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# **Cook Islands Government**

## **Quarterly Financial Report**

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**September 2011**

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

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## Key Points

- The Net Operating Balance of the General Government as at end September 2011 was a deficit of \$748,000, made up of total:
  - revenue of \$27.593 million; and
  - expenditure of \$28.340 million.
- The total gross borrowings increased by \$10.372 million to \$93.138 million during the September 2011 quarter. The breakdown of the gross borrowings consists of:
  - the Asian Development Bank (ADB) of \$64.494 million; and
  - other sources of \$23.644 million.
- Total cash deposits were \$52.805 million, this consisted of:
  - \$40.387 million in Reserves;
  - \$5.500 million in expected operating and capital expenditure carry forwards from previous years;
  - \$3.000 million in working capital; and
  - \$3.918 million in cash reserves

**Table 1**  
**Net Operating Balance General Government - September Quarter 2011**

|                              | Budget        | Actuals     | Variance     |            |
|------------------------------|---------------|-------------|--------------|------------|
|                              | ('000)        | ('000)      | ('000)       | Per cent   |
| Operating Revenue            | 25,853        | 27,593      | 1,740        | 7%         |
| Operating Expenditure        | 29,418        | 28,340      | 1,078        | 4%         |
| <b>Net Operating Balance</b> | <b>-3,565</b> | <b>-748</b> | <b>2,817</b> | <b>79%</b> |

**Table 2**  
**Fiscal Balance of General Government – September Quarter 2011**

|                          | Budget        | Actuals     | Variance      |            |
|--------------------------|---------------|-------------|---------------|------------|
|                          | ('000)        | ('000)      | ('000)        | Per cent   |
| Net Operating Balance    | -3,565        | -748        | -2,817        | 79%        |
| Add Depreciation         | 786           | 714         | 72            | 0%         |
| Less Capital Expenditure | 1,050         | 187         | 863           | 0%         |
| <b>Fiscal Balance</b>    | <b>-3,830</b> | <b>-221</b> | <b>-3,609</b> | <b>94%</b> |

## Summary of the Financial Position of the General Government

The Net Operating Balance of the General Government at the end of the September 2011 Quarter was a deficit of \$748,000. This represents an improvement of \$2,817,000 on the 2011-12 Budget (forecast to Sept 11).

Care needs to be taken when analysing these figures as revenues and expenses do vary from quarter to quarter. It is difficult to identify any obvious trend after the first quarter.

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

**Table 3**  
**Net Operating Balance as at 30 September 2011**

|  | Budget<br>(‘000) | Actuals<br>(‘000) | Variance<br>(‘000) |
|--|------------------|-------------------|--------------------|
| <b>Operating Revenue</b>                 |                  |                   |                    |
| Taxation Revenue                         | 22,498           | 23,575            | 1,077              |
| Other Crown Receipts                     | 1,134            | 1,711             | 577                |
| Trading Revenue                          | 1,287            | 1,400             | 113                |
| Interest on Loans to Subsidiaries        | 48               | 19                | -28                |
| Dividends                                | 325              | 325               | 0                  |
| Interest on Funds                        | 562              | 562               | 0                  |
| <b>Total Operating Revenue</b>           | <b>25,853</b>    | <b>27,593</b>     | <b>1,740</b>       |
| <b>Operating Expenditure</b>             |                  |                   |                    |
| Ministry Expenditure Outputs             | 16,955           | 16,433            | 523                |
| Air NZ Subsidy                           | 2,000            | 2,000             | 0                  |
| TOA Guarantee                            | 389              | 369               | 20                 |
| Other POBOCs                             | 8,292            | 7,351             | 941                |
| Total POBOCs                             | 10,681           | 9,720             | 961                |
| Airport Authority                        | 426              | 512               | -86                |
| Bank of Cook Islands                     | 45               | 0                 | 45                 |
| Te Aponga Uira                           | 88               | 0                 | 88                 |
| Debt Servicing Interest                  | 256              | 249               | 6                  |
| Building Maintenance                     | 325              | 722               | -397               |
| Crown Infrastructure Depreciation        | 617              | 617               | 0                  |
| Disaster/Contingency                     | 25               | 85                | -60                |
| Bank Fees                                | 0                | 2                 | -2                 |
| Currency Purchases                       | 0                | 0                 | 0                  |
| <b>Total Operating Expenditure</b>       | <b>29,418</b>    | <b>28,340</b>     | <b>1,078</b>       |
| <b>Net Operating Balance</b>             | <b>-3,565</b>    | <b>-748</b>       | <b>2,817</b>       |
| <b>Key Balance Sheet Items in Crown:</b> |                  |                   |                    |
| Cash and Equivalents                     |                  | 52,805            |                    |
| Committed Cash                           |                  | -48,887           |                    |
| Net Cash Reserve                         |                  | <u>3,918</u>      |                    |
| Gross Crown Borrowings                   |                  | 93,138            |                    |

Overall, revenues are up by \$1,740,000 against budget (Sept Qtr) and operating expenditure is below budget (Sept Qtr) by \$1,078,000.

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 revenues are up as at September 2011 against budget (Sept Qtr) (\$1.740 million or 7%), and are below revenues collected up to September 2010 (\$0.373 million or 1%).

**Table 4**  
**General Government Revenue Summary – September 2011 YTD**

|                      | 2010-11<br>Actuals | 2011-12<br>Budget | 2011-12<br>Actuals | Variance<br>vs 2010-11 | Percent<br>Variance | Variance<br>vs Budget | Percent<br>Variance |
|----------------------|--------------------|-------------------|--------------------|------------------------|---------------------|-----------------------|---------------------|
| Value-added Tax      | 8,817              | 9,886             | 9,528              | 711                    | 8%                  | (358)                 | -4%                 |
| Income Tax           | 5,814              | 5,859             | 6,455              | 641                    | 11%                 | 596                   | 10%                 |
| Company Tax          | 2,921              | 2,281             | 2,227              | (694)                  | -24%                | (53)                  | -2%                 |
| Import Levies        | 2,865              | 2,736             | 3,459              | 594                    | 21%                 | 723                   | 26%                 |
| Withholding Tax      | 0                  | 50                | 43                 | 43                     | 0%                  | (7)                   | -14%                |
| Departure Tax        | 1,860              | 1,685             | 1,862              | 3                      | 0%                  | 177                   | 10%                 |
| Trading Revenue      | 1,573              | 1,287             | 1,400              | (173)                  | -11%                | 113                   | 9%                  |
| Other Revenue        | 4,115              | 2,069             | 2,618              | (1,497)                | -36%                | 549                   | 27%                 |
| <b>Total Revenue</b> | <b>27,965</b>      | <b>25,853</b>     | <b>27,593</b>      | <b>(373)</b>           | <b>-1%</b>          | <b>1,740</b>          | <b>7%</b>           |

### Value Added Tax

VAT is down on budget (-4%) and up from the September quarter 2010-11 (8%). This is early in the financial year and VAT is subject to fluctuations on goods imported and sold. MFEM expects this will come into line with the budget over the coming months.

### Income Tax

Income tax is up on budget (10%) and the September quarter 2010-11 (11%). There has been a significant increase in the number of people registered for income tax. The activity around the upgrade of the Avatiu Harbour is also believed to be a contributing factor with substantial new employment being generated through the project.

### Company Tax

Company tax is down on budget (-2%) and down on the September quarter 2010-11 (-24%). The prior year figures included a number of one-off payments from banks which helped to boost the early collections for the 2010-11 financial year.

### Import Levies

Import levies are up on budget (26%) and the September quarter 2010-11 (21%). There has been a noted increase in the number of vehicles being imported which are subject to significant import levies.

### Withholding Tax

Withholding tax is down on budget (-14%), this was anticipated as banks were provided additional time to file returns to Ministry of Finance and Economic Management (MFEM). It is anticipated the first two quarters will reflect transitional arrangements on the tax.

### Departure Tax

Departure tax is up on budget (10%) and unchanged to the September quarter 2010-11, as tourist numbers have been higher than anticipated at Budget.

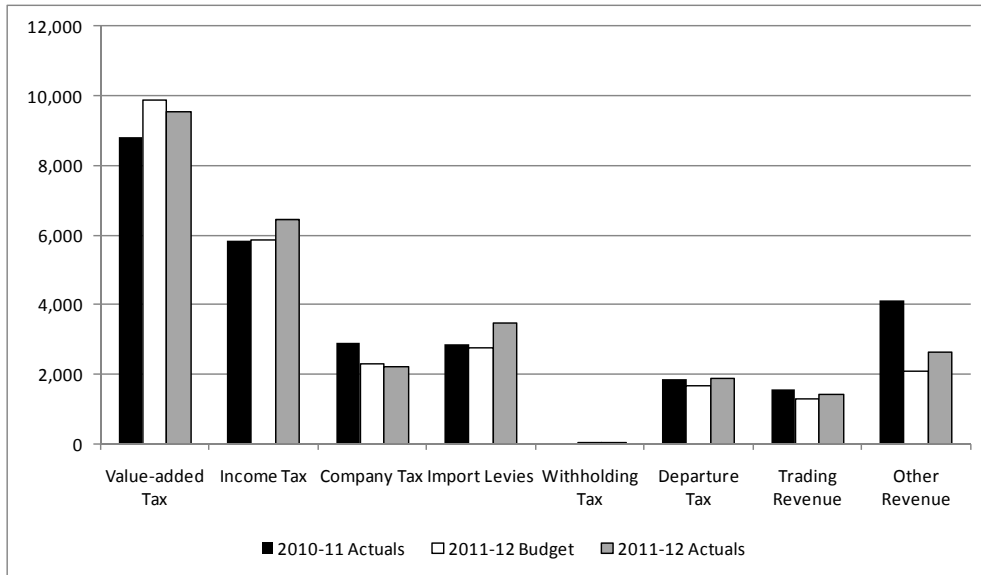
### Trading Revenue

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

Other Crown Revenue

Other Crown Revenue is up on budget (27%) and down on the September quarter 2010-11 (-36%), the increase against budget is mostly due increased fishing licence revenue.

**Figure 1**  
**General Government Revenue – September 2011 YTD (\$'000)**



# General Government Operating Expenditure Analysis

## Payments on Behalf of Crown (POBOCs)

**Table 5**  
**Payments on Behalf of Crown – September 2011 YTD**

|                           | Budget        | Actuals      | Variance   |           |
|---------------------------|---------------|--------------|------------|-----------|
|                           | ('000)        | ('000)       | ('000)     | Per cent  |
| Air New Zealand Subsidies | 2,000         | 2,000        | 0          | 0%        |
| Apex (Toa) Profit Support | 389           | 369          | 20         | 5%        |
| Other POBOCs              | 8,292         | 7,351        | 941        | 11%       |
| <b>Total POBOCs</b>       | <b>10,681</b> | <b>9,720</b> | <b>961</b> | <b>9%</b> |

As at September 2011, the POBOC spending is currently tracking under budget (9%). There are, however, a number of phasing issues which means that at this stage, the General Government spending in this area is expected to be in line with budget for this financial year.

The favourable variance in Other POBOCs from Table 5, is driven by a number of POBOCs which will catch up in their spending in the coming months. These POBOCs (and their favourable variances) are:

- Tourism Growth Strategy \$500,000
- International Subscriptions \$181,000
- Welfare Payments \$52,000
- Tongareva Lease \$50,000

There are numerous other POBOCs which have small variances which have contributed to the underspending at this point.

Offsetting these favourable variances are a couple of POBOCs which have incurred costs earlier than expected but are still comfortable within their annual budgets. These POBOCs (and their unfavourable variances) are:

- USP Contribution -\$145,000
- Civil List -\$69,000

## Appropriation Analysis

**Table 6**  
**Appropriation Analysis – September 2011 YTD**

|                          | 2010-11<br>Actuals | 2011-12<br>Budget | 2011-12<br>Actuals | Var vs<br>2010-11 | % Var     | Variance<br>vs Budget | % Var     |
|--------------------------|--------------------|-------------------|--------------------|-------------------|-----------|-----------------------|-----------|
| Personnel                | 10,842             | 11,568            | 11,394             | -553              | -5%       | 173                   | 1%        |
| Operating                | 4,682              | 4,602             | 4,324              | 358               | 8%        | 277                   | 6%        |
| Depreciation             | 673                | 786               | 714                | -41               | -6%       | 72                    | 9%        |
| Trading Revenue          | 1,573              | 1,287             | 1,400              | -173              | -11%      | 113                   | 9%        |
| <b>Net Appropriation</b> | <b>14,624</b>      | <b>15,668</b>     | <b>15,033</b>      | <b>409</b>        | <b>3%</b> | <b>635</b>            | <b>4%</b> |

After three months of the financial year, there is an overall saving of four per cent in the Net Appropriations of the Crown-funded agencies. This amounts to \$635,000.

A number of agencies are below their appropriation budgets to the end of September 2011.

### Personnel

Personnel expenditure is down on budget (1%) and up from the September quarter 2010-11 (-5%). The contributing factors to the budget variance are a number of vacancies which exist across the Public Sector. These positions have been budgeted for but are still not filled.

The variance against the prior year is due to the delay in the 2010-11 budget being passed. As such, many agencies held off recruiting and filling positions until the budget was confirmed. A number of ministries have since re-aligned their staff against the appropriate bands which has resulted in an increase in spending in this area since September 2010.

### Operating

Operating expenditure is down on budget (6%) and down from the September quarter 2010-11 (8%). The savings in operating expenditure are driven by a lot of phasing issues. Often projects or planned expenditure are delayed for one reason or another. Some ministries are making conscious efforts to save costs at the same time.

### Depreciation

Depreciation expenditure is down on budget (9%) and up from the September quarter 2010-11 (-6%). Since this point last year, a number of capital projects have been completed and as such, the depreciation of these assets has commenced. This has caused an increase against the same period last year.

At this point in the current financial year, the depreciation is down on budget due to the delay in receiving and finalising some capital projects.

It should be noted that whilst depreciation is expensed according to the accrual principles of accounting and appropriated these funds are not provided to Ministries.

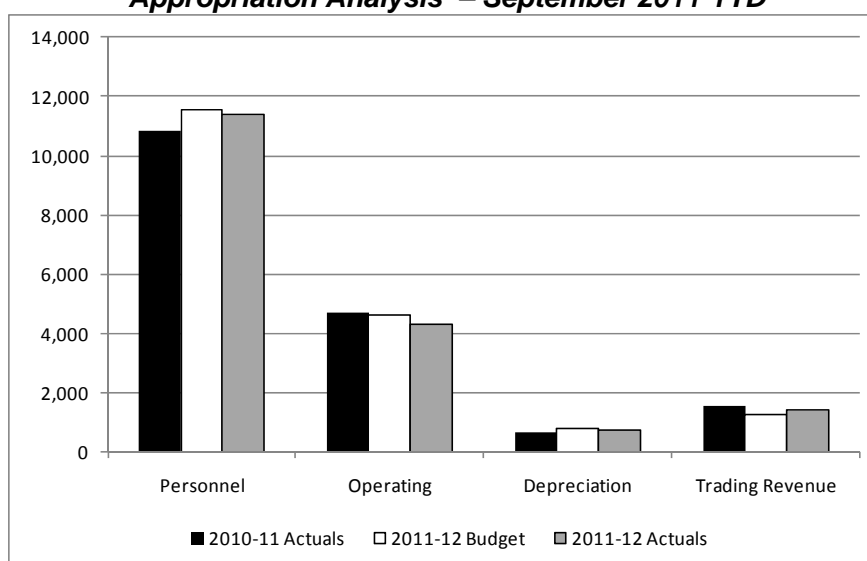
### Trading Revenue

Trading revenue is up on budget (9%) and down from the September quarter 2010-11 (-11%). A large contributing factor to trading revenue are the power tariffs in the Outer Islands. As the fuel price has increased and households have attempt to save money, the revenue has slightly slipped compared to last year. The budget for the 2011-12 financial year factored this in to a degree and as such, the General Government's revenue is up on budget.

The Ministry of Finance and Economic Management (MFEM) and the Ministry of Culture Development have contributed to the favourable budget variance with increased revenue via after hours flight processing and a successful Maeva Nui celebration.



**Figure 2**  
**Appropriation Analysis – September 2011 YTD**



## Other General Government Operating Expenditure

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

|                                  | Budget<br>('000) | Actuals<br>('000) | Variance    |             |
|----------------------------------|------------------|-------------------|-------------|-------------|
|                                  |                  |                   | ('000)      | Per cent    |
| Airport Authority                | 426              | 512               | -86         | -20%        |
| Bank of Cook Islands             | 45               | 0                 | 45          | 100%        |
| Te Aponga Uira                   | 88               | 0                 | 88          | 100%        |
| Debt Servicing Interest          | 256              | 249               | 6           | 2%          |
| Building Maintenance             | 325              | 722               | -397        | -122%       |
| Crown Infrastructure Depreciatio | 617              | 617               | 0           | 0%          |
| Disaster/Contingency             | 25               | 85                | -60         | -239%       |
| <b>Total Other Operating</b>     | <b>1,782</b>     | <b>2,186</b>      | <b>-404</b> | <b>-23%</b> |

The other operating costs for the General Government are 23% over what was budget at this point in time. As can be seen from Table 7, there are a couple of reasons why.

The Airport Authority variance is due to a phasing issue in the funding provided and will diminish over coming months.

The Building Maintenance costs have a \$397,000 unfavourable variance due to the insurance costs incurred in full for the year. This has been factored into the budget but was split evenly over 12 months. As the year progresses, the variance will reduce.

The \$60,000 unfavourable variance in the Contingency Fund is due to two state funerals and fuel assistance for the Manihiki Island Administration. The budget is apportioned evenly over the year and as such will reduce over each additional month. Subsequent to the September cut-off for this report, additional costs have been incurred which relate to the departure tax for visiting diplomats from New Zealand. As such, \$10,000 remains available in the fund.

The Bank of the Cook Islands and Te Aponga Uira expenses are budgeted evenly across the financial year. The payment relating to these items are to support each entity in providing unprofitable services due to social obligations. At this point, these expense have not been incurred by the General Government yet.

## Funds Management

### General Government Borrowings

**Table 8**  
**General Government Borrowings – September 2011 YTD**

| Loan  | Source<br>(Currency) | Original Loan<br>Amount in<br>Currency<br>('000) | Loan Start<br>Date | Loan<br>Finalisation<br>Date | Jun 11<br>Balance*<br>('000) | Sep 11<br>Balance*<br>('000) | Change<br>Sep 11 Qtr<br>('000) |
|---|----------------------|--|--------------------|------------------------------|------------------------------|------------------------------|--------------------------------|
| Economic Restructuring Loan                   | ADB (SDR)            | 3,430  | Sep-96             | Sep-36                       | 6,815                        | 6,754                        | -60                            |
| Cyclone Emergency Rehab Loan                  | ADB (SDR)            | 1,895  | Jun-05             | Jun-45                       | 1,139                        | 1,129                        | -10                            |
| 3rd CIDB Loan (1380)                          | ADB (SDR)            | 1,538  | Jan-96             | Sep-35                       | 3,121                        | 3,093                        | -28                            |
| CIDB Loan (567)                               | ADB (USD)            | 1,500  | Jul-82             | Apr-22                       | 1,004                        | 1,004                        | 0                              |
| 2nd CIDB Loan (1155)                          | ADB (SDR)            | 939  | Mar-92             | Dec-31                       | 1,752                        | 1,752                        | 0                              |
| CIDB Multi-Project Loan (849)                 | ADB (SDR)            | 2,067  | Dec-87             | Aug-27                       | 3,167                        | 3,093                        | -73                            |
| TCI Emergency Loan                            | ADB (SDR)            | 291  | Aug-92             | Jun-32                       | 593                          | 593                          | 0                              |
| Multi Project Loan (461)                      | ADB (USD)            | 1,000  | Nov-80             | Aug-20                       | 1,213                        | 1,164                        | -49                            |
| Pearl Loan (1309)                             | ADB (SDR)            | 336  | Dec-94             | Aug-34                       | 613                          | 608                          | -6                             |
| TCI Loan (1031)                               | ADB (SDR)            | 3,541  | Oct-90             | Aug-30                       | 7,132                        | 6,992                        | -140                           |
| Education Loan                                | ADB (SDR)            | 1,836  | Feb-95             | Aug-34                       | 3,736                        | 3,703                        | -33                            |
| Waste Management Loan (1832)                  | ADB (SDR)            | 1,695  | Dec-01             | Jun-33                       | 3,483                        | 3,483                        | 0                              |
| CEAL (2174)                                   | ADB (SDR)            | 1,895  | Jun-05             | Jun-45                       | 4,662                        | 4,662                        | 0                              |
| Economic Restructuring Loan (2565)            | ADB (USD)            | 10,000   | Jan-10             | Oct-24                       | 14,092                       | 14,092                       | 0                              |
| Avatiu Port Development (2472)                | ADB (USD)            | 8,630  | Sep-09             | Nov-33                       | 3,212                        | 8,129                        | 4,917                          |
| Avatiu Port Development (2473)                | ADB (SDR)            | 4,524  | Sep-09             | Nov-40                       | 3,357                        | 9,243                        | 5,886                          |
| Caisse Francais Development Loans             | France (EUR)         | 5,413  | Jan-99             | Sep-18                       | 6,803                        | 6,771                        | -32                            |
| Import-Export Bank of China                   | China (CNY)          | 67,260   | Aug-08             | Aug-28                       | 15,090                       | 15,090                       | 0                              |
| New Zealand GSF Loan                          | NZ GSF (NZD)         | 5,849  | Nov-80             | Jun-13                       | 1,783                        | 1,783                        | 0                              |
| <i>Total Gross Borrowings</i>                 |                      |  |                    |                              | 82,766                       | 93,138                       | 10,372                         |
| <i>Total Loans with ADB</i>                   |                      |  |                    |                              | 59,090                       | 69,494                       | 10,404                         |
| <i>Total Loans with Other Sources</i>         |                      |  |                    |                              | 23,676                       | 23,644                       | -32                            |
|   |                      |  |                    |                              | 82,766                       | 93,138                       | 10,372                         |
| <i>Less Advances to other entities:</i>       |                      |  |                    |                              |                              |                              |                                |
| Avatiu Port Development                       |                      |  |                    |                              | 6,568                        | 17,372                       | 10,803                         |
| Bank of the Cook Islands                      |                      |  |                    |                              | 672                          | 0                            | -672                           |
| <i>Total Loans Advanced to Other Entities</i> |                      |  |                    |                              | 7,241                        | 17,372                       | 10,131                         |
| <i>Net Borrowing by the Crown</i>             |                      |  |                    |                              | 75,525                       | 75,766                       | 241                            |

Total gross borrowings increased by \$10,372,000 to \$93,138,000 in the September 2011 quarter. This was due primarily because of drawdowns on ADB loans associated with the Avatiu Port Development. These loans are advanced to the Ports Authority and reduce the net borrowings of the General Government accordingly.

Net borrowings of the General Government increased from June 2011 by \$241,000 to \$75,766,000 primarily due to the final settlement of the advance to the Bank of the Cook Islands.

\*Note: borrowings are revalued as at 30 June 2009

## General Government Cash Reserves

The cash reserve of the General Government, as at September 2011 was \$3,918,000, consisting of \$52,805,000 in cash and term deposits held at local banks and offset by \$48,887,000 in committed funds.

The anticipated capital carry-forward outlined in Table 9 relates mainly to the Ministry of Infrastructure and Planning. At this point in time, it is pending and has not been approved. It is noted in the cash reserve calculations as a measure of prudence.

It should be noted that every time a carry-forward is approved, it will reduce the general cash reserve detailed above.

**Table 9**  
**Cash Reserves – September 2011 YTD**

| <b>General Cash Reserve</b>  |                 |
|--|-----------------|
| <b>Total Term Deposit at the Bank</b>  | <b>(’000)</b>   |
| Westpac  | 14,567          |
| ANZ  | 14,160          |
| BCI  | 9,842           |
| ANZ - ADB USD \$10 million   | 14,237          |
| <b>Total Term Deposit at the Bank</b>  | <b>* 52,805</b> |
| <b>Committed</b>   |                 |
| Trust Fund General Reserve   | 2,935           |
| Disaster Response Trust  | 200             |
| Debt/Loan Reserve  | 19,076          |
| ADB USD \$10 million loan - Project pending  | 14,237          |
| Trust Account Deposit  | 3,939           |
| Carry Forward Approved - CAPEX   | 5,000           |
| Carry Forward Contingency - OPEX   | 500             |
| Working Capital  | # 3,000         |
| <b>Total Commitment for this year</b>  | <b>48,887</b>   |
| <b>Estimated General Cash Reserve</b>  | <b>3,918</b>    |
| * - This does not include cash on the Government Operating Bank Account of about \$2 million |                 |
| # - This is a buffer contingency Reserve   |                 |

## 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:

### *Appropriation*

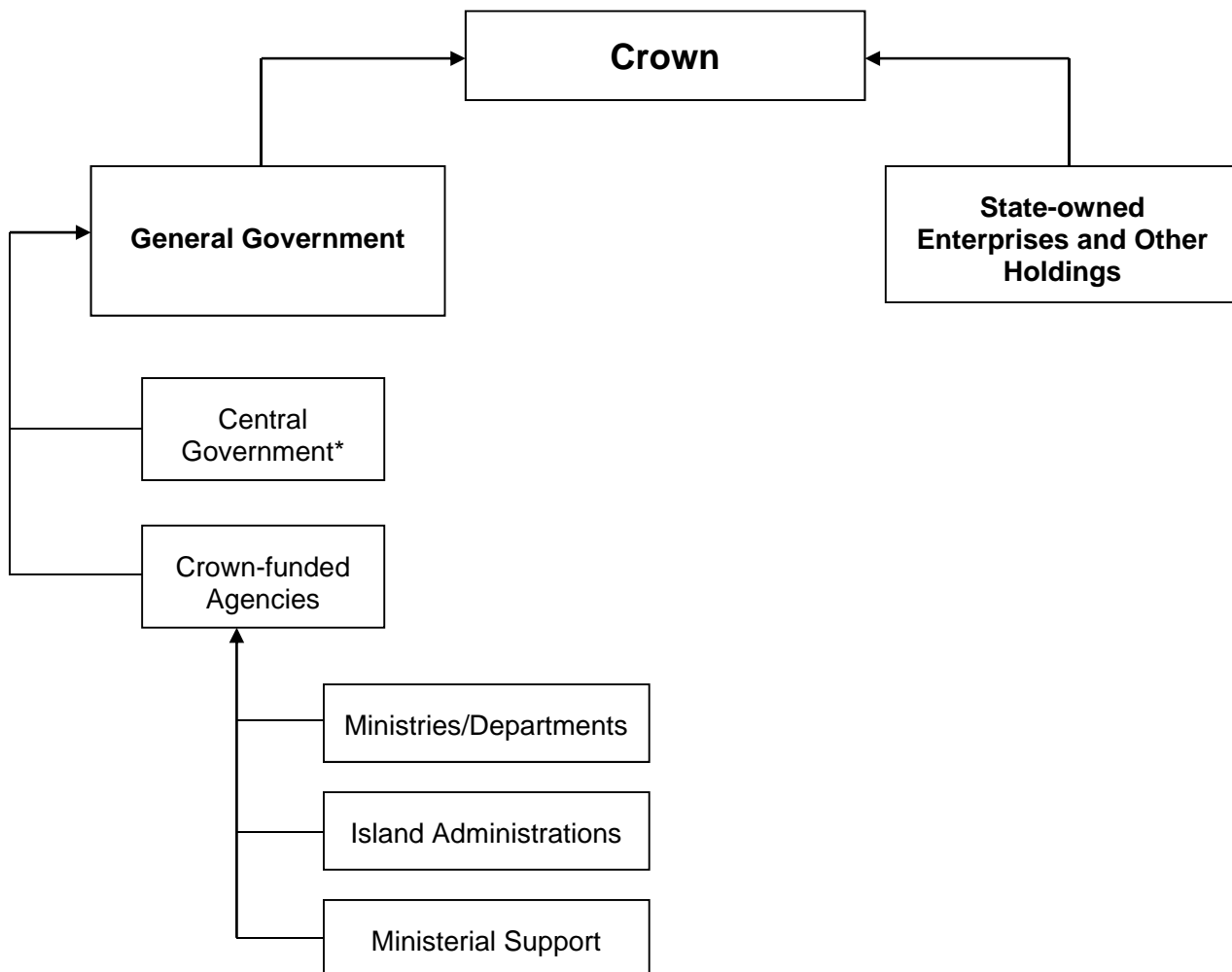
Appropriations are the funding-source provided by the Crown (as a Central Government entity) to allow the recipients (Crown-funded Agencies – see term below) to carry out their proposed operations.

### *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