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Operating Expenses | 151,993 | 165,689 | 170,249 | 173,733 | 177,913 | 176,046 |
| Operating Surplus/(Shortfall) | 28,690 | 30,300 | 18,581 | 18,628 | 14,373 | 19,372 |

17.1.2 Statement of Fiscal Responsibility (Non-Operating)

Financing and Applications Statement (\$'000)

| | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|---|-------------------|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| Reductions in Net Borrowings | | | | | | |
| Loan Disbursements | -6,817 | -3,164 | -17,282 | -4,741 | 0 | 0 |
| Principal repayment | 4,897 | 7,558 | 7,314 | 8,173 | 8,975 | 8,943 |
| | -1,920 | 4,394 | -9,968 | 3,432 | 8,975 | 8,943 |
| Capital Expenditures | | | | | | |
| Ministries and Outer Islands (Including CIIC Capital) | 21,626 | 35,197 | 40,410 | 35,540 | 26,070 | 25,520 |
| <i>Infrastructure Capital Investment in SOE's</i> | 0 | 0 | 0 | 0 | 0 | 0 |
| Airport Authority | 0 | 0 | 0 | 0 | 0 | 0 |
| Te Aponga Uira | 0 | 0 | 0 | 0 | 0 | 0 |
| Contingency Funds - Capital Expenditure | 0 | 0 | 0 | 0 | 0 | 0 |
| | 21,626 | 35,197 | 40,410 | 35,540 | 26,070 | 25,520 |
| Foreign Aid | | | | | | |
| Receipts | -50,565 | 22,848 | 57,489 | 28,879 | 14,599 | 3,836 |
| Expenditure | 50,565 | -22,848 | -57,489 | -28,879 | -14,599 | -3,836 |
| | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Committed Considerations | | | | | | |
| Transfer to Reserve Trust Fund | 703 | 723 | 0 | 0 | 0 | 0 |
| Stabilisation Fund | 0 | 0 | 56,700 | 0 | 0 | 0 |
| Disaster Response Fund | 50 | 50 | 50 | 50 | 50 | 50 |
| | 753 | 773 | 56,750 | 50 | 50 | 50 |
| Total Non-Operating balance | -20,459 | -40,365 | -87,192 | -39,022 | -35,095 | -34,513 |
| To be Funded by | | | | | | |
| Operating Surplus | 28,952 | 30,295 | 18,581 | 18,628 | 14,373 | 19,372 |
| Depreciation | 13,343 | 14,151 | 13,742 | 13,742 | 13,742 | 13,742 |
| <i>of which: R.E. Capital Replacement</i> | 1,600 | 1,371 | 1,371 | 1,371 | 1,371 | 1,371 |
| Unencumbered Cash Reserves | -31,786 | -13,918 | 44,476 | -3,852 | -3,346 | -8,657 |
| Contribution to Loan Repayment Fund | 11,055 | 9,787 | 10,343 | 10,454 | 10,276 | 10,006 |
| Economic Recovery Support Program | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer to Emergency Response Trust Fund | 50 | 50 | 50 | 50 | 50 | 50 |
| Total Funding Items | 21,615 | 40,365 | 87,192 | 39,022 | 35,095 | 34,513 |
| Net Surplus/Shortfall | 1,156 | 0 | 0 | 0 | 0 | 0 |

17.2 Schedule 1 – Agency Budget Appropriations

| Agency | Personnel | Operating | Administered Payments | Depreciation | Gross Current Appropriation | Trading Revenue | Net Current Appropriation |
|---|-------------------|-------------------|-----------------------|------------------|-----------------------------|------------------|---------------------------|
| Agriculture | 1,006,072 | 315,509 | 0 | 22,181 | 1,343,762 | 90,535 | 1,253,227 |
| Audit (PERCA) | 993,854 | 114,300 | 0 | 21,000 | 1,129,154 | 60,700 | 1,068,454 |
| Crown Law | 769,756 | 181,319 | 300,000 | 6,000 | 1,257,075 | 0 | 1,257,075 |
| Cultural Development | 740,850 | 164,502 | 977,500 | 93,655 | 1,976,507 | 150,000 | 1,826,507 |
| Business Trade and Investment Board | 432,796 | 344,866 | 0 | 4,500 | 782,162 | 28,000 | 754,162 |
| Education | 11,366,964 | 3,275,358 | 4,612,289 | 641,000 | 19,895,611 | 0 | 19,895,611 |
| Environment | 971,843 | 351,952 | 332,241 | 30,381 | 1,686,417 | 35,000 | 1,651,417 |
| Finance and Economic Management | 5,024,219 | 926,483 | 14,914,371 | 358,344 | 21,223,417 | 954,341 | 20,269,076 |
| Financial Services Development Authority | 242,797 | 277,906 | 0 | 9,868 | 530,571 | 0 | 530,571 |
| Foreign Affairs | 1,815,692 | 868,103 | 15,000 | 77,726 | 2,776,521 | 28,000 | 2,748,521 |
| Head Of State | 162,503 | 43,603 | 36,000 | 8,057 | 250,163 | 0 | 250,163 |
| Health | 11,643,618 | 2,842,444 | 2,146,870 | 886,614 | 17,519,546 | 350,000 | 17,169,546 |
| Infrastructure Cook Islands | 2,399,009 | 444,564 | 3,200,000 | 241,596 | 6,285,169 | 300,000 | 5,985,169 |
| Internal Affairs | 1,195,725 | 277,199 | 2,978,309 | 20,113 | 4,471,346 | 6,000 | 4,465,346 |
| <i>of which: Welfare Payments - Allowances</i> | | | <i>1,291,309</i> | | | | |
| Justice | 1,930,495 | 377,805 | 460,000 | 87,463 | 2,855,763 | 550,000 | 2,305,763 |
| Corrective Services | 1,105,842 | 190,115 | 0 | 43,984 | 1,339,941 | 100,000 | 1,239,941 |
| Marine Resources | 1,231,685 | 745,933 | 300,000 | 95,000 | 2,372,618 | 28,000 | 2,344,618 |
| Ombudsman | 256,350 | 68,226 | 0 | 5,822 | 330,398 | 0 | 330,398 |
| Parliamentary Services | 557,267 | 71,835 | 110,000 | 19,579 | 758,681 | 0 | 758,681 |
| Police | 3,518,527 | 541,724 | 305,000 | 1,009,948 | 5,375,199 | 201,783 | 5,173,416 |
| Prime Minister's Office | 1,393,400 | 396,447 | 873,000 | 59,039 | 2,721,886 | 0 | 2,721,886 |
| Public Service Commission | 375,149 | 285,616 | 1,741,645 | 21,200 | 2,423,610 | 0 | 2,423,610 |
| Tourism Corporation | 1,918,191 | 2,398,471 | 4,922,000 | 36,000 | 9,274,662 | 150,000 | 9,124,662 |
| Transport | 899,951 | 208,034 | 0 | 52,247 | 1,160,232 | 36,000 | 1,124,232 |
| Cook Islands Investment Corporation | 1,507,476 | 1,353,014 | 5,380,000 | 50,000 | 8,290,490 | 753,831 | 7,536,659 |
| Cook Islands Seabed Minerals Authority | 196,778 | 89,127 | 0 | 9,387 | 295,292 | 0 | 295,292 |
| Total Ministries, Crown & Statutory Agencies | 53,656,809 | 17,154,454 | 43,604,225 | 3,910,704 | 118,326,192 | 3,822,190 | 114,504,002 |

| Agency | Personnel | Operating | Administered Payments | Depreciation | Gross Current Appropriation | Trading Revenue | Net Current Appropriation |
|--|-------------------|-------------------|--------------------------|------------------|--------------------------------|--------------------|------------------------------|
| Ministerial Support | | | | | | | |
| Prime Minister | 301,696 | 109,773 | 0 | 11,100 | 422,569 | 0 | 422,569 |
| Deputy Prime Minister | 260,784 | 81,289 | 0 | 7,927 | 350,000 | 0 | 350,000 |
| Minister Vaine Mokoroa | 121,200 | 163,300 | 0 | 5,500 | 290,000 | 0 | 290,000 |
| Minister Vainetutai Toki-Brown | 181,000 | 97,838 | 0 | 11,162 | 290,000 | 0 | 290,000 |
| Minister Robert Tapaitau | 188,000 | 92,010 | 0 | 9,990 | 290,000 | 0 | 290,000 |
| Minister George Angene | 164,000 | 114,000 | 0 | 12,000 | 290,000 | 0 | 290,000 |
| 7th Minister Office | 180,000 | 108,000 | 0 | 2,000 | 290,000 | 0 | 290,000 |
| Leader Of Opposition | 115,160 | 168,040 | 0 | 6,800 | 290,000 | 0 | 290,000 |
| Total Ministerial Support Offices | 1,511,840 | 934,250 | 0 | 66,479 | 2,512,569 | 0 | 2,512,569 |
| Outer Islands | | | | | | | |
| Aitutaki | 1,209,626 | 416,495 | 0 | 434,365 | 2,060,486 | 67,828 | 1,992,658 |
| Atiu | 851,976 | 427,184 | 0 | 416,555 | 1,695,715 | 224,318 | 1,471,397 |
| Mangaia | 943,706 | 578,760 | 0 | 635,824 | 2,158,290 | 301,000 | 1,857,290 |
| Manihiki | 707,715 | 150,616 | 0 | 474,383 | 1,332,714 | 119,000 | 1,213,714 |
| Mauke | 730,255 | 212,655 | 0 | 417,034 | 1,359,944 | 113,853 | 1,246,091 |
| Mitiaro | 678,693 | 73,824 | 0 | 91,242 | 843,759 | 60,900 | 782,859 |
| Palmerston | 282,500 | 65,474 | 0 | 84,399 | 432,373 | 20,500 | 411,873 |
| Penrhyn | 599,964 | 163,309 | 0 | 138,881 | 902,154 | 74,000 | 828,154 |
| Pukapuka-Nassau | 906,017 | 142,706 | 0 | 213,381 | 1,262,104 | 73,695 | 1,188,409 |
| Rakahanga | 415,294 | 59,249 | 0 | 82,406 | 556,949 | 50,000 | 506,949 |
| Total Outer Islands | 7,325,746 | 2,290,272 | 0 | 2,988,470 | 12,604,488 | 1,105,094 | 11,499,394 |
| Gross Total | 62,494,395 | 20,378,976 | 43,604,225 | 6,965,653 | 133,443,249 | 4,927,284 | 128,515,965 |

17.3 Schedule 2 – Payments on Behalf of the crown (POBOCs)

| Administering Ministry | POBOC | 2018/19 Supplementary Estimate | 2019/20 Budget Estimate | Variance |
|-------------------------------------|---|--------------------------------------|-------------------------------|------------------|
| Compensation of Employees | | | | |
| Finance & Economic Management | Parliamentary Superannuation | 180,000 | 180,000 | 0 |
| Audit | PERC Salaries and Administration Costs | 42,500 | 57,500 | 15,000 |
| Parliamentary Services | Civil List - Personnel | 2,267,961 | 2,901,961 | 634,000 |
| Parliamentary Services | House of Ariki | 228,420 | 348,420 | 120,000 |
| | Compensation of Employees POBOCs | 2,718,881 | 3,487,881 | 769,000 |
| Use of Goods and Services | | | | |
| | | | | 0 |
| Audit | Audit Fees | 95,600 | 95,600 | 0 |
| Prime Minister's Office | Local Government Election | 0 | 30,000 | 30,000 |
| Parliamentary Services | Civil List - Constituency Visits | 170,200 | 170,200 | 0 |
| Parliamentary Services | Parliamentary Sitting Expenses | 286,000 | 150,000 | 30,000 |
| Parliamentary Services | QR Travel and Allowances (local and overseas) | 109,000 | 109,000 | 0 |
| Parliamentary Services | MP Travel and Allowances (local and overseas) | 321,000 | 341,000 | 200,000 |
| Foreign Affairs | International Maritime Organisation - Maritime Cook Islands | 63,461 | 63,461 | 0 |
| | Use of Goods and Services POBOCs | 1,045,261 | 959,261 | 260,000 |
| Subsidies | | | | |
| Cook Islands Investment Corporation | Airport Authority subsidy | 2,047,997 | 2,047,997 | 0 |
| Cook Islands Investment Corporation | Bank of the Cook Islands - social assistance subsidy | 120,000 | 128,000 | 8,000 |
| Cook Islands Investment Corporation | Ports Authority - subsidy | 110,099 | 110,099 | 0 |
| Cook Islands Investment Corporation | Te Aponga Uira - social assistance subsidy | 380,000 | 380,000 | 0 |
| | Subsidies POBOCs | 2,658,096 | 2,666,096 | 8,000 |
| Social Assistance | | | | |
| | | | | 0 |
| Internal Affairs | Welfare Payments | 18,156,712 | 19,689,535 | 1,532,823 |
| | Social Assistance POBOCs | 18,156,712 | 19,689,535 | 1,532,823 |
| Other Expense | | | | |
| | | | | 0 |
| Finance & Economic Management | Pacific Catastrophe Risk Insurance | 120,694 | 120,694 | 0 |
| Finance & Economic Management | CIG Insurance | 100,000 | 100,000 | 0 |
| Finance & Economic Management | BEPS Subscription | 0 | 35,000 | 35,000 |
| Foreign Affairs | International Subscriptions | 673,717 | 687,967 | 14,250 |
| | Other Expenses POBOCs | 894,411 | 943,661 | 0 |
| Grand Total | | 25,473,361 | 27,746,434 | 2,569,823 |

17.4 Schedule 3 – Cook Islands Capital Spending

| | 2018/19 Supplementary Estimate | 2019/20 Budget Estimate | Variance |
|--|--------------------------------------|-------------------------------|-------------------|
| Cook Islands Government Capital programs (see Schedule 6 for details) | 47,071,874 | 40,410,336 | -4,108,458 |
| Total Capital spending | 47,071,874 | 40,410,336 | -4,108,458 |

17.5 Schedule 4 – Official Development Assistance

| | 2018/19 Supplementary Estimate | 2019/20 Budget Estimate | Variance |
|--|--------------------------------------|----------------------------|------------------|
| Operating or recurrent expenditure | 16,047,701 | 10,396,102 | -5,651,599 |
| Capital Project Expenditure | 37,406,056 | 47,093,335 | 9,687,278 |
| Total Official Development Assistance | 53,453,757 | 57,489,437 | 4,035,680 |

17.6 Schedule 5a – Other Expenses and Financing Transactions

| Category of Expense | 2018/19 Supplementary Estimate | 2019/20 Budget Estimate | Variance |
|---|--------------------------------------|----------------------------|-------------------|
| Contingency Funds - Operating | 365,000 | 100,000 | -100,000 |
| Crown Infrastructure Depreciation | 4,602,500 | 4,602,500 | 0 |
| Provisional for Doubtful Debts | 0 | 0 | 0 |
| Transfer to Emergency Response Trust Fund | 50,000 | 50,000 | 0 |
| Transfer to Reserve Trust Fund | 740,767 | 0 | -740,767 |
| Depreciation Contingency Fund | 2,173,500 | 2,173,580 | -1,892,154 |
| Total Other Expenses | 7,931,767 | 6,926,080 | -2,732,921 |

17.7 Schedule 5b – Loan Repayment Fund Appropriation

| Category of Appropriation | 2018/19 Supplementary Estimate | 2019/20 Budget Estimate | Variance |
|----------------------------------|--------------------------------------|----------------------------|----------------|
| Contribution to LRF - Principal | 6,995,000 | 7,696,000 | 701,000 |
| Contribution to LRF - Interest | 2,367,000 | 2,229,000 | -138,000 |
| Total Contribution to LRF | 9,362,000 | 9,925,000 | 563,000 |

17.8 Summary

| Category of Payment | 2018/19 Supplementary Estimate | 2019/20 Budget Estimate | Variance |
|---|--------------------------------------|----------------------------|------------------|
| Schedule 1 - Ministry Outputs (Gross Operating) | 130,938,191 | 133,443,249 | 6,657,691 |
| Schedule 2 - POBOCs | 25,473,361 | 27,746,434 | 2,619,073 |
| Schedule 3 - CIG Capital Expenditure | 47,071,874 | 40,410,336 | -4,108,458 |
| Schedule 4 - Official Development Assistance | 53,453,757 | 57,489,437 | 4,035,680 |
| Schedule 5a - Other Expenses and Financing Transactions | 7,931,767 | 6,926,080 | -2,732,921 |
| Schedule 5b - Loan Reserve Fund Appropriations | 9,362,000 | 9,925,000 | 563,000 |
| TOTAL APPROPRIATION | 274,230,950 | 275,940,536 | 7,034,065 |

17.9 Schedule 6 – Capital Schedule

| MINISTRY | Island | PROJECT/PROGRAMME | FUNDING SOURCE | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection | 4-Year 2019/20 - 2022/23 |
|--|-----------|--|----------------|------------------|-------------------------|--------------------|--------------------|--------------------|--------------------------|
| Ministry of Agriculture | | | | 30,091 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Vanilla Shade House | CIG | 30,091 | 0 | 0 | 0 | 0 | 0 |
| Cook Islands Investment Corporation | | | | 859,595 | 6,180,000 | 7,370,000 | 11,450,000 | 10,000,000 | 35,000,000 |
| | Rarotonga | 3 Building Repair | CIG | 0 | 550,000 | 0 | 0 | 0 | 550,000 |
| | Rarotonga | MFEM Building | CIG | 0 | 540,000 | 0 | 0 | 0 | 540,000 |
| | Atiu | School Upgrade | CIG | 0 | 480,000 | 350,000 | 0 | | 830,000 |
| | Penrhyn | Government Building Project | CIG | 0 | 500,000 | 150,000 | 0 | | 650,000 |
| | Rarotonga | Land Acquisition | CIG | 0 | 2,000,000 | 2,000,000 | 1,000,000 | 0 | 5,000,000 |
| | Aitutaki | Orongo Development Master Plan and Centre reconstruction (Ports Authority) | CIG | 0 | 500,000 | 500,000 | 0 | 0 | 1,000,000 |
| | Aitutaki | Government Building Project | CIG | 0 | 60,000 | 170,000 | 450,000 | | 680,000 |
| | Rarotonga | To Tatou Vai | CIG | 0 | 150,000 | | | | 150,000 |
| | Various | Health Project | CIG | 0 | 800,000 | 200,000 | | | 1,000,000 |
| | Rarotonga | Vaikapuangi Government Building | CIG | 204,495 | 600,000 | 4,000,000 | 10,000,000 | 10,000,000 | 24,600,000 |
| | Rarotonga | Te Mato Vai - Stage 1: road & pipeline easement & Stage 2 land acquisition for water intakes | CIG | 0 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | TMV Titikaveka Backroad Rehabilitation | CIG | 0 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Apii Nikao design, demolition, construction supervision and quality assurance | CIG | 0 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Avaroa Cable Establishment | CIG | 50,000 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Nukutere Rebuild | CIG | 530,000 | 0 | 0 | 0 | 0 | 0 |
| | Pukapuka | Pukapuka Hospital Reconstruction | CIG | 12,100 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Tereora College Redevelopment Stage 1 | CIG | 63,000 | 0 | 0 | 0 | 0 | 0 |
| Police | | | | 0 | 70,000 | 0 | 0 | 0 | 70,000 |
| | Rarotonga | Integrated Communication System | CIG | 0 | 70,000 | 0 | 0 | 0 | 70,000 |
| Education | | | | 165,480 | 360,000 | 360,000 | 360,000 | 360,000 | 1,440,000 |
| | National | Fund to be Prioritised by Education | CIG | 165,480 | 360,000 | 360,000 | 360,000 | 360,000 | 1,440,000 |

| MINISTRY | Island | PROJECT/PROGRAMME | FUNDING SOURCE | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection | 4-Year 2019/20 - 2022/23 |
|------------------------------------|------------------------|--|----------------|------------------|-------------------------|--------------------|--------------------|--------------------|--------------------------|
| Health | | | | 718,461 | 400,000 | 1,600,000 | 400,000 | 300,000 | 2,700,000 |
| | National | Fund to be Prioritised by Health for Technical Equipment | CIG | 275,000 | 300,000 | 300,000 | 300,000 | 300,000 | 1,200,000 |
| | Rarotonga | CT Scanner | CIG | 0 | 100,000 | 1,300,000 | 100,000 | 0 | 1,500,000 |
| | Rarotonga | Medical Service Bed End Panels | CIG | 78,252 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Ambulance | CIG | 147,798 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Hospital Incinerator | CIG | 217,411 | 0 | 0 | 0 | 0 | 0 |
| Infrastructure Cook Islands | | | | 6,977,143 | 18,471,500 | 19,950,000 | 11,800,000 | 12,800,000 | 63,021,500 |
| | Atiu | Atiu Airport Runway Stabilisation | CIG | 0 | 0 | 0 | 0 | 0 | 0 |
| | Atiu | Atiu Road Improvement Programme | CIG | 384,597 | 570,000 | | | | 570,000 |
| | National | Bitumen truck | CIG | 14,229 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Bridges & Structures Improvement Project | CIG | 515,740 | 2,580,000 | 3,300,000 | 2,800,000 | 3,800,000 | 12,480,000 |
| | National | Pa Enua Marine Infrastructure Improvement | CIG | 0 | 150,000 | 3,500,000 | 0 | 0 | 3,650,000 |
| | National | Pa Enua Water Infrastructure | CIG | 0 | 0 | 1,050,000 | 500,000 | 500,000 | 2,050,000 |
| | Mangaia and Palmerston | Cargo barge repair program for Palmerston & Mangaia | CIG | 0 | 0 | 0 | 0 | 0 | 0 |
| | Various | Pa Enua Cyclone Center | CIG | 630,000 | 4,200,000 | 3,600,000 | 0 | 0 | 7,800,000 |
| | Rarotonga | Avatiu Valley Stream embankment | CIG | 639,156 | 21,500 | 0 | 0 | 0 | 21,500 |
| | Rarotonga | Road Assest Management | CIG | 2,000,000 | 8,000,000 | 7,000,000 | 7,000,000 | 7,000,000 | 29,000,000 |
| | Rarotonga | Drainage Improvement | CIG | 0 | 1,800,000 | 1,500,000 | 1,500,000 | 1,500,000 | 6,300,000 |
| | National | Manea Games Upgrade | CIG | 0 | 100,000 | 0 | 0 | 0 | 100,000 |
| | Mitiaro | Mitiaro Water Upgrade | CIG | 382,000 | 250,000 | 0 | 0 | 0 | 250,000 |
| | Rarotonga | Rutaki Foreshore Rock Revetment | CIG | 0 | 250,000 | 0 | 0 | 0 | 250,000 |
| | Aitutaki | Establishing new water galleries | CIG | 218,376 | 200,000 | 0 | 0 | 0 | 200,000 |
| | Pukapuka | Nassau Ferry | CIG | 0 | 350,000 | 0 | 0 | 0 | 350,000 |
| | Mangaia | Mangaia Road Improvement Programme | CIG | 137,958 | 0 | 0 | 0 | 0 | 0 |
| | Mangaia, Atiu, Mauke | HV Transport Trailer | CIG | 14,230 | 0 | 0 | 0 | 0 | 0 |
| | Mangaia | HIAB (includes man cage & fork) | CIG | 0 | 0 | 0 | 0 | 0 | 0 |
| | Mangaia | Central water project | CIG | 0 | 0 | 0 | 0 | 0 | 0 |
| | Manihiki | Manihiki Island Airport Terminal - construction | CIG | 15,921 | 0 | 0 | 0 | 0 | 0 |

| MINISTRY | Island | PROJECT/PROGRAMME | FUNDING SOURCE | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection | 4-Year 2019/20 - 2022/23 |
|--|-----------|---|----------------|-------------------|-------------------------|--------------------|--------------------|--------------------|--------------------------|
| | Penrhyn | Omoka Harbour Upgrade | CIG | 140,000 | 0 | 0 | 0 | 0 | 0 |
| | Pukapuka | Pukapuka Airport terminal buildings upgrade | CIG | 59,758 | 0 | 0 | 0 | 0 | 0 |
| | Pukapuka | Yato Cargo Shed Upgrade | CIG | 0 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Tereora Drainage Improvement | CIG | 117,000 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Sheraton Foreshore Protection | CIG | 239,100 | 0 | 0 | 0 | 0 | 0 |
| | Rakahanga | Large boat outboard motor | CIG | | 0 | 0 | 0 | 0 | 0 |
| | Aitutaki | Aitutaki road Improvement Programme | CIG | 226,000 | 0 | 0 | 0 | 0 | 0 |
| | Mangaia | Tamarua Water Project | CIG | 214,913 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Tip Truck | CIG | 0 | 0 | 0 | 0 | 0 | 0 |
| | Pa Enua | Pa Enua Machinery Shelters | CIG | 0 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Road Network Maintenance | | 0 | 0 | 0 | 0 | 0 | 0 |
| | Manihiki | Tukao Passage Widening, Improving safe access to and from the Manihiki Lagoon | CIG | 140,500 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Muri Road Widening | CIG | 287,665 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Culvert | CIG | 600,000 | 0 | 0 | 0 | 0 | 0 |
| Internal Affairs | | | | 45,000 | 50,000 | 50,000 | 50,000 | 50,000 | 200,000 |
| | Rarotonga | Vaka Maintenance Capital Projects | CIG | 45,000 | 50,000 | 50,000 | 50,000 | 50,000 | 200,000 |
| Ministry of Finance and Economic Management | | | | 21,616,164 | 13,068,836 | 5,000,000 | 1,000,000 | 1,000,000 | 17,568,836 |
| | Rarotonga | FMIS purchase and implementation | CIG | 434,511 | 468,836 | 0 | 0 | 0 | 468,836 |
| | Rarotonga | MFEM Extension - Furniture and materials | CIG | 0 | 100,000 | 0 | 0 | 0 | 100,000 |
| | Rarotonga | Te Mato Vai - Rarotonga Water Upgrade | CIG | 21,000,000 | 9,000,000 | 4,000,000 | 0 | 0 | 13,000,000 |
| | Rarotonga | AEOI IT System | CIG | 121,653 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Mei Te Vai ki Te Vai | CIG | 60,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 4,000,000 |
| | Rarotonga | Shipping Vessel | CIG | 0 | 2,500,000 | | | | |
| Justice | | | | 200,000 | 0 | 0 | 0 | 0 | 0 |
| | Rarotonga | Online Business Registry | CIG | 200,000 | 0 | 0 | 0 | 0 | 0 |

| MINISTRY | Island | PROJECT/PROGRAMME | FUNDING SOURCE | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection | 4-Year 2019/20 - 2022/23 |
|---|----------|---|----------------|-------------------|-------------------------|--------------------|--------------------|--------------------|--------------------------|
| Office Of Prime Minister | | | | 3,545,314 | 900,000 | 300,000 | 100,000 | 100,000 | 1,400,000 |
| | Atiu | Atiu Power Distribution | CIG | 454,253 | 0 | 0 | 0 | 0 | 0 |
| | Pa Enea | Renewable Energy - Capital works | CIG | 1,494,370 | 0 | 0 | 0 | 0 | 0 |
| | National | Government IT Network | CIG | 40,000 | 650,000 | 300,000 | 100,000 | 100,000 | 1,150,000 |
| | Aitutaki | Aitutaki Renewable Energy Project | CIG | 1,219,384 | 0 | 0 | 0 | 0 | 0 |
| | National | Renewable Management Project Management and Support | CIG | 250,000 | 250,000 | 0 | 0 | 0 | 250,000 |
| | Mangaia | Mangaia School Bus | CIG | 87,307 | 0 | 0 | 0 | 0 | 0 |
| MINISTRY TOTAL | | | | 34,157,248 | 39,500,336 | 34,630,000 | 25,160,000 | 24,610,000 | 121,400,336 |
| Capital Funds Administered BY MFEM | | | | 1,040,135 | 910,000 | 910,000 | 910,000 | 910,000 | 3,640,000 |
| | National | Capital Distribution Fund | CIG | 930,135 | 800,000 | 800,000 | 800,000 | 800,000 | 3,200,000 |
| | Pa Enea | Outer Islands Small Capital Fund | CIG | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 | 440,000 |
| | | <i>Aitutaki</i> | | <i>16,000</i> | <i>16,000</i> | <i>16,000</i> | <i>16,000</i> | <i>16,000</i> | <i>64,000</i> |
| | | <i>Atiu</i> | | <i>12,000</i> | <i>12,000</i> | <i>12,000</i> | <i>12,000</i> | <i>12,000</i> | <i>48,000</i> |
| | | <i>Mangaia</i> | | <i>12,000</i> | <i>12,000</i> | <i>12,000</i> | <i>12,000</i> | <i>12,000</i> | <i>48,000</i> |
| | | <i>Manihiki</i> | | <i>10,000</i> | <i>10,000</i> | <i>10,000</i> | <i>10,000</i> | <i>10,000</i> | <i>40,000</i> |
| | | <i>Mauke</i> | | <i>10,000</i> | <i>10,000</i> | <i>10,000</i> | <i>10,000</i> | <i>10,000</i> | <i>40,000</i> |
| | | <i>Mitiaro</i> | | <i>8,000</i> | <i>8,000</i> | <i>8,000</i> | <i>8,000</i> | <i>8,000</i> | <i>32,000</i> |
| | | <i>Palmerston</i> | | <i>10,000</i> | <i>10,000</i> | <i>10,000</i> | <i>10,000</i> | <i>10,000</i> | <i>40,000</i> |
| | | <i>Penrhyn</i> | | <i>12,000</i> | <i>12,000</i> | <i>12,000</i> | <i>12,000</i> | <i>12,000</i> | <i>48,000</i> |
| | | <i>Pukapuka-Nassau</i> | | <i>12,000</i> | <i>12,000</i> | <i>12,000</i> | <i>12,000</i> | <i>12,000</i> | <i>48,000</i> |
| | | <i>Rakahanga</i> | | <i>8,000</i> | <i>8,000</i> | <i>8,000</i> | <i>8,000</i> | <i>8,000</i> | <i>32,000</i> |
| GRAND TOTAL | | | | 35,197,383 | 40,410,336 | 35,540,000 | 26,070,000 | 25,520,000 | 125,040,336 |

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

| | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|---|--------------------|---------------------|----------------------------|-----------------------|-----------------------|-----------------------|
| Taxation Revenue | | | | | | |
| Value Added Tax (VAT) | 63,509,000 | 69,591,547 | 72,759,000 | 75,557,000 | 76,957,000 | 78,356,000 |
| Income tax | 28,688,816 | 27,724,413 | 27,773,000 | 28,244,000 | 28,479,000 | 28,715,000 |
| Company tax | 21,760,000 | 19,664,289 | 22,170,000 | 22,720,000 | 23,270,000 | 23,820,000 |
| Import levies | 14,164,518 | 14,731,644 | 14,557,000 | 14,659,000 | 14,761,000 | 14,863,000 |
| Withholding tax | 1,841,603 | 1,518,484 | 2,247,000 | 2,391,000 | 2,536,000 | 2,680,000 |
| Departure tax | 10,623,158 | 11,404,741 | 12,120,000 | 12,813,000 | 13,505,000 | 14,197,000 |
| Total | 140,587,094 | 144,635,117 | 151,626,000 | 156,384,000 | 159,508,000 | 162,631,000 |
| Other Crown Revenue | | | | | | |
| FSC Return of Excess | 0 | 103,000 | 198,000 | 198,000 | 198,000 | 198,000 |
| Immigration Fees | 927,000 | 1,015,248 | 950,000 | 950,000 | 950,000 | 950,000 |
| IMO Subscription - Maritime Cook Islands | 90,000 | 66,000 | 66,000 | 66,000 | 66,000 | 66,000 |
| Court Services | 45,746 | 61,270 | 50,000 | 50,000 | 50,000 | 50,000 |
| Instant Fines | 107,010 | 113,403 | 70,000 | 40,000 | 40,000 | 40,000 |
| Fishing Licences | 8,617,159 | 17,755,247 | 9,531,000 | 8,904,000 | 8,950,000 | 9,000,000 |
| Fisheries - US Treaties (purse seing) | 4,890,095 | 6,320,689 | 5,059,146 | 4,504,500 | 1,200,000 | 1,200,000 |
| Fishing Fines | 0 | 2,679,531 | 100,000 | 0 | 0 | 0 |
| Research Fee | 1,470 | 950 | 1,500 | 1,500 | 1,500 | 1,500 |
| Permits | 26,916 | 13,981 | 24,000 | 24,000 | 24,000 | 24,000 |
| Dividends | 3,293,000 | 2,209,352 | 2,369,600 | 2,451,200 | 2,451,200 | 2,451,200 |
| Banana Court - dividend | 10,000 | 10,000 | 0 | 0 | 0 | 0 |
| Bank of the Cook Islands - dividend | 248,000 | 284,000 | 409,600 | 491,200 | 491,200 | 491,200 |
| Ports Authority - dividend | 0 | 0 | 0 | 0 | 0 | 0 |
| Punganga Nui Market - dividend | 0 | 0 | 0 | 0 | 0 | 0 |
| Te Aponga Uira - dividend | 255,000 | 255,352 | 400,000 | 400,000 | 400,000 | 400,000 |
| Extraordinary SOE Dividend | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 |
| Telecom Cook Islands (Bluesky) - dividend | 2,720,000 | 1,600,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| Numismatics | 511,000 | 214,729 | 450,000 | 450,000 | 450,000 | 450,000 |
| Border Management Fees | 0 | 0 | 0 | 0 | 0 | 0 |
| Drivers Licences | 214,000 | 263,331 | 260,000 | 260,000 | 300,000 | 260,000 |
| Motor Vehicle Registration | 922,000 | 963,440 | 875,000 | 875,000 | 875,000 | 875,000 |
| Interest on balances | 2,360,000 | 2,518,702 | 1,740,000 | 1,740,000 | 1,740,000 | 1,740,000 |
| Interest on loans to subsidiaries | 1,158,000 | 518,220 | 830,000 | 830,000 | 830,000 | 830,000 |

| | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--------------------------------|--------------------|---------------------|----------------------------|-----------------------|-----------------------|-----------------------|
| Foreign Investment Fees | 29,000 | 17,550 | 27,000 | 27,000 | 27,000 | 27,000 |
| Upper Air Management Agreement | 545,000 | 763,031 | 746,000 | 746,000 | 746,000 | 746,000 |
| Shipping Registration | 224,000 | 310,034 | 268,259 | 268,259 | 268,259 | 268,259 |
| International Shipping Licence | 10,000 | 24,236 | 10,000 | 10,000 | 10,000 | 10,000 |
| Liquor Licencing | 75,000 | 74,017 | 70,000 | 70,000 | 70,000 | 70,000 |
| Tattslotto Grants | 172,000 | 241,037 | 120,000 | 120,000 | 120,000 | 120,000 |
| Censorship Fees | 3,000 | 2,080 | 3,000 | 3,000 | 3,000 | 3,000 |
| Circulating Currency - Coins | 638,000 | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 |
| Employer Liabilities | 0 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 |
| Motor Vehicle Dealers | 3,000 | 3,117 | 3,000 | 3,000 | 3,000 | 3,000 |
| Core Sector Support | 7,730,400 | 7,730,487 | 7,730,487 | 7,730,487 | 7,730,487 | 7,730,487 |
| Total Other | 32,592,796 | 44,707,682 | 32,276,992 | 31,046,946 | 27,828,446 | 27,838,446 |
| Total Crown Receipts | 173,179,890 | 189,342,798 | 183,902,992 | 187,430,946 | 187,336,446 | 190,469,446 |

17.11 Schedule 8a – Administered Payments

| Administering Ministry | Administered Payment | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--|---|-------------------|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| Compensation of Employees | | | | | | | |
| Cook Islands Investment Corporation | Infrastructure Committee | 42,428 | 75,000 | 150,000 | 150,000 | 150,000 | 150,000 |
| Cook Islands Investment Corporation | Joint Venture with Seabed Minerals Authority | 72,956 | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 |
| Cook Islands Investment Corporation | Special Projects Units | 0 | 420,000 | 420,000 | 420,000 | 420,000 | 420,000 |
| Environment | National Heritage Trust | 82,239 | 82,241 | 82,241 | 122,241 | 122,241 | 122,241 |
| Finance and Economic Management | Director of Civil Aviation | 0 | 56,000 | 0 | 0 | 0 | 0 |
| Finance and Economic Management | Price Tribunal Committee | 0 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 |
| Internal Affairs | Price Tribunal | 30,000 | 0 | 0 | 0 | 0 | 0 |
| Justice | Project to bring land records up to date | 119,758 | 120,000 | 120,000 | 120,000 | 120,000 | 120,000 |
| Justice | Judges Allowances | 127,955 | 177,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Public Service Commission | HOM's Salaries | 1,216,453 | 1,581,764 | 1,741,645 | 1,741,645 | 1,741,645 | 1,741,645 |
| Prime Minister's Office | ICT Support Team | 0 | 0 | 250,000 | 250,000 | 0 | 0 |
| Cook Islands Investment Corporation | School Security | 196,313 | 250,000 | 280,000 | 280,000 | 280,000 | 280,000 |
| Education | Centre of Research and Policy Studies | 0 | 0 | 0 | 0 | 0 | 0 |
| Finance and Economic Management | The Centre of Research and Policy Studies | 0 | 80,000 | 80,000 | 80,000 | 80,000 | 80,000 |
| Transport | Civil Aviation | 56,040 | 0 | 0 | 0 | 0 | 0 |
| Compensation of Employees Administered Payments | | 1,944,142 | 3,017,005 | 3,598,886 | 3,638,886 | 3,388,886 | 3,388,886 |
| Use of Goods and Services | | | | | | | |
| Prime Minister's Office | Red Cross | 0 | 0 | 50,000 | 50,000 | 50,000 | 50,000 |
| Cultural Development | Te Maeva Nui Constitution Celebrations | 569,695 | 3,693,999 | 722,500 | 722,500 | 2,722,500 | 722,500 |
| Cook Islands Investment Corporation | Provision for Land Rentals | 0 | 1,962,439 | 1,500,000 | 500,000 | 500,000 | 500,000 |
| Cook Islands Investment Corporation | Land Rent Reviews | 0 | 642,000 | 0 | 0 | 0 | 0 |
| Cook Islands Investment Corporation | Avaroa Cable | 0 | 100,000 | 150,000 | 150,000 | 0 | 0 |
| Cook Islands Investment Corporation | Renewable Energy Maintenance | 0 | 0 | 250,000 | 0 | 0 | 0 |
| Education | Tertiary Training Institutions | 759,854 | 759,855 | 1,209,855 | 1,159,855 | 1,159,855 | 1,159,855 |
| Education | Centre of Excellence in Information Technology (CEIT) | 0 | 0 | 0 | 0 | 0 | 0 |
| Education | Bus Service | | 0 | 26,325 | 26,325 | 26,325 | 26,325 |
| Finance and Economic Management | The Centre of Excellence in Information Technology (CEIT) | 0 | 50,000 | 250,000 | 60,000 | 0 | 0 |
| Finance and Economic Management | Audit of Crown Accounts | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 |
| Finance and Economic Management | Border Management System Maintenance | 135,000 | 155,250 | 155,250 | 155,250 | 155,250 | 155,250 |
| Finance and Economic Management | Standard and Poors Subscription | 40,000 | 55,000 | 65,000 | 65,000 | 65,000 | 65,000 |

| Administering Ministry | Administered Payment | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|---------------------------------|---|-------------------|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| Finance and Economic Management | Special Investigative and Prosecution Services | 0 | 200,000 | 70,000 | 70,000 | 70,000 | 70,000 |
| Finance and Economic Management | Debt Advisory Services | 0 | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 |
| Finance and Economic Management | Post Tax Amnesty Work | | 16,379 | 483,621 | 0 | 0 | 0 |
| Finance and Economic Management | Public Sector Strengthening-processes and systems | | 345,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Crown Law | Arbitration Case | 0 | 1,159,090 | 300,000 | 0 | 0 | 0 |
| Foreign Affairs | Cook Islands Student Association Support | 5,000 | 5,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Head Of State | Domestic Hosting Entertainment | 14,033 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| Head Of State | QR Social Responsibility Fund | 0 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 |
| Head Of State | Head of State Rent | 0 | 0 | 13,000 | 13,000 | 13,000 | 13,000 |
| Health | Pharmaceuticals | 1,067,892 | 1,117,800 | 867,800 | 867,800 | 867,800 | 867,800 |
| Health | Operation Namu | | 88,016 | 0 | 0 | 0 | 0 |
| Infrastructure Cook Islands | Outer Islands Equipment Repairs of Unanticipated Breakdowns | 194,434 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Infrastructure Cook Islands | Waste Management | 452,833 | 545,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Infrastructure Cook Islands | Water Maintenance | 0 | 500,000 | 0 | 0 | 0 | 0 |
| Infrastructure Cook Islands | Road and Civil Maintenance | 0 | 630,000 | 1,100,000 | 1,280,000 | 1,000,000 | 1,000,000 |
| Infrastructure Cook Islands | Road Asset Management | 0 | 650,000 | 0 | 0 | 0 | 0 |
| Infrastructure Cook Islands | Bridges and Drainage Maintenance | 0 | 600,000 | 1,200,000 | 1,200,000 | 1,200,000 | 1,200,000 |
| Infrastructure Cook Islands | Emergency Work | | 0 | 200,000 | 200,000 | 200,000 | 200,000 |
| Internal Affairs | Lease extension | 72,000 | 72,000 | 72,000 | 72,000 | 72,000 | 72,000 |
| Internal Affairs | Vaka Maintenance | 393,153 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 |
| Internal Affairs | Children Forum | | 0 | 0 | 20,000 | 0 | 0 |
| Internal Affairs | Internal Affairs Youth Program | | 0 | 45,000 | 45,000 | 45,000 | 45,000 |
| Parliamentary Services | Pacific Legislatures for Population and Governance (PLPG) | 56,928 | 52,000 | 0 | 0 | 0 | 0 |
| Parliamentary Services | Special Select Committee | 0 | 10,000 | 110,000 | 110,000 | 60,000 | 60,000 |
| Cultural Development | Te Kopapa Reo Maori Board | 0 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| Cultural Development | Cook Islands Cultural Fund | | 0 | 200,000 | 200,000 | 200,000 | 200,000 |
| Cultural Development | Audio and Visual Digitization | | 0 | 40,000 | 0 | 0 | 0 |
| Prime Minister's Office | Social Responsibility Fund | 195,000 | 243,000 | 243,000 | 243,000 | 243,000 | 243,000 |
| Prime Minister's Office | Pa Enua Mechanical Overseer | 0 | 0 | 130,000 | 100,000 | 100,000 | 100,000 |
| Prime Minister's Office | Energy Commissioner | 0 | 0 | 100,000 | 100,000 | 100,000 | 100,000 |
| Police | Search and Rescue | 0 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Police | Serious Crime Investigations | 140,867 | 50,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Police | Te Kukupa - Biannual Slipping | 151,284 | 150,000 | 0 | 150,000 | 0 | 0 |
| Police | Te Kukupa - Fuel Contribution | 137,981 | 140,000 | 140,000 | 140,000 | 140,000 | 140,000 |

| Administering Ministry | Administered Payment | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|-------------------------------------|---|-------------------|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| Police | Police Youth Program | 38,923 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 |
| Tourism Corporation | Marketing Resources - Tourism Growth Strategy | 5,499,999 | 5,072,000 | 4,922,000 | 4,922,000 | 4,922,000 | 4,922,000 |
| Foreign Affairs | Returned Services Association | 9,760 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Prime Minister's Office | Community Support Fund | 90,618 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Environment | E - Waste & Whitewear Collection | 0 | 84,933 | 0 | 0 | 0 | 0 |
| Environment | Management of Suwarrow Park | 0 | 0 | 100,000 | 100,000 | 100,000 | 100,000 |
| Environment | EIA Process | 0 | 0 | 150,000 | 200,000 | 200,000 | 200,000 |
| Parliamentary Services | Remuneration Tribunal Committee | 0 | 25,000 | 0 | 0 | 0 | 0 |
| Crown Law | Pacific Islands Law Officers Network (PILON) | 0 | 30,000 | 0 | 0 | 0 | 0 |
| | Use of Goods and Services Administered Payments | 10,055,255 | 20,101,761 | 16,573,351 | 14,629,730 | 15,919,730 | 13,919,730 |
| Subsidies | | | | | | | |
| Education | University of the South Pacific Contribution | 9,106,042 | 205,000 | 205,000 | 205,000 | 205,000 | 205,000 |
| Finance and Economic Management | Air New Zealand - Subsidies | 18,000 | 12,523,000 | 12,000,000 | 12,000,000 | 12,000,000 | 12,000,000 |
| Finance and Economic Management | Provision for Inter Island Shipping | 50,344 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Finance and Economic Management | Subsidy of audio/visual broadcasting in Pa Eヌua Asian Infrastructure Investment Bank (AIIB) | 0 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 |
| Finance and Economic Management | Membership | 9,247,181 | 30,500 | 30,500 | 30,500 | 30,500 | 30,500 |
| | Subsidies Administered Payments | 9,247,181 | 13,303,500 | 12,780,500 | 12,780,500 | 12,780,500 | 12,780,500 |
| Social Assistance | | | | | | | |
| Education | Government Funded Scholarships | 437,933 | 660,400 | 660,400 | 780,000 | 780,000 | 780,000 |
| Health | Patient Referrals | 740,000 | 800,000 | 850,000 | 850,000 | 850,000 | 850,000 |
| Health | Nursing School | 234,070 | 234,070 | 234,070 | 234,070 | 234,070 | 234,070 |
| Health | NCD Fund | 194,998 | 195,000 | 195,000 | 195,000 | 195,000 | 195,000 |
| Internal Affairs | Welfare Payments - Allowances | 1,139,818 | 1,044,076 | 1,291,309 | 1,292,973 | 1,294,029 | 1,295,038 |
| Justice | Legal Aid | 0 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| | Social Assistance Administered Payments | 2,746,819 | 2,973,546 | 3,270,779 | 3,392,043 | 3,393,099 | 3,394,108 |
| Other Expense | | | | | | | |
| Cook Islands Investment Corporation | To Tatou Vai | 0 | 1,200,000 | 2,500,000 | 2,330,000 | 1,755,000 | 1,400,000 |
| Education | Private School Funding | 2,147,028 | 2,229,709 | 2,510,709 | 2,510,709 | 2,510,709 | 2,510,709 |
| Marine Resources | Fisheries Development Facility | 199,992 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Marine Resources | Fisheries Development Facility in the Pa Eヌua | 99,817 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Internal Affairs | CISNOC Grant | 235,000 | 767,385 | 370,000 | 420,000 | 420,000 | 420,000 |
| Internal Affairs | SIF - Cook Islands Government Contribution | 195,000 | 881,000 | 800,000 | 860,000 | 860,000 | 860,000 |
| Finance and Economic Management | National Census | 0 | 0 | 0 | 0 | 300,000 | 0 |
| Finance and Economic Management | Conduct of a Labour Force Survey | 0 | 100,000 | 0 | 0 | 0 | 0 |

| Administering Ministry | Administered Payment | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|---------------------------------|--|-------------------|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| Finance and Economic Management | Production of new currency, transportation and sale of old coins | 1,043 | 350,000 | 800,000 | 15,000 | 15,000 | 350,000 |
| Finance and Economic Management | Marumaruatua | 0 | 275,000 | 0 | 0 | 0 | 0 |
| Finance and Economic Management | Establishment of Ministerial Office | 0 | 50,000 | 0 | 0 | 0 | 0 |
| Finance and Economic Management | Economic Utilities Regulator | 0 | 0 | 100,000 | 100,000 | 100,000 | 100,000 |
| | Other Expenses Administered Payments | 2,877,880 | 6,153,094 | 7,380,709 | 6,535,709 | 6,260,709 | 5,940,709 |
| Grand Total | | 26,871,277 | 45,548,906 | 43,604,225 | 40,976,868 | 41,742,924 | 39,423,933 |

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

| Administering Ministry | POBOC | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|-------------------------------------|---|-------------------|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| Compensation of Employees | | | | | | | |
| Finance and Economic Management | Parliamentary Superannuation | 125,000 | 180,000 | 180,000 | 180,000 | 180,000 | 180,000 |
| Audit (PERCA) | PERC Salaries and Administration Costs | 35,400 | 42,500 | 57,500 | 57,500 | 57,500 | 57,500 |
| Parliamentary Services | Civil List - Personnel | 2,031,180 | 2,267,961 | 2,901,961 | 2,901,961 | 2,901,961 | 2,901,961 |
| Parliamentary Services | House of Ariki | 229,954 | 228,420 | 348,420 | 348,420 | 348,420 | 348,420 |
| | Compensation of Employees POBOCs | 2,421,534 | 2,718,881 | 3,487,881 | 3,487,881 | 3,487,881 | 3,487,881 |
| Use of Goods and Services | | | | | | | |
| Audit (PERCA) | Audit Fees | 0 | 95,600 | 95,600 | 95,600 | 95,600 | 95,600 |
| Justice | General Elections, Petitions and By-Elections | 0 | 0 | 0 | 0 | 0 | 0 |
| Parliamentary Services | Civil List - Constituency Visits | 90,028 | 170,200 | 170,200 | 170,200 | 170,200 | 170,200 |
| Parliamentary Services | Parliamentary Sitting Expenses | 84,307 | 286,000 | 150,000 | 150,000 | 150,000 | 150,000 |
| Parliamentary Services | MP Travel and Allowances (local and overseas) | 331,231 | 321,000 | 341,000 | 341,000 | 341,000 | 341,000 |
| Parliamentary Services | QR Travel and Allowances (local and overseas) | 106,356 | 109,000 | 109,000 | 109,000 | 109,000 | 109,000 |
| Prime Minister's Office | Local Government Election | 0 | 0 | 30,000 | 0 | 0 | 0 |
| Foreign Affairs | International Maritime Organisation - Maritime Cook Islands | 0 | 63,461 | 63,461 | 63,461 | 63,461 | 63,461 |
| | Use of Goods and Services POBOCs | 611,923 | 1,045,261 | 959,261 | 929,261 | 929,261 | 929,261 |
| Subsidies | | | | | | | |
| Finance and Economic Management | Apex - Profit Guarantee | 618,070 | 0 | 0 | 0 | 0 | 0 |
| Cook Islands Investment Corporation | Bank of the Cook Islands - social assistance subsidy | 120,000 | 120,000 | 128,000 | 128,000 | 128,000 | 128,000 |
| Cook Islands Investment Corporation | Airport Authority subsidy | 2,047,997 | 2,047,997 | 2,047,997 | 2,047,997 | 2,047,997 | 2,047,997 |
| Cook Islands Investment Corporation | Ports Authority - subsidy | 0 | 110,099 | 110,099 | 110,099 | 110,099 | 110,099 |
| Cook Islands Investment Corporation | Te Aponga Uira - social assistance subsidy | 0 | 380,000 | 380,000 | 380,000 | 380,000 | 380,000 |
| | Subsidies POBOCs | 2,786,067 | 2,658,096 | 2,666,096 | 2,666,096 | 2,666,096 | 2,666,096 |
| Social Assistance | | | | | | | |
| Internal Affairs | Welfare Payments | 17,682,100 | 18,156,712 | 19,689,535 | 19,774,919 | 19,859,919 | 19,944,757 |
| | Social Assistance POBOCs | 17,682,100 | 18,156,712 | 19,689,535 | 19,774,919 | 19,859,919 | 19,944,757 |
| Other Expense | | | | | | | |
| Finance and Economic Management | Pacific Catastrophe Risk Insurance | 0 | 120,694 | 120,694 | 120,694 | 120,694 | 120,694 |
| Finance and Economic Management | CICC Mission Training Center Construction Grant | 650,000 | 0 | 0 | 0 | 0 | 0 |
| Finance and Economic Management | BEPS Subscription | 0 | 0 | 35,000 | 35,000 | 35,000 | 35,000 |
| Foreign Affairs | International Subscriptions | 698,800 | 673,717 | 687,967 | 689,697 | 687,967 | 687,967 |
| Finance and Economic Management | CIG Insurance | 0 | 100,000 | 100,000 | 180,000 | 40,000 | 40,000 |
| | Other Expenses POBOCs | 1,348,800 | 894,411 | 943,661 | 1,025,391 | 883,661 | 883,661 |
| Grand Total | | 24,850,424 | 25,473,361 | 27,746,434 | 27,883,548 | 27,826,818 | 27,911,656 |

17.13 Schedule 9a – Debt Servicing Schedule (\$'000)

| Creditor | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|---------------------------------------|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| Asian Development Bank (ADB) | | | | | |
| Principal | 4,292 | 4,668 | 5,556 | 6,388 | 6,352 |
| Interest | 2,024 | 1,873 | 1,988 | 1,830 | 1,669 |
| Total Debt Servicing to ADB | 6,316 | 6,542 | 7,545 | 8,218 | 8,021 |
| People's Republic of China (China) | | | | | |
| Principal | 933 | 2,646 | 2,617 | 2,587 | 2,591 |
| Interest | 727 | 651 | 592 | 533 | 482 |
| Total Debt Servicing to China | 1,660 | 3,297 | 3,208 | 3,120 | 3,073 |
| France | | | | | |
| Principal | 317 | 0 | 0 | 0 | 0 |
| Interest | 1 | 0 | 0 | 0 | 0 |
| Total Debt Servicing to France | 318 | 0 | 0 | 0 | 0 |
| Gross Debt Servicing | 8,294 | 9,838 | 10,753 | 11,338 | 11,094 |

17.14 Schedule 9b – Loan Repayment Fund (LRF) Schedule (\$'000)

| Transaction | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| Opening Balance in LRF | 21,277 | 20,922 | 21,427 | 21,128 | 20,066 |
| <i>Transfer into LRF by Government</i> | <i>9,361</i> | <i>9,925</i> | <i>10,025</i> | <i>9,853</i> | <i>9,605</i> |
| Contribution to LRF - Principal | 6,995 | 7,696 | 7,950 | 7,977 | 7,923 |
| Contribution to LRF - Interest | 2,366 | 2,229 | 2,075 | 1,876 | 1,682 |
| Interest earned by LRF | 426 | 418 | 429 | 423 | 401 |
| Total inflows | 9,787 | 10,343 | 10,454 | 10,276 | 10,006 |
| Total Principal Paid out of LRF | 7,558 | 7,314 | 8,173 | 8,975 | 8,943 |
| Total Interest Paid out of LRF | 2,524 | 2,524 | 2,580 | 2,363 | 2,152 |
| Service Fees | 60 | 0 | 0 | 0 | 0 |
| Total outflows | 10,142 | 9,838 | 10,753 | 11,338 | 11,095 |
| Closing balance of LRF | 20,922 | 21,427 | 21,128 | 20,066 | 18,977 |

17.15 Schedule 10 – Official Development Assistance Schedule

| Agency | Programs/Projects by Agency | Development Partner | 2018/19 Estimate | Budget 2019/20 | Budget 2020/10 | Budget 2021/22 | Budget 2022/23 |
|--|--|------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|
| Projects funded directly in New Zealand dollars | | | | | | | |
| MFEM | Cook Islands Core Sector Support | New Zealand | 9,083,062 | 7,730,487 | 7,730,487 | 7,730,487 | 7,730,487 |
| MFEM | Cook Islands Core Sector Support - TA Component | New Zealand | 0 | 1,269,513 | 1,269,513 | 1,269,513 | 1,269,513 |
| CIIC | Chinese Building Repairs | China | 0 | 10,837,524 | 0 | 0 | 0 |
| INTAFF | Gender Empowerment | Australia | 61,651 | 0 | 0 | 0 | 0 |
| MFEM | India Grant Fund | India | 115,266 | 680,000 | 0 | 0 | 0 |
| MFEM | Pacific Parliamentary Development Project | UNDP | 0 | 75,758 | 0 | 0 | 0 |
| MOT | Disaster Resilience for Small Pacific Islands (RESPAC Cook Islands) | UNDP | 141,640 | 0 | 0 | 0 | 0 |
| MMR | US Treaty Project Development Fund (PDF) Support | Forum Fisheries Agency | 0 | 0 | 0 | 0 | 0 |
| MFAI | Pacific Agreement on Closer Economic Relations (PACER) Plus | Australia | 0 | 0 | 0 | 0 | 0 |
| MFEM | Grassroots Grant Fund | Japan | 0 | 376,160 | 300,000 | 0 | 0 |
| MFEM | Non Project Grant Aid - Palmerston Cyclone Centre | Japan | 935,116 | 103,926 | 0 | 0 | 0 |
| MFEM | Economic Social Development Programme 2018 | Japan | 62,832 | 766,656 | 1,603,972 | 0 | 0 |
| MFEM | JICA Training and Development | Japan | 124,993 | 125,000 | 0 | 0 | 0 |
| MFEM | General Budget Support | European Union | 0 | 2,288,136 | 1,419,665 | 0 | 0 |
| MFEM | Manatua Polynesian Cable Project | New Zealand | 8,928,223 | 6,071,777 | 0 | 0 | 0 |
| MFEM | Aid Effectiveness | Other | 60,712 | 100,000 | 100,000 | 100,000 | 100,000 |
| MFEM | Te Mato Vai | New Zealand | 3,469,418 | 0 | 0 | 0 | 0 |
| MFEM | Mei Te Vai Ki Te Vai (MTVKTV) | New Zealand | 1,266,958 | 3,858,000 | 10,000,000 | 10,000,000 | 0 |
| MFEM | Mei Te Vai Ki Te Vai (MTVKTV) - Environmental Investigation | New Zealand | | 142,000 | 0 | 0 | 0 |
| MMR | Sustainable Fisheries Partnership Agreement | New Zealand | 553,293 | 588,730 | 294,365 | 0 | 0 |
| OPM | NZ Volunteer Services Aboard | New Zealand | 196,283 | 200,000 | 200,000 | 200,000 | 200,000 |
| MMR | Japan Trust Fund | Japan | 0 | 210,521 | 0 | 0 | 0 |
| MMR | Project Development Fund - US Fisheries Treaty | Forum Fisheries Agency | 114,000 | 236,364 | 236,364 | 236,364 | 236,364 |
| MFAI | Project Development Fund - US Fisheries Treaty | Forum Fisheries Agency | 0 | 30,303 | 30,303 | 30,303 | 30,303 |
| MOH | WHO Biennium Budget Support | WHO | 101,496 | 204,545 | 0 | 0 | 0 |
| MOH | Small Health Grants | Multilateral Fund | 14,877 | 0 | 0 | 0 | 0 |

| Agency | Programs/Projects by Agency | Development Partner | 2018/19 Estimate | Budget 2019/20 | Budget 2020/10 | Budget 2021/22 | Budget 2022/23 |
|---|--|-----------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|
| MOH | Western Pacific Multi-country Integrated HIV/TB programme - UNDP | UNDP | 67,090 | 80,000 | 90,000 | 90,000 | 0 |
| INTAFF | National Children's Policy Project | UNICEF | 26,047 | 0 | 0 | 0 | 0 |
| NES | Ridge to Reef | Global Environment Facility | 2,234,288 | 1,284,003 | 1,712,028 | 318,389 | 0 |
| NES | Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands | Global Environment Facility | 0 | 120,430 | 49,960 | 0 | 0 |
| OPM | E-Government TA Support | Asian Development Bank | 40,011 | 111,504 | 0 | 0 | 0 |
| OPM | Renewable Energy Grant (Southern Group) | European Union | 271,943 | 0 | 0 | 0 | 0 |
| OPM | Renewable Energy Grant (Southern Group) | Global Environment Facility | 1,061,814 | 891,365 | 0 | 0 | 0 |
| OPM | Renewable Energy Grant (Southern Group) | Green Climate Fund | 1,541,460 | 8,316,288 | 8,316,288 | 0 | 0 |
| OPM | Preparation of the Third National Communication under UN Framework Convention on Climate Change (UNFCCC) | Global Environment Facility | 81,110 | 200,000 | 0 | 0 | 0 |
| MFEM | Green Climate Fund Readiness | Green Climate Fund | 483,480 | 769,087 | 718,023 | 354,428 | 0 |
| MFEM | MOH Building Resilient and healthy Cook Islands Communities - SAP | Green Climate Fund | 0 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 |
| OPM | Pa Enua Action for Resilient Livelihoods (PEARL) | UN Adaptation Fund | 243,412 | 1,826,957 | 538,021 | 0 | 0 |
| OPM | Northern Water Project Phase 2 | EU-German Development Cooperation | 297,131 | 21,338 | 0 | 0 | 0 |
| RED CROSS | GEF Small Grants Programme | Global Environment Facility | 103,467 | 485,161 | 0 | 0 | 0 |
| ICI | Japan Grassroots Human Security - Resource Recovery Centre Upgrades | Japan | 0 | 178,391 | 0 | 0 | 0 |
| MFEM | JICA Purpose-built shipping vessel for inter-island services TA Support | Japan | 0 | 250,000 | 0 | 0 | 0 |
| MFEM | Assets Management | New Zealand | 250,000 | 12,750,000 | 0 | 0 | 0 |
| ICI | ICI COOKGEO GeoPortal | SPC | 0 | 40,000 | 0 | 0 | 0 |
| Total NZD Funding | | | 22,848,011 | 57,489,437 | 28,878,502 | 14,598,997 | 3,836,180 |
| Total NZD Equivalent ODA Funding | | | 31,931,073 | 65,219,924 | 36,608,989 | 22,329,484 | 11,566,667 |
| Total NZD Equivalent ODA Funding - (excluding Core Sector) | | | 22,848,011 | 57,489,437 | 28,878,502 | 14,598,997 | 3,836,180 |

17.16 Schedule 11 – Comparative Analysis of Ministry Appropriations

| Ministry | 2018/19 Supplementary Estimate | | | 2019/20 Budget Estimate | | |
|--|--------------------------------|------------------|-----------------------------|-------------------------------|------------------|-----------------------------|
| | Gross Operating Appropriation | Trading Revenue | Net Operating Appropriation | Gross Operating Appropriation | Trading Revenue | Net Operating Appropriation |
| Agriculture | 1,090,257 | 90,535 | 999,722 | 1,343,762 | 90,535 | 1,253,227 |
| Audit (PERCA) | 1,084,252 | 60,700 | 1,023,552 | 1,129,154 | 60,700 | 1,068,454 |
| Corrective Services | 180,564 | 0 | 180,564 | 1,339,941 | 100,000 | 1,239,941 |
| Crown Law | 2,003,518 | 0 | 2,003,518 | 1,257,075 | 0 | 1,257,075 |
| Cultural Development | 4,614,744 | 110,000 | 4,504,744 | 1,976,507 | 150,000 | 1,826,507 |
| Business Trade and Investment Board | 679,859 | 23,380 | 656,479 | 782,162 | 28,000 | 754,162 |
| Education | 19,900,302 | 0 | 19,900,302 | 19,895,611 | 0 | 19,895,611 |
| Environment | 1,225,055 | 35,000 | 1,190,055 | 1,686,417 | 35,000 | 1,651,417 |
| Finance and Economic Management | 20,587,008 | 954,341 | 19,632,667 | 21,223,417 | 954,341 | 20,269,076 |
| Financial Services Development Authority | 429,315 | 0 | 429,315 | 530,571 | 0 | 530,571 |
| Foreign Affairs | 2,095,731 | 28,000 | 2,067,731 | 2,776,521 | 28,000 | 2,748,521 |
| Head Of State | 236,285 | 0 | 236,285 | 250,163 | 0 | 250,163 |
| Health | 16,659,749 | 350,000 | 16,309,749 | 17,519,546 | 350,000 | 17,169,546 |
| Infrastructure Cook Islands | 5,785,664 | 315,626 | 5,470,038 | 6,285,169 | 300,000 | 5,985,169 |
| Internal Affairs | 4,402,187 | 6,000 | 4,396,187 | 4,472,346 | 6,000 | 4,466,346 |
| Justice | 3,003,065 | 700,000 | 2,303,065 | 2,855,763 | 550,000 | 2,305,763 |
| Marine Resources | 2,003,443 | 28,000 | 1,975,443 | 2,372,618 | 28,000 | 2,344,618 |
| Ombudsman | 301,930 | 0 | 301,930 | 330,398 | 0 | 330,398 |
| Parliamentary Services | 693,124 | 0 | 693,124 | 758,681 | 0 | 758,681 |
| Pearl Authority | 478,524 | 0 | 478,524 | 0 | 0 | 0 |
| Police | 5,008,926 | 201,783 | 4,807,143 | 5,375,199 | 201,783 | 5,173,416 |
| Prime Minister's Office | 1,961,689 | 0 | 1,961,689 | 2,721,886 | 0 | 2,721,886 |
| Public Service Commission | 2,228,731 | 0 | 2,228,731 | 2,423,610 | 0 | 2,423,610 |
| Tourism Corporation | 9,415,536 | 150,000 | 9,265,536 | 9,274,662 | 150,000 | 9,124,662 |
| Transport | 720,564 | 36,000 | 684,564 | 1,160,232 | 36,000 | 1,124,232 |
| Cook Islands Investment Corporation | 9,590,772 | 2,455,943 | 7,134,829 | 8,290,490 | 753,831 | 7,536,659 |
| Cook Islands Seabed Minerals Authority | 295,292 | 0 | 295,292 | 295,292 | 0 | 295,292 |
| Total Ministries | 116,676,086 | 5,545,308 | 111,130,778 | 118,326,192 | 3,822,190 | 114,504,002 |

| Ministry | 2018/19 Supplementary Estimate | | | 2019/20 Budget Estimate | | |
|--|--------------------------------|------------------|-----------------------------|-------------------------------|------------------|-----------------------------|
| | Gross Operating Appropriation | Trading Revenue | Net Operating Appropriation | Gross Operating Appropriation | Trading Revenue | Net Operating Appropriation |
| Ministerial Support | | | | | | |
| Prime Minister | 392,530 | 0 | 392,530 | 422,569 | 0 | 422,569 |
| Deputy Prime Minister | 342,985 | 0 | 342,985 | 350,000 | 0 | 350,000 |
| Minister Vaine Mokoroa | 85,202 | 0 | 85,202 | 290,000 | 0 | 290,000 |
| Minister Vainetutai Toki-Brown | 187,861 | 0 | 187,861 | 290,000 | 0 | 290,000 |
| Minister Robert Tapaitau | 243,887 | 0 | 243,887 | 290,000 | 0 | 290,000 |
| Minister George Angene | 184,408 | 0 | 184,408 | 290,000 | 0 | 290,000 |
| 7 th Minister | 0 | 0 | 0 | 290,000 | 0 | 290,000 |
| Leader Of Opposition | 290,000 | 0 | 290,000 | 290,000 | 0 | 290,000 |
| Total Ministerial Support Offices | 1,627,315 | 0 | 1,627,315 | 2,222,569 | 0 | 2,222,569 |
| Outer Islands | | | | | | |
| Aitutaki | 1,629,948 | 92,200 | 1,537,748 | 2,060,486 | 67,828 | 1,992,658 |
| Atiu | 1,266,239 | 243,115 | 1,023,124 | 1,695,715 | 224,318 | 1,471,397 |
| Mangaia | 1,671,913 | 380,690 | 1,291,223 | 2,158,290 | 301,000 | 1,857,290 |
| Manihiki | 899,500 | 126,703 | 772,798 | 1,332,714 | 119,000 | 1,213,714 |
| Mauke | 993,698 | 180,348 | 813,350 | 1,359,944 | 113,853 | 1,246,091 |
| Mitiaro | 585,435 | 109,973 | 475,462 | 843,759 | 60,900 | 782,859 |
| Palmerston | 356,972 | 37,107 | 319,865 | 432,373 | 20,500 | 411,873 |
| Penrhyn | 716,277 | 50,813 | 665,464 | 902,154 | 74,000 | 828,154 |
| Pukapuka-Nassau | 897,535 | 70,849 | 826,685 | 1,262,104 | 73,695 | 1,188,409 |
| Rakahanga | 382,303 | 47,648 | 334,654 | 556,949 | 50,000 | 506,949 |
| Total Outer Islands | 9,427,320 | 1,339,446 | 8,087,874 | 12,604,488 | 1,105,094 | 11,499,394 |
| Gross Total | 109,006,564 | 7,503,261 | 101,503,303 | 133,153,249 | 4,927,284 | 128,225,965 |

17.17 Schedule 12 – Output Analysis

| Ministry | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|--|-------------------|-------------------|------------------|------------------|------------------|
| Agriculture | 1,090,256 | 1,343,762 | 1,493,762 | 1,393,762 | 1,393,762 |
| Crop Research & Development | 426,141 | 379,232 | 379,232 | 379,232 | 379,232 |
| Bio-Security Management | 326,737 | 459,210 | 459,210 | 459,210 | 459,210 |
| Advisory | 69,000 | 124,292 | 224,292 | 124,292 | 124,292 |
| Policy & Projects | 92,555 | 210,700 | 210,700 | 210,700 | 210,700 |
| Corporate Services | 175,823 | 170,330 | 220,330 | 220,330 | 220,330 |
| Audit (PERCA) | 1,222,352 | 1,282,254 | 1,332,254 | 1,392,254 | 1,392,254 |
| Consolidated Financial Statements of Government | 202,890 | 325,429 | 325,429 | 332,330 | 332,330 |
| Ministries, Outer Island Administration, SOEs and Other Crown Agencies | 582,688 | 419,036 | 419,036 | 419,036 | 419,036 |
| Special Reviews and Investigation and Performance Audits | 362,567 | 430,289 | 430,289 | 430,289 | 430,289 |
| Corporate Services | 74,207 | 107,500 | 157,500 | 210,599 | 210,599 |
| Cook Islands Investment Corporation | 12,248,868 | 10,956,586 | 9,936,586 | 9,311,586 | 8,956,586 |
| Effective Asset Management | 7,620,772 | 4,461,349 | 3,773,641 | 3,873,641 | 3,873,641 |
| Effective Management of public assets by SOEs | 4,358,096 | 6,225,940 | 5,835,098 | 5,110,098 | 4,755,098 |
| Corporate Services | 270,000 | 269,297 | 327,847 | 327,847 | 327,847 |
| Corrective Services | 180,564 | 1,339,941 | 1,539,941 | 1,739,941 | 1,939,941 |
| Probation Services | 0 | 345,655 | 350,655 | 395,655 | 446,155 |
| Prison Services | 0 | 889,894 | 1,016,453 | 1,034,922 | 1,034,922 |
| Corporate Services | 180,564 | 104,392 | 172,833 | 309,364 | 458,864 |
| Crown Law | 2,003,518 | 1,257,075 | 957,075 | 1,008,500 | 1,008,500 |
| Legal Advisory | 380,234 | 382,824 | 382,824 | 404,249 | 404,249 |
| Litigation | 1,465,118 | 587,134 | 287,134 | 302,134 | 302,134 |
| Legislative Drafting | 158,166 | 287,117 | 287,117 | 302,117 | 302,117 |
| Cultural Development | 4,614,744 | 1,976,507 | 2,171,507 | 4,194,507 | 2,194,507 |
| Cultural Identity | 3,912,912 | 1,287,914 | 1,313,861 | 3,255,506 | 1,263,589 |
| Cultural Heritage | 373,581 | 369,892 | 409,979 | 443,547 | 443,547 |
| Cultural Governancy | 328,251 | 318,701 | 447,667 | 495,454 | 487,371 |

| | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Business Trade and Investment Board | 679,860 | 728,618 | 728,618 | 716,192 | 716,192 |
| Business Enterprise | 153,017 | 201,450 | 201,450 | 131,916 | 131,916 |
| Trade and Marketing | 102,323 | 77,032 | 77,032 | 81,130 | 81,130 |
| Foreign Investment | 111,018 | 120,692 | 120,692 | 126,996 | 126,996 |
| Monitoring and Compliance | 78,804 | 77,898 | 77,898 | 79,264 | 79,264 |
| Corporate Services | 234,697 | 251,546 | 251,546 | 296,886 | 296,886 |
| Education | 19,900,304 | 19,895,610 | 20,043,628 | 22,430,374 | 22,490,344 |
| Taku Ipukarea Kia Rangatira | 684,018 | 2,431,678 | 2,441,588 | 2,743,024 | 2,759,794 |
| Learning and Teaching | 2,086,595 | 3,822,148 | 3,941,276 | 4,264,883 | 4,281,217 |
| Learning and the Community | 639,203 | 3,209,323 | 3,233,673 | 3,737,683 | 3,766,749 |
| Infrastructure and Support | 15,413,434 | 10,432,462 | 10,427,091 | 11,684,785 | 11,682,585 |
| Corporate Services | 1,077,054 | 0 | 0 | 0 | 0 |
| Environment | 1,225,055 | 1,686,417 | 1,681,417 | 1,681,417 | 1,681,417 |
| Advisory & Compliance | 352,842 | 640,178 | 724,238 | 724,238 | 724,238 |
| Island Futures | 315,497 | 600,917 | 450,857 | 450,857 | 450,857 |
| Corporate Services | 556,716 | 445,322 | 506,322 | 506,322 | 506,322 |
| Finance and Economic Management | 20,553,986 | 18,824,260 | 20,393,584 | 20,501,547 | 20,536,547 |
| Planning Division | 13,818,694 | 13,898,835 | 13,898,835 | 13,898,835 | 13,898,835 |
| Fiscal Management | 2,446,701 | 2,556,022 | 1,991,022 | 1,791,022 | 2,126,022 |
| Taxation | 3,219,437 | 868,685 | 2,998,316 | 2,998,316 | 2,998,316 |
| Statistics | 587,451 | 573,172 | 573,172 | 873,172 | 573,172 |
| Development Coordination | 481,702 | 455,702 | 455,702 | 455,702 | 455,702 |
| Project and Procurement Oversight and Support Division | 0 | 471,844 | 476,537 | 484,500 | 484,500 |
| Foreign Affairs | 2,832,909 | 3,527,949 | 3,675,699 | 3,848,949 | 3,848,949 |
| Pacific and Regional Affairs and Trade | 458,565 | 642,796 | 788,796 | 788,796 | 788,796 |
| International Affairs Including Protocol and Diplomatic services | 428,956 | 277,647 | 277,647 | 277,647 | 277,647 |
| United Nations and International Treaties | 409,743 | 314,666 | 314,666 | 314,666 | 314,666 |
| Immigration Services | 402,940 | 364,005 | 364,005 | 364,005 | 364,005 |
| Corporate Services | 1,132,706 | 1,928,835 | 1,930,585 | 2,103,835 | 2,103,835 |
| Head Of State | 236,285 | 250,163 | 250,163 | 264,276 | 264,276 |
| Administrative Support | 236,285 | 250,163 | 250,163 | 264,276 | 264,276 |

| | | | | | |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Health | 2,053,301 | 4,200,905 | 5,241,929 | 5,241,929 | 5,241,929 |
| Public Health | 2,053,301 | 2,184,216 | 2,726,149 | 2,726,149 | 2,726,149 |
| Oral Health Services | 0 | 991,324 | 1,052,082 | 1,052,082 | 1,052,082 |
| Primary Care | 0 | 1,025,365 | 1,463,698 | 1,463,698 | 1,463,698 |
| Infrastructure Cook Islands | 5,585,664 | 5,879,211 | 6,339,211 | 6,059,211 | 6,059,211 |
| Corporate Services | 598,398 | 704,081 | 984,081 | 984,081 | 984,081 |
| Regulatory Services | 260,491 | 234,041 | 234,041 | 234,041 | 234,041 |
| Planning and Project Management | 1,160,584 | 2,081,310 | 2,081,310 | 2,081,310 | 2,081,310 |
| Civil Works Asset Management | 1,841,441 | 1,867,011 | 2,047,011 | 1,767,011 | 1,767,011 |
| Waste Management | 1,724,750 | 992,768 | 992,768 | 992,768 | 992,768 |
| Internal Affairs | 22,558,899 | 24,160,881 | 24,427,929 | 24,663,985 | 24,749,832 |
| Welfare Division | 19,493,910 | 21,346,837 | 21,456,856 | 21,563,256 | 21,661,845 |
| Social Policy Division | 1,250,556 | 1,317,857 | 1,448,006 | 1,441,864 | 1,435,014 |
| Labour & Consumer Division | 231,431 | 247,091 | 276,022 | 301,047 | 276,759 |
| Civil Division | 524,317 | 562,160 | 546,237 | 554,999 | 561,749 |
| Corporate Services Division | 1,058,685 | 686,936 | 700,808 | 802,819 | 814,465 |
| Justice | 1,945,929 | 2,855,763 | 2,955,763 | 2,955,763 | 3,155,763 |
| Court & Tribunal Services | 887,079 | 1,379,522 | 1,411,695 | 1,411,178 | 1,539,777 |
| Land Administration | 463,735 | 785,397 | 807,334 | 805,735 | 843,115 |
| Registry Services | 228,202 | 317,124 | 326,251 | 326,768 | 342,350 |
| Corporate & ICT Services | 366,913 | 373,720 | 410,483 | 412,082 | 430,521 |
| Marine Resources | 1,966,443 | 2,372,618 | 2,562,618 | 2,712,618 | 2,712,618 |
| Offshore Fisheries | 338,178 | 477,289 | 537,289 | 532,289 | 532,289 |
| Pearl Industry Support | 345,965 | 571,872 | 571,872 | 571,872 | 571,872 |
| Inshore Fisheries and Aquaculture | 788,754 | 857,786 | 890,786 | 892,786 | 892,786 |
| Policy and Legal Services | 119,456 | 142,597 | 167,597 | 167,597 | 167,597 |
| Corporate Services | 374,090 | 323,074 | 395,074 | 548,074 | 548,074 |
| Ombudsman | 301,928 | 330,399 | 330,399 | 380,399 | 380,399 |
| Investigations & Review | 164,322 | 194,125 | 202,584 | 249,279 | 249,279 |
| Public Awareness and Training | 84,294 | 59,569 | 45,900 | 48,737 | 48,737 |
| Corporate Services | 53,312 | 76,705 | 81,915 | 82,383 | 82,383 |

| | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|
| Parliamentary Services | 4,075,703 | 4,779,262 | 4,814,262 | 4,849,262 | 4,849,262 |
| Services to Parliament | 3,738,128 | 4,525,899 | 4,560,899 | 4,595,899 | 4,595,899 |
| Finance and Corporate Services | 337,575 | 253,363 | 253,363 | 253,363 | 253,363 |
| Services to House of Ariki | 0 | 0 | 0 | 0 | 0 |
| Pearl Authority | 478,524 | 0 | 0 | 0 | 0 |
| Marketing | 194,772 | 0 | 0 | 0 | 0 |
| Industry Development | 64,055 | 0 | 0 | 0 | 0 |
| Management & Support Services | 219,697 | 0 | 0 | 0 | 0 |
| Police | 5,008,925 | 5,375,199 | 5,575,199 | 5,425,199 | 5,425,199 |
| Crime & Operations | 3,954,994 | 4,174,503 | 4,364,503 | 4,214,503 | 4,214,503 |
| Crime Prevention | 685,234 | 710,697 | 720,697 | 720,697 | 720,697 |
| Corporate Services | 368,697 | 489,999 | 489,999 | 489,999 | 489,999 |
| Prime Minister's Office | 1,961,690 | 2,751,886 | 3,082,811 | 2,832,811 | 2,832,811 |
| Cabinet Services & Government Representative | 463,271 | 458,639 | 458,639 | 458,639 | 458,639 |
| Central Policy & Planning Office | 254,997 | 270,992 | 341,802 | 341,802 | 341,802 |
| Pa Eヌua Governance | 239,827 | 434,484 | 403,702 | 403,702 | 403,702 |
| National Information, Communications & Technology Office | 291,797 | 633,488 | 633,488 | 383,488 | 383,488 |
| Renewable Energy Development Division | 119,811 | 222,810 | 222,810 | 222,810 | 222,810 |
| Emergency Management Cook Islands | 141,066 | 196,066 | 196,066 | 196,066 | 196,066 |
| Climate Change Cook Islands | 147,809 | 148,473 | 148,473 | 148,473 | 148,473 |
| Marae Moana | 303,112 | 386,934 | 677,831 | 677,831 | 677,831 |
| Public Service Commission | 2,228,731 | 2,423,610 | 2,473,610 | 2,558,610 | 2,558,610 |
| Policy and Planning | 260,936 | 196,923 | 208,161 | 226,462 | 227,827 |
| Human Resource Management | 1,882,795 | 1,946,451 | 1,955,181 | 1,960,245 | 1,961,049 |
| Corporate Services | 85,000 | 131,052 | 140,966 | 179,077 | 178,983 |
| Head of Ministries Administration | 0 | 149,184 | 169,302 | 192,826 | 190,751 |
| Tourism Corporation | 9,415,536 | 9,274,662 | 9,274,662 | 9,389,662 | 9,389,662 |
| Destination Sales & Marketing | 7,839,007 | 7,396,520 | 7,396,520 | 7,511,520 | 7,511,520 |
| Destination Development | 712,711 | 958,670 | 958,670 | 958,670 | 958,670 |
| Corporate Services | 863,818 | 919,472 | 919,472 | 919,472 | 919,472 |

| | | | | | |
|---|------------------|------------------|------------------|------------------|------------------|
| Transport | 720,564 | 843,018 | 942,574 | 951,504 | 960,375 |
| Civil Aviation | 110,544 | 276,472 | 278,950 | 273,301 | 273,301 |
| Maritime Transport | 110,270 | 182,020 | 211,083 | 216,854 | 221,315 |
| Meteorological Service | 337,680 | 69,466 | 110,421 | 115,902 | 115,902 |
| Finance & Administration | 162,070 | 315,060 | 342,120 | 345,447 | 349,857 |
| Financial Services Development Authority | 429,315 | 530,571 | 430,571 | 440,571 | 440,571 |
| Develop Cook islands financial Service Industry | 429,315 | 530,571 | 430,571 | 440,571 | 440,571 |
| Cook Islands Seabed Minerals Authority | 295,292 | 295,292 | 296,236 | 307,274 | 307,274 |
| Effective Seabed Minerals sector | 231,616 | 230,188 | 231,132 | 231,132 | 231,132 |
| Stakeholder Engagement | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Corporate Services | 43,676 | 45,104 | 45,104 | 56,142 | 56,142 |
| OUTER ISLANDS | | | | | |
| Aitutaki | 2,006,239 | 2,060,486 | 2,159,571 | 2,153,508 | 2,154,070 |
| Island Council | 83,869 | 91,234 | 91,234 | 91,234 | 91,234 |
| Finance & Administration | 361,344 | 327,875 | 381,615 | 381,615 | 381,615 |
| Infrastructure | 1,285,769 | 1,387,389 | 1,431,550 | 1,425,487 | 1,425,487 |
| Agriculture | 93,549 | 86,177 | 81,934 | 81,934 | 82,496 |
| Women,Youth,Sport, Culture | 55,154 | 22,302 | 27,013 | 27,013 | 27,013 |
| Waste Facility | 126,554 | 145,509 | 146,225 | 146,225 | 146,225 |
| Atiu | 1,650,388 | 1,695,716 | 1,784,430 | 1,797,458 | 1,797,466 |
| Agriculture | 131,036 | 168,028 | 220,785 | 220,785 | 220,785 |
| Infrastructure | 742,250 | 930,822 | 957,583 | 970,611 | 970,619 |
| Energy | 372,355 | 346,070 | 351,561 | 351,561 | 351,561 |
| Corporate | 311,569 | 157,618 | 161,323 | 161,323 | 161,323 |
| Island Council | 93,178 | 93,178 | 93,178 | 93,178 | 93,178 |
| Mangaia | 2,114,307 | 2,158,289 | 2,236,701 | 2,247,599 | 2,248,030 |
| Agriculture | 153,158 | 162,486 | 173,066 | 183,964 | 184,395 |
| Tourism & Community Development | 50,646 | 55,646 | 54,909 | 54,909 | 54,909 |
| Infrastructure Amenities | 893,114 | 949,658 | 982,546 | 982,546 | 982,546 |
| Public Utilities | 616,341 | 619,654 | 639,304 | 639,304 | 639,304 |
| Finance & Administration | 327,354 | 298,717 | 231,255 | 231,255 | 231,255 |
| Island Council | 73,694 | 72,128 | 155,621 | 155,621 | 155,621 |

| | | | | | |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|
| Manihiki | 1,278,479 | 1,332,714 | 1,370,232 | 1,365,633 | 1,366,284 |
| Gender, Youth & Sports | 11,906 | 25,370 | 26,300 | 26,300 | 26,300 |
| Infrastructure | 723,882 | 813,106 | 844,128 | 839,529 | 840,180 |
| Energy | 202,906 | 212,789 | 215,579 | 215,579 | 215,579 |
| Finance and Administration | 220,870 | 144,114 | 145,030 | 145,030 | 145,030 |
| Governance | 78,502 | 78,501 | 78,501 | 78,501 | 78,501 |
| Agriculture | 40,413 | 58,834 | 60,694 | 60,694 | 60,694 |
| Mauke | 1,311,347 | 1,359,944 | 1,449,937 | 1,457,309 | 1,457,593 |
| Infrastructure | 631,728 | 688,544 | 711,852 | 711,852 | 711,852 |
| Energy | 245,388 | 231,566 | 239,356 | 239,356 | 239,356 |
| Water | 81,575 | 98,872 | 111,038 | 111,038 | 111,038 |
| Finance & Administration | 207,650 | 139,605 | 172,914 | 180,286 | 180,570 |
| Corporate Services | 74,320 | 103,237 | 109,669 | 109,669 | 109,669 |
| Gender & Development | 13,555 | 36,463 | 43,451 | 43,451 | 43,451 |
| Island Council | 57,130 | 61,656 | 61,656 | 61,656 | 61,656 |
| Mitiaro | 751,788 | 843,760 | 882,284 | 887,840 | 888,048 |
| Island Administration | 226,871 | 275,681 | 280,725 | 281,977 | 282,185 |
| Island Council | 49,623 | 28,671 | 29,601 | 29,601 | 29,601 |
| Social & Economic Growth | 12,865 | 13,870 | 14,800 | 14,800 | 14,800 |
| Infrastructure | 320,645 | 369,164 | 394,274 | 398,578 | 398,578 |
| Energy | 98,922 | 112,920 | 116,640 | 116,640 | 116,640 |
| Agriculture | 42,862 | 43,453 | 46,243 | 46,243 | 46,243 |
| Palmerston | 410,592 | 432,373 | 471,824 | 469,578 | 469,885 |
| Island Administration | 107,490 | 161,578 | 184,856 | 182,610 | 182,917 |
| Education | 113,932 | 91,025 | 106,025 | 106,025 | 106,025 |
| Infrastructure and development | 150,418 | 156,152 | 157,325 | 157,325 | 157,325 |
| Island Council Support Services | 38,752 | 23,618 | 23,618 | 23,618 | 23,618 |
| Penrhyn | 788,625 | 902,154 | 955,867 | 960,721 | 957,123 |
| Island Support Services/Council | 212,111 | 259,593 | 286,880 | 291,734 | 288,136 |
| Community & Protocol | 67,000 | 41,822 | 41,822 | 41,822 | 41,822 |
| Infrastructure & Climate Change | 459,514 | 519,438 | 542,965 | 542,965 | 542,965 |
| Economic Development | 50,000 | 81,301 | 84,200 | 84,200 | 84,200 |

| | | | | | |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Pukapuka and Nassau | 1,123,192 | 1,262,104 | 1,405,520 | 1,400,085 | 1,400,869 |
| Administration | 239,816 | 202,338 | 327,528 | 322,093 | 322,877 |
| Agriculture | 49,709 | 24,895 | 25,642 | 25,642 | 25,642 |
| Energy | 109,783 | 44,124 | 44,124 | 44,124 | 44,124 |
| Infrastructure | 586,914 | 880,338 | 897,817 | 897,817 | 897,817 |
| Island Council | 105,964 | 85,206 | 85,206 | 85,206 | 85,206 |
| Women, Culture, Youth & Sport | 31,006 | 25,203 | 25,203 | 25,203 | 25,203 |
| Rakahanga | 525,389 | 556,947 | 582,556 | 579,875 | 580,237 |
| Agriculture | 27,975 | 32,970 | 34,830 | 34,830 | 34,830 |
| Marine | 82,931 | 78,250 | 79,509 | 81,107 | 81,470 |
| Beautification | 57,609 | 95,028 | 90,479 | 86,200 | 86,200 |
| Infrastructure | 132,065 | 156,831 | 162,006 | 162,006 | 162,006 |
| Energy | 40,657 | 49,763 | 51,623 | 51,623 | 51,623 |
| Island Administration | 129,148 | 109,799 | 129,802 | 129,802 | 129,802 |
| Island Council | 55,004 | 34,307 | 34,308 | 34,308 | 34,307 |
| MINISTERIAL SUPPORT | 2,301,765 | 2,222,569 | 2,222,569 | 2,222,569 | 2,222,569 |
| Prime Minister | 422,569 | 422,569 | 422,569 | 422,569 | 422,569 |
| Deputy Prime Minister | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| Minister Vaine Mokoroa | 307,005 | 290,000 | 290,000 | 290,000 | 290,000 |
| Minister Vainetutai Toki-Brown | 302,994 | 290,000 | 290,000 | 290,000 | 290,000 |
| Minister Robert Tapaitau | 313,569 | 290,000 | 290,000 | 290,000 | 290,000 |
| Minister George Angene | 315,628 | 290,000 | 290,000 | 290,000 | 290,000 |
| 7th Minister | 0 | 290,000 | 290,000 | 290,000 | 290,000 |
| Leader of the Opposition | 290,000 | 290,000 | 290,000 | 290,000 | 290,000 |
| TOTAL APPROPRIATIONS | 139,573,724 | 142,629,534 | 146,933,558 | 151,054,337 | 149,089,024 |

18 Financial Statements

18.1 Statement of Financial Performance

For the year ending 30 June

| | 2017/18 Actual ('000) | 2018/19 Estimate ('000) | 2019/20 Budget Estimate ('000) | 2020/21 Projection ('000) | 2021/22 Projection ('000) | 2022/23 Projection ('000) |
|--|-----------------------------|-------------------------------|---|---------------------------------|---------------------------------|---------------------------------|
| Revenue | | | | | | |
| Taxation revenues | 140,587 | 144,635 | 151,626 | 156,384 | 159,508 | 162,631 |
| <u>Other revenue</u> | | | | | | |
| Revenue on behalf of the Crown | 26,164 | 39,461 | 27,337 | 26,026 | 22,808 | 22,818 |
| Sale of goods and services | 7,503 | 6,646 | 4,927 | 4,929 | 4,949 | 4,949 |
| Interest | 3,518 | 3,037 | 2,570 | 2,570 | 2,570 | 2,570 |
| Dividends | 3,293 | 2,209 | 2,370 | 2,451 | 2,451 | 2,451 |
| Total Revenue | 181,065 | 195,989 | 188,830 | 192,360 | 192,286 | 195,419 |
| Expenditure | | | | | | |
| Appropriations to agencies | 109,006 | 130,355 | 133,443 | 137,017 | 141,476 | 139,522 |
| Payments on behalf of Crown | 24,850 | 25,473 | 27,746 | 27,884 | 27,827 | 27,912 |
| Debt-servicing interest | 2,063 | 2,670 | 2,133 | 1,906 | 1,684 | 1,687 |
| Infrastructure depreciation | 4,603 | 4,603 | 4,603 | 4,603 | 4,603 | 4,603 |
| Depreciation contingency fund- renewable energy | 1,600 | 1,371 | 1,371 | 1,371 | 1,371 | 1,371 |
| Other expenditure | 9,872 | 1,218 | 953 | 953 | 953 | 954 |
| Total Expenditure | 151,994 | 165,689 | 170,249 | 173,733 | 177,913 | 176,047 |
| NET OPERATING SURPLUS / (DEFICIT) | 29,072 | 30,299 | 18,581 | 18,628 | 14,374 | 19,372 |

18.2 Statement of Financial Position

As at 30 June

| | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|--------------------------------|-------------------|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| | ('000) | ('000) | ('000) | ('000) | ('000) | ('000) |
| Assets | | | | | | |
| <i>Working Capital Funds</i> | 125,949 | 130,451 | 58,773 | 47,823 | 41,264 | 39,865 |
| <i>Stabilisation Fund</i> | 0 | 0 | 56,700 | 56,700 | 56,700 | 56,700 |
| Cash and Equivalents | 125,949 | 130,451 | 115,473 | 104,523 | 97,964 | 96,565 |
| Loan Repayment Fund | 23,028 | 20,922 | 21,427 | 21,128 | 20,066 | 18,977 |
| Trust accounts | 20,919 | 21,692 | 21,742 | 21,792 | 21,842 | 21,892 |
| Inventory | 1,458 | 1,296 | 1,134 | 988 | 857 | 739 |
| Tax receivables | 23,635 | 17,391 | 11,148 | 7,150 | 6,963 | 6,808 |
| Debtors and other receivables | 8,845 | 8,379 | 7,913 | 7,471 | 7,028 | 6,607 |
| Advances to SOEs | 28,010 | 26,896 | 43,388 | 47,337 | 46,561 | 45,864 |
| Plant, property, and equipment | 199,490 | 239,076 | 312,858 | 355,811 | 380,139 | 393,918 |
| Total Assets | 431,334 | 466,103 | 535,083 | 566,200 | 581,420 | 591,370 |
| Liabilities | | | | | | |
| Creditors and other payables | 17,696 | 15,730 | 13,763 | 12,437 | 10,843 | 9,409 |
| Trust liabilities | 23,625 | 23,625 | 23,625 | 23,625 | 23,625 | 23,625 |
| Borrowings | 113,709 | 112,602 | 129,470 | 120,320 | 99,081 | 88,910 |
| Total Liabilities | 155,030 | 151,957 | 166,858 | 156,382 | 133,549 | 121,944 |
| Net Crown Balance | 276,304 | 314,146 | 368,225 | 409,818 | 447,871 | 469,426 |

18.3 Statement of Cashflows

For the Year Ending 30 June

| | 2017/18 Actual ('000) | 2018/19 Estimate ('000) | 2019/20 Budget Estimate ('000) | 2020/21 Projection ('000) | 2021/22 Projection ('000) | 2022/23 Projection ('000) |
|--|-----------------------------|-------------------------------|---|---------------------------------|---------------------------------|---------------------------------|
| Cashflows from Operating Activities | | | | | | |
| <u>Cash provided from:</u> | | | | | | |
| Taxation and levies | 134,116 | 138,391 | 145,382 | 152,386 | 159,322 | 162,476 |
| Collection of tax arrears | 6,471 | 6,244 | 6,244 | 3,998 | 186 | 155 |
| Sale of goods and services | 7,503 | 6,646 | 4,927 | 4,929 | 4,949 | 4,949 |
| Interest | 3,518 | 3,037 | 2,570 | 2,570 | 2,570 | 2,570 |
| Dividends | 3,293 | 2,209 | 2,370 | 2,451 | 2,451 | 2,451 |
| Other income | 26,607 | 39,877 | 27,779 | 26,469 | 23,229 | 22,818 |
| Foreign Aid Income | 50,565 | 22,848 | 57,489 | 28,879 | 14,599 | 3,836 |
| | <u>232,073</u> | <u>219,253</u> | <u>246,761</u> | <u>221,682</u> | <u>207,306</u> | <u>199,256</u> |
| <u>Cash applied to:</u> | | | | | | |
| Appropriations to agencies (less depn) | 104,223 | 122,979 | 126,477 | 130,051 | 134,510 | 132,556 |
| Payments on behalf of Crown | 24,850 | 25,473 | 27,746 | 27,884 | 27,827 | 27,912 |
| Debt-servicing interest | 2,063 | 2,670 | 2,133 | 1,906 | 1,684 | 1,687 |
| Building maintenance | | | | 0 | 0 | |
| Other expenditure | 7,514 | 415 | 150 | 150 | 150 | 151 |
| Foreign Aid Expense | 13,159 | 4,583 | 10,396 | 7,724 | 2,599 | 1,836 |
| | <u>151,810</u> | <u>156,121</u> | <u>166,903</u> | <u>167,715</u> | <u>166,770</u> | <u>164,142</u> |
| Net Operating Activity Cashflows | 80,264 | 63,132 | 79,858 | 53,967 | 40,536 | 35,114 |
| Cashflows from Investing Activities | | | | | | |
| <u>Cash provided from:</u> | | | | | | |
| * | 0 | 0 | 0 | 0 | 0 | 0 |
| | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| <u>Cash applied to:</u> | | | | | | |
| Capital expenditure | 21,626 | 35,197 | 40,430 | 35,540 | 26,070 | 25,520 |
| Capital expenditure Foreign Aid | 37,406 | 18,265 | 47,093 | 21,154 | 12,000 | 2,000 |
| Advances to Subsidiaries | 0 | 0 | 17,282 | 4,741 | 0 | 0 |
| | <u>59,032</u> | <u>53,463</u> | <u>104,806</u> | <u>61,436</u> | <u>38,070</u> | <u>27,520</u> |
| Net Investing Activity Cashflows | -59,032 | -53,463 | -104,806 | -61,436 | -38,070 | -27,520 |
| Cashflows from Financing Activities | | | | | | |
| <u>Cash provided from:</u> | | | | | | |
| Loans drawn down | 8,592 | 3,164 | 17,282 | 4,741 | 0 | 0 |
| Cash drawn from other reserves | 0 | 1 | 51 | 1 | 0 | 0 |
| | <u>8,592</u> | <u>3,165</u> | <u>17,333</u> | <u>4,742</u> | <u>0</u> | <u>0</u> |
| <u>Cash applied to:</u> | | | | | | |
| Loan reserves | 5,808 | 7,559 | 7,314 | 8,173 | 8,975 | 8,943 |
| Other reserves | 753 | 773 | 50 | 50 | 50 | 50 |
| | <u>6,561</u> | <u>8,332</u> | <u>7,364</u> | <u>8,223</u> | <u>9,025</u> | <u>8,993</u> |
| Net Financing Activity Cashflows | 2,032 | -5,167 | 9,969 | -3,481 | -9,025 | -8,993 |
| Net cash movements | 23,264 | 4,503 | -14,979 | -10,949 | -6,559 | -1,399 |
| Add: Opening Cash and Equivalents | 102,685 | 125,949 | 130,451 | 115,473 | 104,523 | 97,964 |
| Closing Cash and Equivalents | 125,949 | 130,451 | 115,473 | 104,523 | 97,964 | 96,565 |

18.4 Statement of Borrowings

For the Year Ending 30 June

| | 2017/18 Actual | 2018/19 Estimate | 2019/20 Budget Estimate | 2020/21 Projection | 2021/22 Projection | 2022/23 Projection |
|---|-------------------|---------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| | ('000) | ('000) | ('000) | ('000) | ('000) | ('000) |
| Total Gross Borrowings | 113,709 | 112,602 | 129,470 | 120,320 | 99,081 | 88,910 |
| Assets Held Against Borrowings: | | | | | | |
| Advances to subsidiaries | 28,010 | 26,896 | 43,388 | 47,337 | 46,561 | 45,864 |
| Loan reserves | 23,028 | 20,922 | 21,427 | 21,128 | 20,066 | 18,977 |
| Total Assets Held Against Borrowings | 51,038 | 47,818 | 64,815 | 68,465 | 66,626 | 64,840 |
| Net Borrowings of the Government | 62,671 | 64,784 | 64,655 | 51,855 | 32,455 | 24,070 |

19 Statement of Accounting Policies

There have been no changes since the Half Year Economic and Fiscal Update 2014/15. There are no major changes to accounting policies anticipated in the foreseeable future.

19.1 Basis of preparation

Reporting entity

These financial statements are for the Government of the Cook Islands. These consist of:

- Ministers of the Crown
- Ministries
- Island Administrations
- Offices of Parliament
- Public Enterprises and Other Authorities

Statement of compliance

These financial statements in Chapter 17 have been prepared in accordance with the *Ministry of Finance and Economic Management Act 1995-96* and with the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB).

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.

19.2 Significant accounting policies

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

Recent Standards

Of significant relevance to the Crown is the recent development of new standards at the IPSASB. These include:

| <u>STANDARDS</u> | <u>EFFECTIVE DATE</u> |
|---|-----------------------|
| IPSAS 28 Financial Instruments: Recognition and Measurement | 1/01/2013 |
| IPSAS 29 Financial Instruments: Presentation | 1/01/2011 |
| IPSAS 30 Financial Instruments: Disclosure | 1/01/2013 |

These new standards have been issued but are not yet effective for the consolidated Crown accounts as the preparation of the 30 June 2013 accounts are currently in progress – the 30 June 2012 consolidated accounts were completed and audited on 29 April 2015. The Crown will have to consider these new standards in future years. Crown has not yet determined the effect of these new standards.

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.

Associate

An associate is an entity over which the Crown has significant influence where the entity is neither a subsidiary nor an interest in a joint venture. Investment in an associate is recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit after the date of acquisition. When the Crown transacts with an associate, all surplus and deficits related to the Crown are eliminated. Distributions received from an associate reduce the carrying value of the investment in the Crown Financial Statements.

Revenue

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

Revenue Levied through the Crown's Sovereign Power

Payment of tax does not of itself entitle a taxpayer to an equivalent value of services or benefits; such revenue is received through the exercise of the Crown's sovereign power. Revenue arising through taxes is recognised when the taxable event occurs and when the criteria for recognition of an asset are met.

| Revenue Type | Revenue Recognition Point |
|-----------------------|--|
| Individual Income Tax | When an individual earns income that is subject to PAYE or provisional tax. This also includes withholding taxes. |
| Company Income Tax | When the corporate community earns taxable income. |
| Value Added Tax | When the liability to the Crown is incurred. For example, the liability arising from sales in June being paid in July however recognised as revenue in June. |
| Customs levies | When goods liable to duty are assessed, except for Oil Companies which are accounted for when the liability to the Crown is incurred. |
| Departure Tax | When departure tax coupons are purchased. |
| Other Revenue | When the debt to the Crown arises. |

Revenue earned through operations

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

Fines

Fines are economic benefits or services potential received by the Crown from an individual or other entity, as determined by a court or other law enforcement body, as consequence of the individual or other entity breaching the requirements of laws and regulations.

Investment Income

Investment income is recognised in the period in which it is earned.

Gains

Realised gains arising from sale of assets or from the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

Dividends

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

Aid Revenue

Revenue is recognised when donor funds are expensed on approved projects.

Expenses

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

Welfare Benefits

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

Grants and Subsidies

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

Losses

Realised losses arising from sales of assets or the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

Foreign Currencies

Transactions in foreign currencies are translated into New Zealand dollar using the exchange rate on the date of the transaction. Foreign exchange gain and losses arising from these transactions are included in the Statement of Financial Performance.

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

Aid Expenses

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

Depreciation

Each part of an item of plant, property, and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Depreciation of plant, property, and equipment is provided on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

| | |
|-------------------------------|--------------|
| Office and computer equipment | 3 – 4 years |
| Motor vehicles | 5 years |
| Furniture and fittings | 4 – 10 years |
| Plant and Equipment | 5 – 15 years |
| Buildings and improvements | 10 years |
| Coastal protection | 25 years |
| Power distribution network | 20 years |
| Roading network | 30 years |

| | |
|------------------------------|----------------|
| Water network | 15 years |
| Airport runways | 15 – 100 years |
| Harbour and ports structures | 10 – 20 years |
| Waste management facilities | 15 years |

Non-current assets

Plant, Property, and Equipment

Plant, property and equipment are recorded at cost less accumulated depreciation.

The cost of purchased plant, property, and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Crown includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Disposals

When an item of plant, property and equipment is disposed, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Additions

The cost of an item of plant, property and equipment is recognised as an asset if, and only if, there will be future economic benefits evident and where these benefits will flow to the Crown and the cost of the item can be measured reliably.

Work in Progress

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

Infrastructure Assets

Infrastructure assets are recorded at cost less accumulated depreciation.

The cost of purchased infrastructure assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Crown includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Infrastructure assets include: roading networks, water networks, power distribution networks, coastal protection systems, harbour and ports structures and waste management and airport assets.

IPSAS 17 allows a choice of accounting model for an entire class of property, plant and equipment. The Crown has changed the accounting policy from the cost to revaluation model for the following classes of assets:

- Power network
- Harbours & ports
- Airports

These assets are now carried at re-valued amounts which are the fair value at revaluation date less subsequent depreciation and impairment losses.

When an infrastructure asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

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

Intangible Assets

Intangible assets are software acquisition costs.

Intangible assets are recorded at cost less accumulated amortisation.

The cost of purchased intangible assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Intangible assets might include: databases, software purchased, or software developed.

When an intangible asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Amortisation of intangible assets is on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Software, databases: 3 - 5 years

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

Receivables and Advances including Debtors and Other Receivables

Receivables and advances are recorded at cost.

After initial recognition, loans and receivables are measured at amortised cost less any provision for impairment. Gains and losses when assets are impaired or derecognised are recognised in the statement of financial performance.

Inventories

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis is measured at cost. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value.

Investments

Investments in associate are accounted in the consolidated financial statements using the equity method. That is, investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit of the associate after the day of acquisition.

Banking portfolio investments

Loans are valued at net realisable value after provisions. Applicable security is obtained depending on the size and nature of loans. Non-performing loans are reviewed monthly on a case by case basis.

Provision for doubtful debts

Provision is made for taxation debt where recovery is considered doubtful. There is no general provision against taxation debt.

Provision is made for banking portfolio Investments (specific loans) where recovery is considered doubtful or they have become non-performing. There is no general provision against banking portfolio Investments.

All bad debts are written off against specific provisions in the period in which they become classified as irrecoverable.

Aid Assets

Donor funds are deposited into bank accounts until expensed on approved assets.

Liabilities

Borrowings

Borrowing liabilities are accounted for at amortised cost. Any changes are recognised in the Statement of Financial Performance.

Pension Liabilities

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

Employee Entitlements

These include salaries and wages accrued up to balance date, annual level earned but not yet taken at balance date. A long service bonus is paid out on the completion of 3 years continuous service within the Government. The bonus is equivalent to a fortnight pay of the employee.

Other Liabilities

All other liabilities are recorded at the estimated obligation to pay. No liability for ongoing welfare payments has been recognised because no legal entitlement is considered to exist beyond the end of the current financial year until a new Appropriation Act is passed.

Aid Liabilities

Funds received from various donors are treated as liabilities until expensed on approved projects at which stage the funding is included within the Statement of Financial Performance as revenue.

Cash flow

A cash flow statement identifies the sources of cash inflow, the items on which cash was utilised and the cash balance at the reporting date for Crown. Included in the cash flow statements are financing activities which are activities that result in the change of size and composition of the contributed capital and borrowings of the Crown. Investing activities are the acquisition and disposal of long term assets and other investments and operating activities identifies how much the Crown received from its actual operations.

Cash flow information allows users to ascertain how the Crown raised the cash it required to fund its activities and the manner in which that cash was utilised.

Leases

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incidental on the ownership of a leased asset. The obligations under such leases are capitalised at the present value of minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

Operating leases, where the lessors substantially retain the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease.

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

Commitments

The Statement of Commitments discloses those operating and capital commitments arising from non-cancellable contractual or statutory obligations. Interest commitments on debts and commitments relating to employment contracts are not included.

Contingent liabilities

Contingent liabilities are recorded when a possible obligation has arisen from an event in the past and which the existence will only be confirmed through the occurrence or non-occurrence of future events. Such liabilities will be disclosed if they are deemed to materially affect the reading of the presented financial statements.