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# **Cook Islands Government**

## **Quarterly Financial Report**

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**March 2013**

**Prepared by the Ministry of Finance and Economic Management**  
**[www.mfem.gov.ck](http://www.mfem.gov.ck)**

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# Table of Contents

- Table of Contents..... 2
- Key Points ..... 3
- Summary of the Financial Position of the General Government ..... 4
- General Government Revenue Analysis..... 5
- General Government Operating Expenditure Analysis ..... 7
  - Payments on Behalf of Crown (POBOCs) ..... 7
  - Crown Borrowings ..... 9
  - General Government Cash Reserves ..... 12
  - Official Development Assistance ..... 13
- Appendix – Key Operating Trends ..... 14
- Glossary ..... 15

## Key Points

The net operating balance of the General Government Sector as at 31 March 2013 was a surplus of \$6.5 million.

- Operating revenue was \$86.3 million; and
- Operating expenditure was \$79.8 million.

**Table 1**  
**Net Operating Balance General Government – March Quarter 2013**

	<b>Budget</b>	<b>Actuals</b>	<b>Variance</b>	
	<b>('000)</b>	<b>('000)</b>	<b>('000)</b>	<b>Per cent</b>
Operating Revenue	84,125	86,279	2,154	3%
Operating Expenditure	85,330	79,805	-5,524	-6%
<b>Net Operating Balance</b>	<b>-1,205</b>	<b>6,473</b>	<b>7,678</b>	<b>637%</b>

**Table 2**  
**Fiscal Balance of General Government – March Quarter 2013**

	<b>Budget</b>	<b>Actuals</b>	<b>Variance</b>	
	<b>('000)</b>	<b>('000)</b>	<b>('000)</b>	<b>Per cent</b>
Net Operating Balance	-1,205	6,473	7,678	637%
<i>Add</i> Depreciation	2,601	1,783	-818	-31%
<i>Less</i> Capital Expenditure	4,562	5,061	500	11%
<b>Fiscal Balance</b>	<b>-3,165</b>	<b>3,195</b>	<b>6,360</b>	<b>201%</b>

Total revenue collected was higher than the budget estimate for the quarter and was mainly attributable to the favourable collection of VAT revenue as a result of higher than expected commercial activity.

The lower level of operating expenses compared to the budget estimate for the quarter is largely attributed to lower expenditure from the Air New Zealand underwrite (25 per cent), TOA (6 per cent) and lower levels of spending by line ministries (6 per cent).

Note that all budgets have been revised to the Supplementary Budget figures that were issued in February 2013.

## Summary of the Financial Position of the General Government

The net operating balance of the General Government Sector as at the March 2013 quarter was a savings of \$6.5 million, representing an increase of \$7.7 million on the 2012/13 supplementary budget estimates.

Overall, revenue was \$2.2 million higher than the 2012/13 supplementary budget estimates and operating expenditure was lower by \$5.5 million than the 2012/13 supplementary budget estimates.

Prudence needs to be exercised when analysing these figures as revenues and expenses do vary from quarter to quarter.

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

**Table 3**  
**Net Operating Balance as at 31 March 2013**

	Budget ('000)	Actuals ('000)	Variance ('000)
<b>Operating Revenue</b>			
Taxation Revenue	71,973	73,537	1,564
Other Crown Receipts	5,030	6,003	973
Trading Revenue	3,922	4,017	95
Interest on Loans to Subsidiaries	152	151	-1
Dividends	1,680	1,092	-588
Interest on Funds	1,368	1,479	111
<b>Total Operating Revenue</b>	<b>84,125</b>	<b>86,279</b>	<b>2,154</b>
<b>Operating Expenditure</b>			
Ministry Expenditure Outputs	46,468	43,801	2,667
Air NZ Subsidy	9,225	6,885	2,340
TOA Guarantee	1,125	1,062	63
Other POBOCs	21,442	20,805	637
Total POBOCs	31,792	28,751	3,041
Airport Authority	1,680	1,807	-127
Bank of Cook Islands	136	136	0
Te Aponga Uira	263	263	0
Ports Authority	150	150	0
Debt Servicing Interest	745	466	278
Building Maintenance	1,350	1,680	-330
Crown Infrastructure Depreciation	2,609	2,609	0
Disaster/Contingency	138	138	0
Bank Fees	0	5	-5
<b>Total Operating Expenditure</b>	<b>85,330</b>	<b>79,805</b>	<b>5,524</b>
<b>Net Operating Balance</b>	<b>-1,205</b>	<b>6,473</b>	<b>7,678</b>

**Key Balance Sheet Items in General Government:**

Cash and Equivalents	49,711
Committed Cash	-35,862
Net Cash Reserve	13,849
Gross General Government Borrowings	80,086
Net General Government Borrowings	36,700

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

## General Government Revenue Analysis

General Government sector revenue as at 31 March 2013 was:

- higher than the 2013 March quarter budget estimate (\$2.2 million or 3 per cent); and
- higher than the 2012 March quarter outcome (\$8.4 million or 11 per cent).

**Table 4**

### General Government Revenue Summary – March 2013 YTD

	2011-12 Actuals (‘000)	2012-13 Budget (‘000)	2012-13 Actuals (‘000)	Variance vs 2011-12 (‘000)	Percent Variance	Variance vs Budget (‘000)	Percent Variance
Value-added Tax	26,171	28,041	29,974	3,803	15%	1,933	7%
Income Tax	18,812	20,335	20,612	1,800	10%	277	1%
Company Tax	7,704	8,412	8,055	351	5%	(357)	-4%
Import Levies	9,071	9,861	9,920	849	9%	59	1%
Withholding Tax	439	663	1,080	641	146%	417	63%
Departure Tax	4,362	4,661	3,896	(466)	-11%	(765)	-16%
Trading Revenue	4,036	3,922	4,017	(19)	0%	95	2%
Other Revenue	7,294	8,230	8,725	1,432	20%	495	6%
<b>Total Revenue</b>	<b>77,889</b>	<b>84,125</b>	<b>86,279</b>	<b>8,390</b>	<b>11%</b>	<b>2,154</b>	<b>3%</b>

#### Value Added Tax

VAT continues to remain above budgeted revenue due to higher than expected commercial activity over the last 9 months. VAT was above the budget estimate for the quarter (7 per cent) and also the 2012 March quarter (15 per cent).

#### Income Tax

Income tax was slightly above the budget estimate (1 per cent) and higher than the 2011/12 March quarter (10 per cent).

#### Company Tax

Company tax is down on budget estimate for the quarter (-4 per cent), and higher (5 per cent) than the 2011/12 March quarter. The increase on the 2012 March quarter reflects the additional MFEM efforts being put into collections and compliance.

#### Import Levies

Import levies were tracking to budget with only a small variance of (1 per cent) and higher than the 2012 March quarter (9 per cent). Import levies are directly proportionate to the number of vessels per quarter. A total of 13 cargo/gas/oil vessels were cleared by Customs during this quarter as opposed to 7 in the same period last year.

#### Withholding Tax

Withholding tax was higher than budget by 63 per cent. This was mainly attributable to a one off payment of withholding tax during the quarter.

#### Departure Tax

Departure tax was lower than the budget estimate for the quarter (-16 per cent) and the 2011/12 March quarter (-11 per cent). With departure tax now being incorporated into ticket prices the remittance of departure tax for March was not received from the airlines until April 2013.

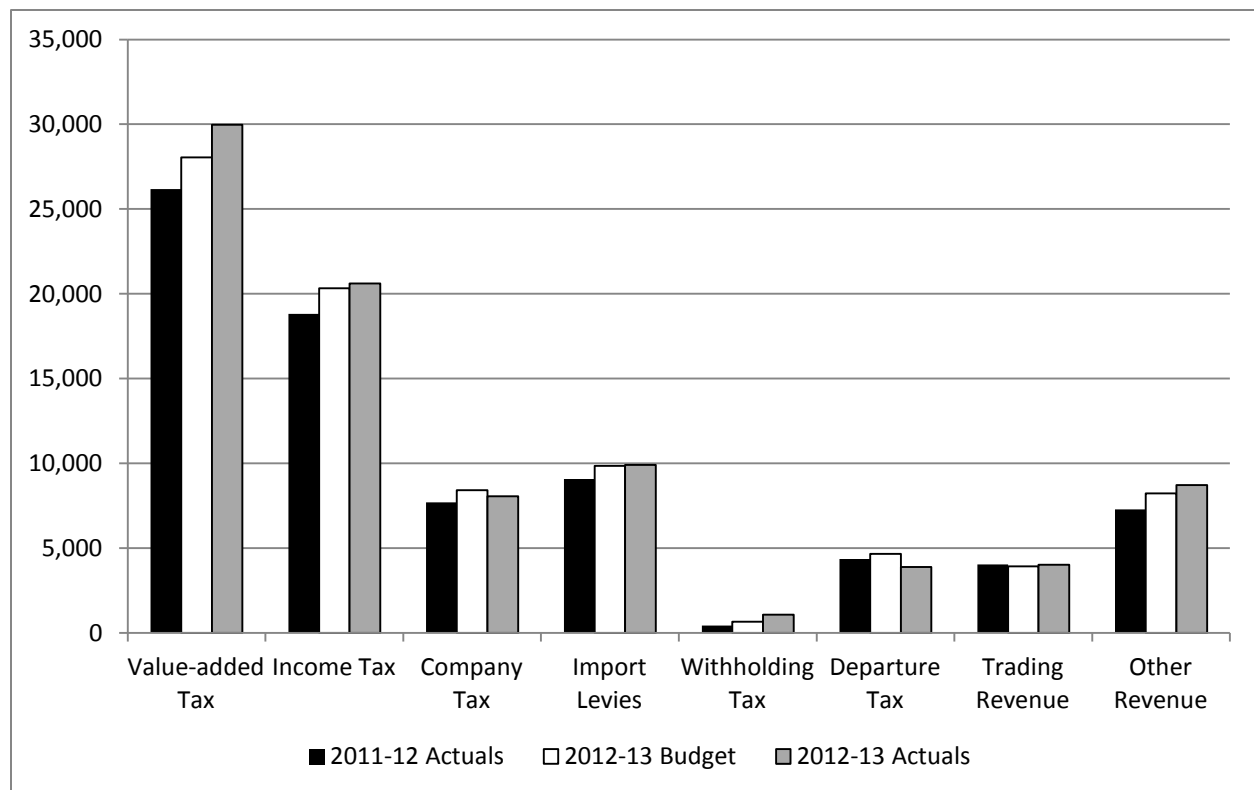
Trading Revenue

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

Other Crown Revenue

Other Crown Revenue was higher than the budget estimate for the quarter (6 per cent) and also higher than the 2012 March quarter (20 per cent). The increase to budget is predominantly due to the increase collection of a number of revenue items, namely fishing licenses (54 per cent) and sale of currency (161 per cent).

**Figure 1**  
**General Government Revenue – March 2013 YTD (\$000)**



# General Government Operating Expenditure Analysis

## Payments on Behalf of Crown (POBOCs)

**Table 5**

### Payments on Behalf of Crown – March 2013 YTD

	Budget	Actuals	Variance	
	('000)	('000)	('000)	Per cent
Air New Zealand Underwrite	9,225	6,885	2,340	25%
Apex (Toa) Profit Support	1,125	1,062	63	6%
Other POBOCs	21,442	20,805	637	3%
<b>Total POBOCs</b>	<b>31,792</b>	<b>28,751</b>	<b>3,041</b>	<b>10%</b>

Expenditure on underwrite of the Air New Zealand Sydney and Los Angeles long haul routes was 25 per cent below budget due to the favourable drop in fuel prices and improved loading.

Other POBOCs expenditure was down against the quarter budget by 3 per cent. This is a result of budget amendments issued through the Supplementary Budget in February 2013. It is expected that expenses will come in line with budgets in the final quarter of the year.

## Appropriation Analysis

**Table 6**

### Appropriation Analysis – March 2013 YTD

	2011-12 Actuals	2012-13 Budget	2012-13 Actuals	Var vs 2011-12	% Var	Variance vs Budget	% Var
Personnel	32,831	31,854	31,271	-1,560	-5%	-583	-2%
Operating	12,601	12,013	10,747	-1,854	-15%	-1,266	-11%
Depreciation	2,135	2,601	1,783	-352	-16%	-818	-31%
Trading Revenue	4,036	3,922	4,017	-19	0%	95	2%
<b>Net Appropriation</b>	<b>43,531</b>	<b>42,546</b>	<b>39,784</b>	<b>-3,747</b>	<b>-9%</b>	<b>-2,572</b>	<b>-6%</b>

With only three months left in the financial year, there is currently an overall saving of 6 per cent in the Net Appropriation for Crown-funded Agencies amounting to \$2.6 million.

The majority of ministries were below budget as operating expenditures were off-set by slight increases in trading revenue and vacant public sector positions.

### **Personnel**

Personnel Expenditure is down on budget (2 per cent) and also down from the 2012 March quarter (5 per cent). 29 agencies have personnel savings, further to this, 11 Ministries still had vacancies to be filled - which appears to be the major factor of the savings from the beginning of the 2012/13 financial year, while 13 are exceeding their Personnel Budgets.

## Operating

Operating expenses are down on budget in March 2013 by 11 per cent (\$1.3 million). It appears agencies are now monitoring expenses tightly towards the end of the financial year.

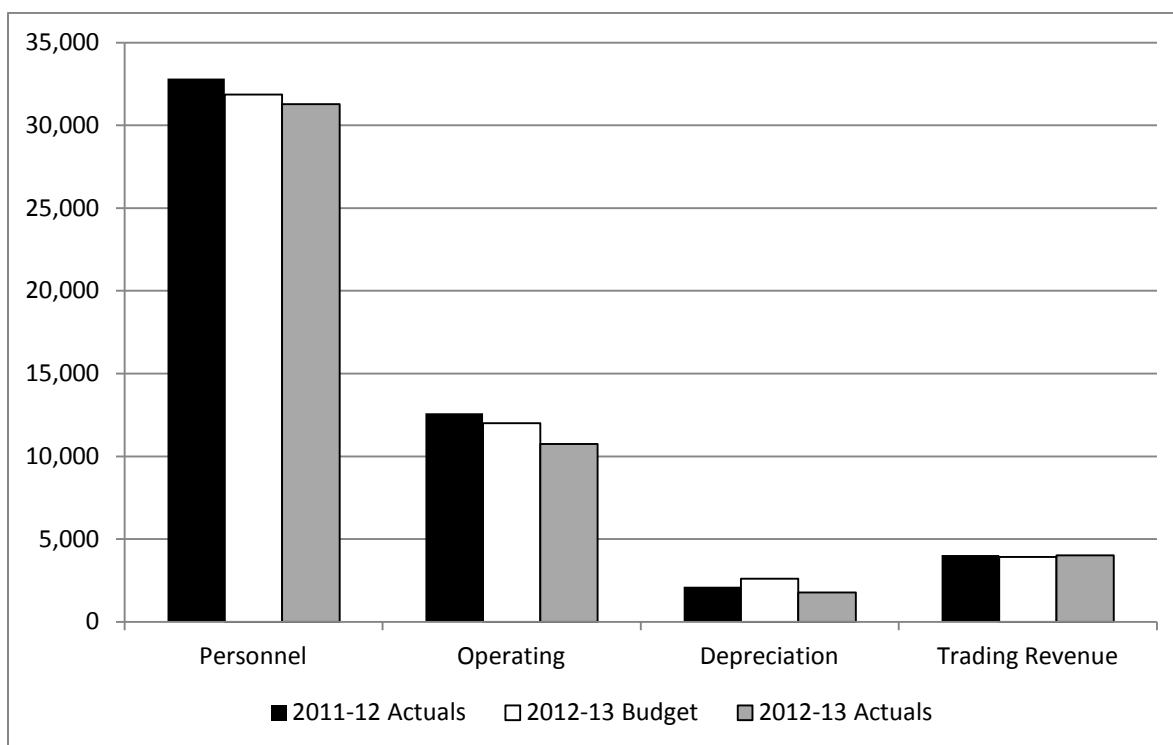
## Trading Revenue

Trading revenue is higher than budget (2 per cent) with the Ministry of Finance and Economic Management (MFEM) being a large contributor to the increase (\$0.2 million) followed by Aitutaki Power (\$36k) resulting from an increased consumer electricity usage due to recent hot weather on Aitutaki and audit fees (\$28k) with its continuous completion of two years of auditing agencies financial statements.

## Depreciation

Depreciation expenditure has reduced in this quarter with savings of 31 per cent compared to 2012 March quarter with 16 per cent of savings. Ministry of Health is a major contributor to this with a large number of fixed assets under the Ministry already being at salvage value (zero book value).

**Figure 2**  
**Appropriation Analysis – March 2013 YTD**





## Other General Government Operating Expenditure

**Table 7**  
**Other General Government Operating Expenditure**

	Budget	Actuals	Variance	
	('000)	('000)	('000)	Per cent
Airport Authority	1,680	1,807	-127	-8%
Bank of Cook Islands	136	136	0	0%
Te Aponga Uira	263	263	0	0%
Debt Servicing Interest	745	466	278	37%
Building Maintenance	1,350	1,680	-330	-24%
Crown Infrastructure Depreciation	2,609	2,609	0	0%
Disaster/Contingency	138	138	0	0%
<b>Total Other Operating</b>	<b>6,920</b>	<b>7,098</b>	<b>-178</b>	<b>-3%</b>

Other operating costs for the General Government sector are nine per cent over the 2012/13 budget. The most significant variation contributing to this is the increase repairs and maintenance costs for the quarter and work at the airport.

### Crown Borrowings

Crown's gross borrowing for the March 2013 quarter was \$80.1million, a decrease of \$2.3 million from the December 2012 quarter. The cause of this decrease was derived from:

- a favourable movement in exchange rates against the New Zealand dollars of \$1.8 million;
- principal repayment of \$0.5 million during the quarter.

The exchange rates movement for this quarter are shown in the following table:

**Table 8**  
**Average Exchange Rates Used**

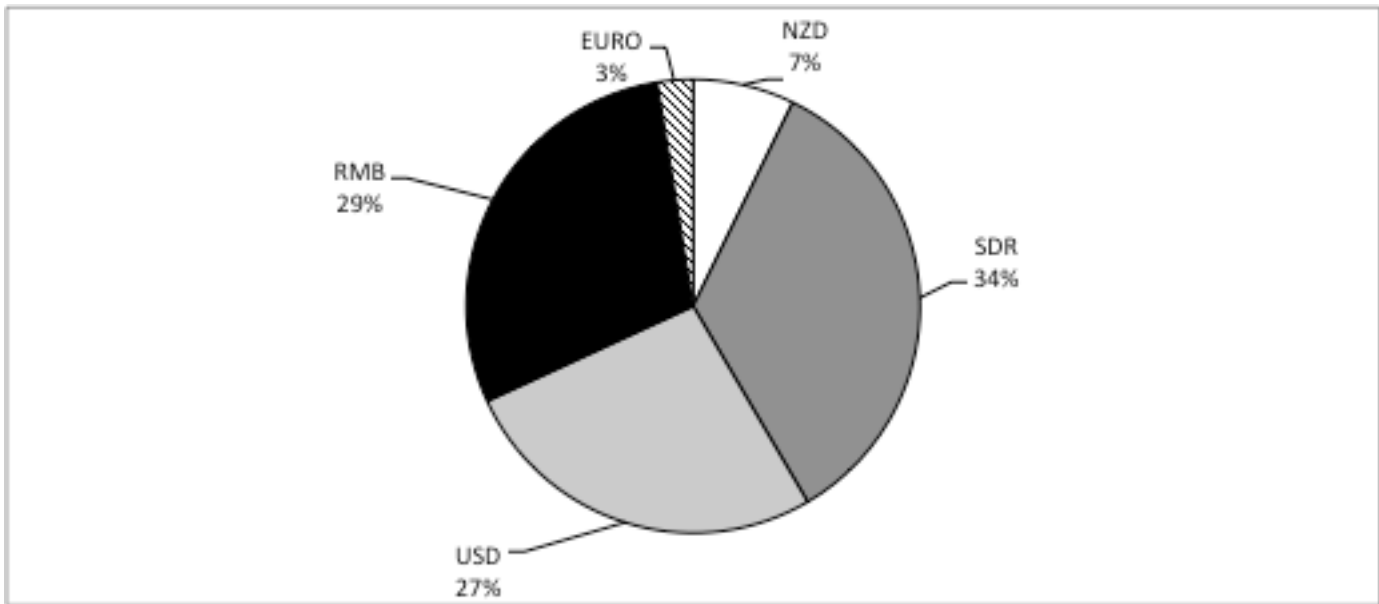
Foreign Exchange Currency	31 March 2013 Average	31 December 2013 Average	Changes
EUR	0.6386	0.6346	0.0004
USD	0.8279	0.8318	(0.0039)
CNY	5.1460	5.1846	(0.0386)
SDR	0.5506	0.5341	0.0165

The unrealised foreign exchange loss of \$1.8 million is largely the effect of the positive movement in the Special Drawing Rights (SDR) as about 34 per cent of the total government borrowing is denominated in SDR as illustrated in Figure 3.

Net borrowing by the General Government for this quarter is \$36.7 million, a \$2.1 million reduction from the December 2012 quarter. This reduction is made up of \$0.5 million in principal repayments and \$1.6 million foreign exchange adjustment.

The second tranche of the ADB Economic Recovery Loan of NZD \$7.25 million is not included in this report because it has not been drawn down yet. The loan is currently under negotiation and is expected to be utilised during the latter half of this financial year.

**Figure 3**  
**Composition of Crown Debt by Currency**



The Cook Islands is currently in the process of finalising conversion of USD \$23.3 million (Ports Authority loan of USD \$13.3 million and Economic Recovery Support Program (ERSP) tranche 1 of USD \$10 million) into NZD, this will increase the local proportion to 34 per cent

Managing the exchange risk is an ongoing task for the Crown and it will continue to do so by working closely with local banks counterpart over the global exchange rates movement to accommodate its annual debt servicing plan.

Table 9 below summarised Crown's estimated debt position for March 2013 quarter:

**Table 9**  
**General Government Borrowings – March 2013 YTD**

Loan	Source (Currency)	Original Loan Amount in Currency ('000)	Loan Start Date	Loan Finalisation Date	Dec 12 Balance ('000)	Principal Payments ('000)	FOREX Adjustment ('000)	Loan Drawn Down	Mar 12 Balance ('000)	Change Dec 12 Qtr ('000)
New Zealand GSF Loan	NZD	5,849	Nov-80	Jun-13	439	0	0	0	439	0
Caisse Francais Development Loans	EURO	5,413	Jan-99	Sep-18	3,441	0	-22	0	3,419	-22
Import-Export Bank of China	CNY	67,260	Aug-08	Aug-28	12,973	0	97	0	13,070	97
ADB 461 Multi Project Loan	SDR	1,000	Nov-80	Aug-20	841	-49	-76	0	716	-125
ADB 567 01st CIDB Loan	SDR	1,500	Jul-82	Apr-22	687	0	-19	0	668	-19
ADB 849 2nd Multi-Project Loan	SDR	2,067	Dec-87	Aug-27	2,322	-73	-152	0	2,097	-225
ADB 1031 TCI Loan	SDR	3,541	Oct-90	Aug-30	5,299	-141	-321	0	4,837	-462
ADB 1155 2nd CIDB Loan	SDR	939	Mar-92	Dec-31	1,288	-33	-11	0	1,244	-44
ADB 1171 TCI Emergency Loan	SDR	291	Aug-92	Jun-32	444	-11	-6	0	427	-17
ADB 1309 Pearl Loan	SDR	336	Dec-94	Aug-34	478	-6	-29	0	443	-35
ADB 1317 Education Loan	SDR	1,836	Feb-95	Aug-34	2,867	-33	-133	0	2,701	-166
ADB 1380 3rd CIDB Loan	SDR	1,538	Jan-96	Sep-35	2,368	-27	-107	0	2,234	-134
ADB 1466 Economic Restructuring Loan	SDR	3,430	Sep-96	Sep-36	5,227	-58	-239	0	4,930	-297
ADB 1588 Cyclone Emergency Rehab Loan	SDR	1,895	Jun-05	Jun-45	874	-9	-39	0	826	-48
ADB 1832 Waste Management Loan	SDR	1,695	Dec-01	Jun-33	2,531	-61	-32	0	2,438	-93
ADB 2174 Cyclone Emergency Assist Loan	SDR	1,895	Jun-05	Jun-45	3,780	0	-572	0	3,208	-572
ADB 2472 Avatiu Port Development	USD	8,630	Sep-09	Nov-33	10,375	0	49	0	10,424	49
ADB 2473 Avatiu Port Development	SDR	4,524	Sep-09	Nov-40	8,465	0	-253	0	8,211	-253
ADB 2739 Amend Avatiu Port Development	USD	4,700	Dec-11	Nov-35	5,649	0	26	0	5,675	26
ADB 2565 Economic Restructuring Loan 1	USD	10,000	Jan-10	Oct-24	12,022	0	57	0	12,079	57
<b>Total Gross Borrowings</b>					<b>82,370</b>	<b>-501</b>	<b>-1,782</b>	<b>0</b>	<b>80,086</b>	<b>-2,283</b>
<i>Total Loans with ADB</i>					<b>65,517</b>	-501	-1,857	0	<b>63,158</b>	-2,358
<i>Total Loans with Other Sources</i>					<b>16,853</b>	0	<b>75</b>	0	<b>16,928</b>	75
<b>Total Gross Borrowings</b>					<b>82,370</b>	<b>-501</b>	<b>1,782</b>	<b>0</b>	<b>80,086</b>	<b>-2,283</b>
Less Loan Reserve					19,076	0	0	0	19,076	0
<b>Net Borrowing by the Crown</b>					<b>63,294</b>	-501	-1,782	0	<b>61,010</b>	-2,283
Less Avatiu Port Development					24,489	0	-178	0	24,310	-178
<b>Net Borrowing by the General Government</b>					<b>38,805</b>	-501	-1,604	<b>0</b>	<b>36,700</b>	<b>-2,105</b>

Note: This excludes debt held by State Owned Enterprises.

## General Government Cash Reserves

General government cash reserves at the March 2013 quarter were at \$13.8 million, an increase of \$0.3 million from the December 2012 quarter.

This increase in cash reserves reflects the savings in expenses and the favourable variance to budgeted income for the quarter as explained earlier in this report.

**Table 10**  
**Cash Reserves – March 2013 YTD**

		Sept 12 Qtr ('000)	Dec 12 Qtr ('000)	Mar 13 Qtr ('000)	Change Dec 12 Qtr ('000)
<b>Total Term Deposit at the Bank</b>					
Westpac		8,814	8,903	9,006	103
ANZ		22,218	22,487	22,777	290
ANZ - NZAID Fund 5 million		3,052	3,065	3,114	49
ANZ - ADB USD 10 million		7,511	4,336	4,336	0
BCI		10,304	10,478	10,478	0
<b>Total Term Deposit at the Bank</b>	*	<b>51,899</b>	<b>49,269</b>	<b>49,711</b>	<b>442</b>
<b>Committed:</b>					
Trust Fund General Reserve		2,911	2,911	2,911	0
Disaster Response Trust		200	200	200	0
Debt/Loan Reserve		19,076	19,076	19,076	0
ADB USD 10 million loan - Project pending		7,511	4,336	4,336	0
DCD - NZAID Project Fund 5 million		3,052	3,065	3,114	49
Trust Account Deposit		2,631	2,675	2,725	50
Carry Forward Contingency - OPEX		500	500	500	0
Working Capital	#	3,000	3,000	3,000	0
<b>Total Commitment for this year</b>		<b>38,881</b>	<b>35,763</b>	<b>35,862</b>	<b>99</b>
<b>Estimated General Cash Reserve</b>		<b>13,018</b>	<b>13,506</b>	<b>13,849</b>	<b>343</b>

\* - This does not include cash balances on the Ministry Operating Bank Accounts.

# - This is the Working Capital Reserve.

## Official Development Assistance

The Development Coordination Division (DCD) of MFEM administers all foreign aid.

### Balance of Funds on Hand

This represents the bank accounts that are held by DCD for various partners. These take the following form:

- NZ dollar accounts \$7,087,819.00
- US dollar accounts USD 60,569 @0.882 NZD \$68,672

**Table 11**  
**ODA Expenditure March 2013 YTD**

	<b>1<sup>st</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	<b>Total</b>
NZ Aid Program	3,086,916	1,801, 825	1,878,924	6,767,665
UNDP	62,654	136,786	78,502	277,941
India	73,899	5,540	93,635	173,074
CI Govt	0.00	19,646	0.00	19,646
AusAid	38,049	38,673	94,330	171,052
European Union	6,871	18,649	29,773	55,293
PEC (Japan)	1,343	0.00	25,711	27,054
SPREP	0.00	31,774	19,120	50,894
Pacific Is Forum	0.00	0.00	14,583	14,583
<b>TOTAL</b>	<b>3,269,732</b>	<b>2,052, 892</b>	<b>2,234,578</b>	<b>7,557,201</b>

Indicative allocations show that Renewable Energy and the Tourism sectors will be receiving significant assistance from the New Zealand government.

In the 3<sup>rd</sup> quarter the increase in spending from the NZAID program was from the Waste and Sanitation project and Renewable Energy projects.

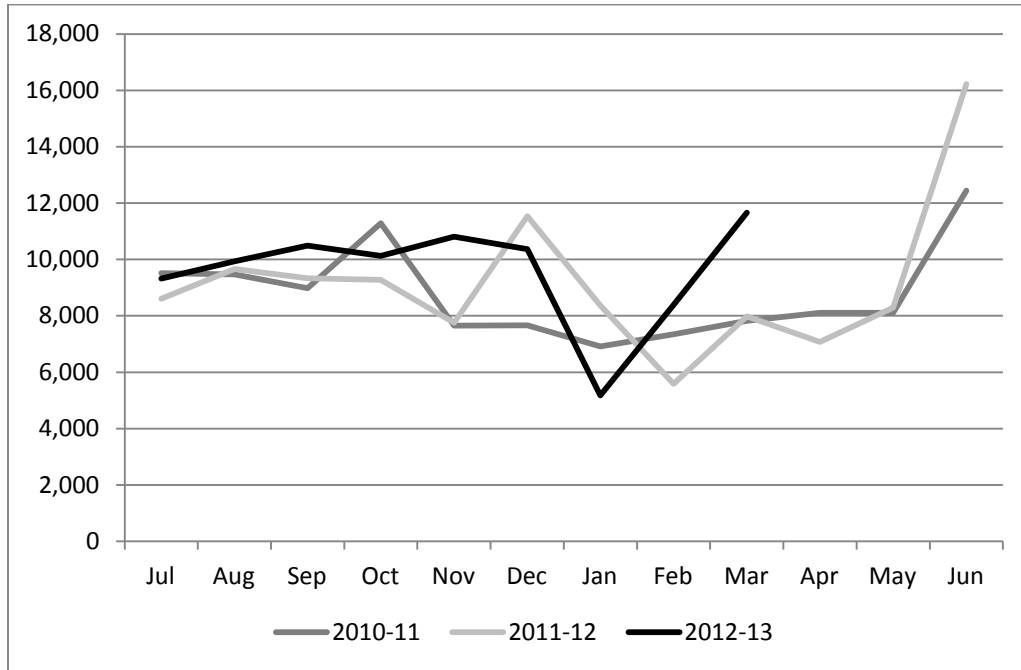
The Sustainable Land Management Project under UNDP was the major spender in the 3<sup>rd</sup> quarter.

European Union increased its spending through MFEM's systems improvement.

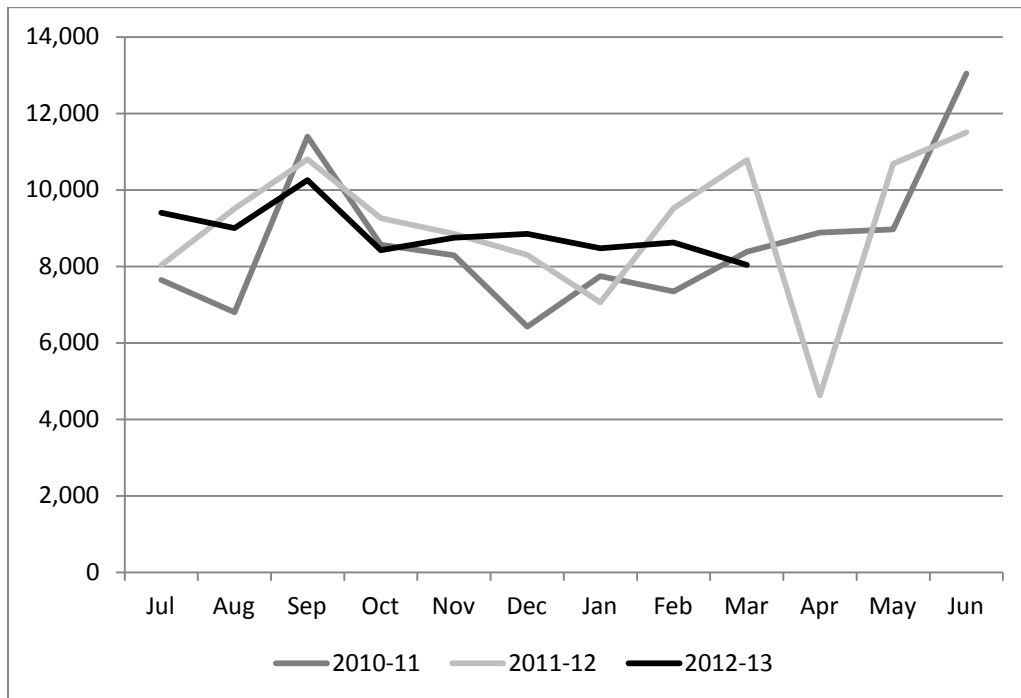
## Appendix – Key Operating Trends

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

**Figure 3**  
**Net Operating Revenue Trends**



**Figure 4**  
**Net Operating Expenditure Trends**



## Glossary

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

### *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.

<i>Revenue Type</i>	<i>Revenue Recognition Point</i>
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.

### *Expenses*

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

### *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.

### *Appropriation*

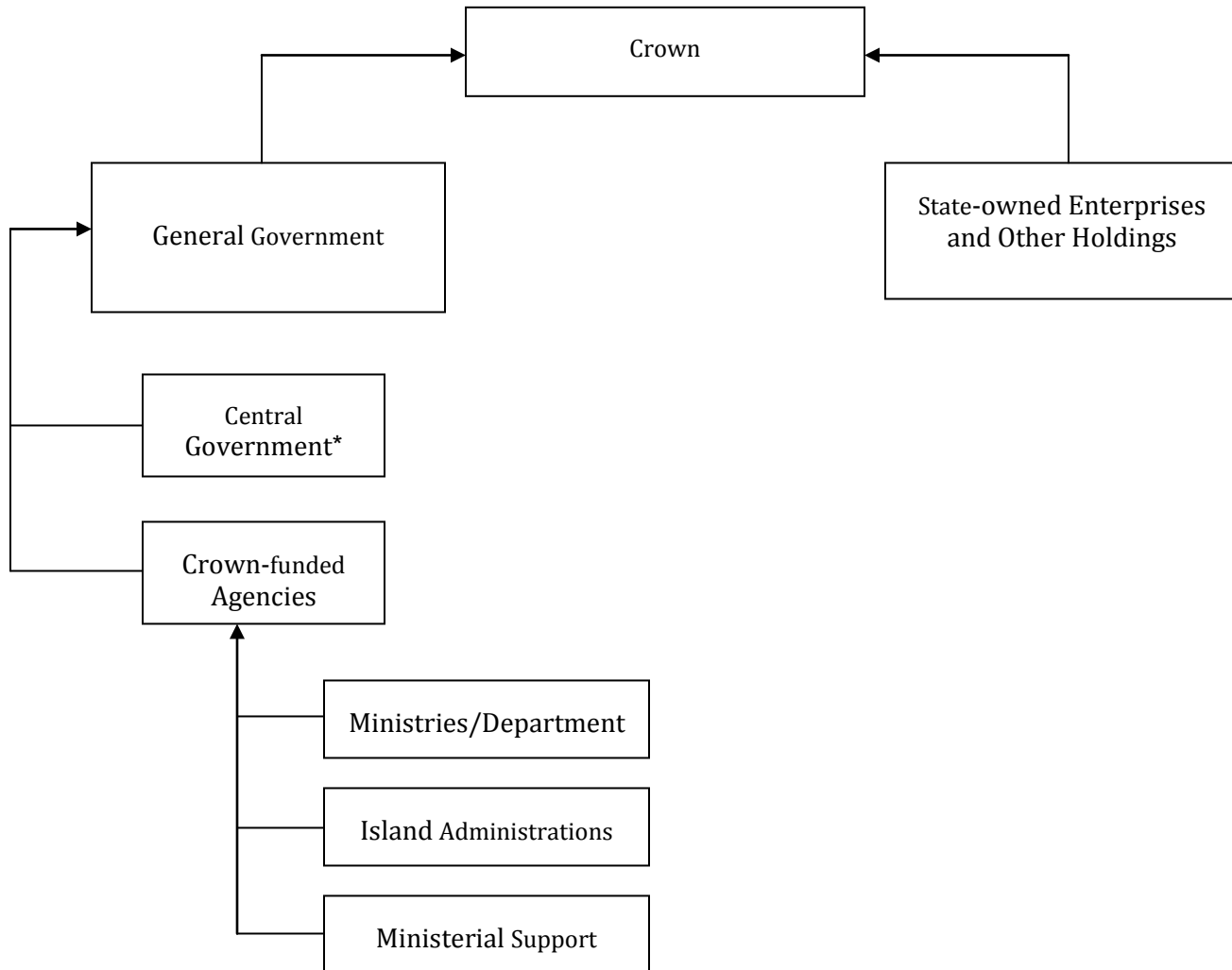
Appropriations are the funding-source provided by the Crown (as a Central Government entity) to allow the recipients (Crown-funded Agencies – see term below) to carry out their purposed operations.

### Crown-funded Agencies/Agencies

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

### General Government

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



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