



Cook Islands Government

Quarterly Financial Report

December 2014

Prepared by the Ministry of Finance and Economic Management
www.mfem.gov.ck

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Introduction

The statements contained in this report have been prepared on an accruals basis as far as practical and outlines income and expenses incurred which may not been necessarily received or paid. All figures are rounded to the nearest thousand.

Key Points

The net operating balance of the General Government Sector as at 31 December 2014 was a surplus of \$8.5 million.

- Operating revenue was \$65.9 million; and
- Operating expenditure was \$57.4 million.

The overall fiscal balance which excludes the effects of depreciation, but includes capital expenditure was a surplus of \$6 million.

Table 1
Net Operating Balance General Government – December 2014

| 2013/14 Actual ('000) | | 2014/15 Budget ('000) | 2014/15 Actual ('000) | Variance | |
|--------------------------------------|------------------------------|--------------------------------------|--------------------------------------|-----------------|--------------|
| | | | | ('000) | % |
| 59,530 | Operating Revenue | 65,078 | 65,934 | 856 | 1 |
| 54,762 | Operating Expenditure | 62,460 | 57,409 | (5,051) | (8) |
| 4,768 | Net Operating Balance | 2,618 | 8,525 | (5,907) | (226) |

Table 2
Fiscal Balance of General Government – December 2014

| 2013/14 Actual ('000) | | 2014/15 Budget ('000) | 2014/15 Actual ('000) | Variance | |
|--------------------------------------|---|--------------------------------------|--------------------------------------|-----------------|------------|
| | | | | ('000) | % |
| 4,768 | Net Operating Balance | 2,618 | 8,525 | (5,907) | (226) |
| 547 | Add Crown Depreciation | 1,460 | 1,460 | - | - |
| 862 | Add Ministry Depreciation | 1,298 | 1,054 | (244) | (19) |
| 436 | Add Pa Enea Depreciation | 497 | 439 | (58) | (12) |
| 2,375 | Less Capital Expenditure - CI Govt Funded | 10,917 | 5,479 | (5,438) | (50) |
| 4,238 | Fiscal Balance | (5,044) | 5,999 | (11,043) | 219 |

Total revenue collections for the quarter ending December 2014/15 were slightly higher than the Budget estimate and were mainly attributable to higher than estimated tax and fishing revenues as detailed in the General Government Revenue Analysis section.

Total operating expenses for the quarter ending December 2014/15 were lower than the Budget estimate and were mainly attributable to lower levels of spending by Agencies (6 per cent) due to the late passage of the 201/15 Appropriation Bill and the subsequent constraints on expenditure resulting from the constitutional provision of three twelfths of the previous year's appropriation being provided for the period to mid November.

Note that all 2014/15 Budget figures are based on the phasing of the original budget passed by Parliament in October 2014.

Summary of the Financial Position of the General Government

The net operating surplus of the General Government sector for the quarter ending December 2014 was \$8.5 million, representing an increase of \$5.9 million on the 2014/15 Budget estimates.

Overall, revenue was \$0.856 million higher than the 2014/15 Budget estimates and operating expenditure was lower by \$5.051 million than the 2014/15 Budget estimates.

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 December 2014

| 2013/14 Actual ('000) | | 2014/15 Budget ('000) | 2014/15 Actual ('000) | Variance ('000) |
|--------------------------------------|--|--------------------------------------|--------------------------------------|----------------------------|
| <u>Operating Revenue</u> | | | | |
| 52,669 | Taxation Revenue | 55,398 | 56,087 | 689 |
| 2,348 | Other Crown Receipts | 5,003 | 5,072 | 69 |
| 2,868 | Trading Revenue | 2,836 | 2,787 | (49) |
| 244 | Interest on Loans to Subsidiaries | 342 | 484 | 142 |
| 600 | Dividends | 575 | 575 | - |
| 801 | Interest on Funds | 924 | 929 | 5 |
| 59,530 | Total Operating Revenue | 65,078 | 65,934 | 856 |
| <u>Operating Expenditure</u> | | | | |
| 28,938 | Ministry/ Pa Enea Expenditure | 33,227 | 31,413 | 1,814 |
| 20,815 | Payments on Behalf of the Crown | 22,657 | 19,318 | 3,339 |
| 1,024 | Airport Authority | 1,024 | 1,024 | - |
| 146 | Bank of Cook Islands | 91 | 91 | - |
| 175 | Te Aponga Uira | 175 | 175 | - |
| 555 | Ports Authority | - | - | - |
| 648 | Debt Service Interest | 1,069 | 1,220 | (152) |
| 1,272 | Asset Management Crown Infrastructure | 900 | 863 | 37 |
| 1,078 | Depreciation | 1,461 | 1,460 | - |
| - | Transfer to Reserve Trust Fund | 258 | 258 | - |
| - | Depreciation Contingency Fund | 1,550 | 1,550 | - |
| 111 | Contingency Funds - Operating | 50 | 37 | 13 |
| 54,762 | Total Operating Expenditure | 62,460 | 57,409 | (5,051) |
| 4,768 | Net Operating Balance | 2,618 | 8,525 | (5,907) |

| <u>Key Balance Sheet Items in General Government:</u> | |
|---|----------|
| Cash and Equivalents | 52,379 |
| Committed Cash | (36,161) |
| Net Cash Reserve | 16,218 |
| Gross General Government Borrowings | 94,179 |
| Net General Government Borrowings | 51,358 |

The gross borrowings of the Crown were \$94.179 million, net borrowings of the General Government Sector (excluding loan reserves and borrowings by SOEs) were \$51.358 million. The net cash reserve which is essentially unencumbered increased by \$0.26 million since last quarter to a total of \$16.218 million.

General Government Revenue Analysis

General Government sector revenue as at 31 December 2014 was slightly higher than the Budget estimate by \$0.856 million or 1 per cent. This was mainly attributed to higher than expected tax revenues.

Table 4

General Government Revenue Summary – December 2014 YTD

| 2013-14 Actual ('000) | | 2014-15 Budget ('000) | 2014-15 Actual ('000) | Variance ('000) | % |
|-----------------------------|----------------------|-----------------------------|-----------------------------|--------------------|----------|
| 22,432 | Value-added Tax | 27,110 | 28,085 | 975 | 4 |
| 13,081 | Income Tax | 11,069 | 11,510 | 441 | 4 |
| 7,364 | Company Tax | 6,917 | 6,703 | (214) | (3) |
| 4,868 | Import Levies | 6,123 | 5,176 | (947) | (15) |
| 957 | Withholding Tax | - | 243 | 243 | 100 |
| 3,967 | Departure Tax | 4,179 | 4,370 | 191 | 5 |
| 2,868 | Trading Revenue | 2,836 | 2,787 | (49) | (2) |
| 3,993 | Other Revenue | 6,844 | 7,060 | 216 | 3 |
| 59,530 | Total Revenue | 65,078 | 65,934 | 856 | 1 |

Value Added Tax

Actual VAT revenue collected in the quarter ending December 2014 was \$0.975 million above the 2014/15 Budget estimate (4 per cent) due to the increase in commercial activity during the festive season.

Income Tax

Actual Income Tax revenue collected in the quarter ending December 2014 was \$0.441 million above the 2014/15 Budget estimate (4 per cent) as a result of slightly higher than expected commercial activity.

Company Tax

Actual Company tax collected in the quarter ending December 2014 was \$0.214 million below the 2014/15 Budget estimate (-3 per cent). Lower profitability is being experienced by some larger companies.

Import Levies

Actual Import levies collected in the quarter ending December 2014 were \$0.95 million below the 2014/15 Budget estimate (-15 per cent). The pre-purchasing of tobacco products has contributed to the drop in revenue in this financial year.

Withholding Tax

Actual Withholding tax collections were \$0.243 million above the 2014/15 Budget estimate (100 per cent). This relates to withholding taxes collected on interest, dividends and royalties paid overseas. Payments made overseas are difficult to predict and therefore no estimate is made for them in the budget.

Departure Tax

Departure tax collections were \$0.191 million above the 2014/15 Budget estimate (5 per cent). While the number of visitor arrivals in the quarter were on target, the slight increase to budget is attributable to the mix of tourists containing less people who do not pay departure tax (children).

Trading Revenue

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

Other Crown Revenue

Other Crown Revenue was \$0.216 million above the 2014/15 Budget estimate (3 per cent). This is predominantly due to the increase collection of Fishing Catch Revenue (109 per cent) as a result of increased revenue collected from the operators who purchased unutilised quota from within the total allowable catches (TACs).

Table 5

General Government Other Revenue Summary – December 2014 YTD

| 2013-14 Actual ('000) | | 2014-15 Budget ('000) | 2014-15 Actual ('000) | Variance ('000) | % |
|--------------------------------------|-----------------------------------|--------------------------------------|--------------------------------------|----------------------------|----------|
| 68 | FSDA Levies | 138 | - | (138) | (100) |
| 349 | Immigration Fees | 294 | 324 | 30 | 10 |
| - | IMO Subscription - Maritime CI | 63 | 73 | 9 | 15 |
| 37 | Court Services | 25 | 22 | (3) | (10) |
| 14 | Instant Fines | 33 | 17 | (16) | (49) |
| 624 | Fishing Licences | 1,220 | 550 | (670) | (55) |
| - | Fisheries Catch Rev | 850 | 1,777 | 927 | 109 |
| - | Fisheries US Treaties | 390 | - | (390) | (100) |
| - | Fishing Fines | 613 | 1,225 | 612 | 100 |
| 1 | Research Fees | 1 | 1 | - | - |
| 9 | Permits | 28 | 6 | (21) | (77) |
| 600 | Telecom-Dividends | 575 | 575 | - | - |
| 152 | Numismatic Revenue | 250 | 145 | (105) | (42) |
| 307 | Drivers Licenses | 175 | 84 | (91) | (52) |
| 376 | Motor Vehicle Registrations | 388 | 319 | (69) | (18) |
| 801 | Interest on balances | 924 | 929 | 5 | 1 |
| 244 | Interest on loans to subsidiaries | 342 | 484 | 142 | 41 |
| 16 | Foreign Investment Fees | 10 | 14 | 4 | 40 |
| 153 | Upper Air Management Agreement | 249 | 246 | (2) | (1) |
| 35 | Shipping Reg/Licenses | 65 | 19 | (46) | (70) |
| 10 | Intl Shipping Licenses | 8 | - | (8) | (100) |
| 5 | Liquor Licensing | 13 | 4 | (9) | (66) |
| 73 | Tattslotto Grants | 72 | 61 | (10) | (14) |
| 3 | Censorship Fees | 6 | 2 | (4) | (74) |
| 100 | Circulating Currency- Coins | 103 | 179 | 77 | 75 |
| 14 | Employers Liability | 10 | - | (10) | (100) |
| 2 | Motor Vehicle Dealers | 3 | 3 | - | - |
| 3,993 | | 6,844 | 7,060 | 216 | 3 |

Figure 1
General Government Revenue - 2013/14 Actual and 2014/15 Budget and Actual (\$000)

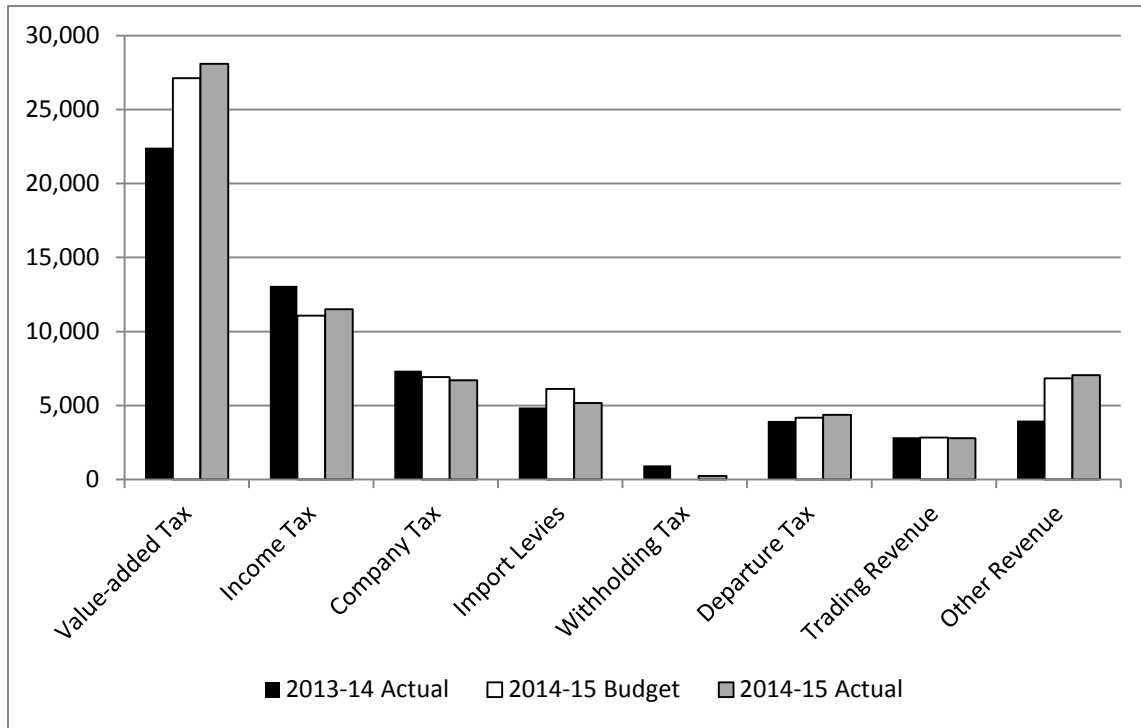
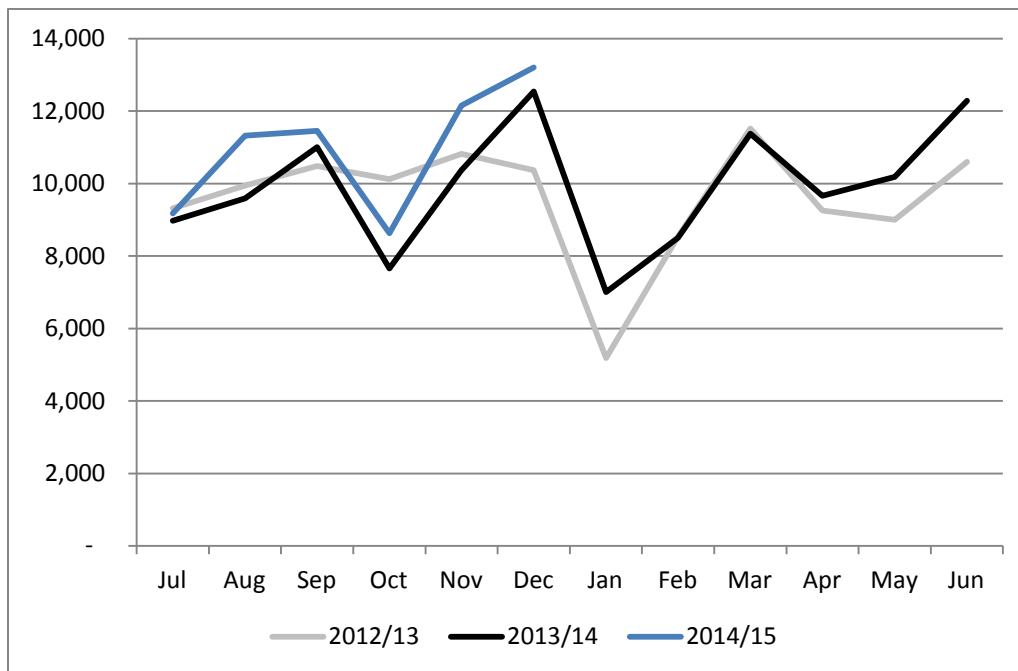


Figure 2
Net Operating Revenue Trends

Figure 2 demonstrate the trends over the previous two financial years of operating revenue.



General Government Expenditure Analysis

Payments on Behalf of Crown (POBOCs)

Table 6

Payments on Behalf of Crown – December 2014 YTD

| 2013/14 Actual | Administering Ministry | POBOC | Budget | Actual | Variance | |
|----------------------------------|-------------------------------------|---|--------------|--------------|--------------|-------------|
| ('000) | | | (000) | (000) | (000) | % |
| Compensation of Employees | | | | | | |
| 34 | Cook Islands Investment Corporation | Infrastructure Committee | 38 | 15 | 22 | 59 |
| 86 | Finance & Economic Management | Parliamentary Superannuation | 90 | 76 | 14 | 16 |
| 41 | Finance & Economic Management | National Heritage Trust | 41 | 36 | 5 | 13 |
| 17 | Audit | PERC Salaries and Administration Costs | 21 | 11 | 10 | 48 |
| 17 | Internal Affairs | Price Tribunal | 15 | 3 | 12 | 77 |
| 105 | Justice | Judges Allowances | 89 | 111 | (22) | (25) |
| 914 | Parliamentary Services | Civil List - Personnel | 922 | 1,200 | (277) | (30) |
| 39 | Parliamentary Services | House of Ariki | 88 | 65 | 24 | 27 |
| 570 | Public Service Commission | HOMs Salaries # | - | - | - | - |
| 27 | Transport | Director of Civil Aviation | 28 | 14 | 14 | 51 |
| 1,850 | | | 1,332 | 1,530 | (198) | (15) |
| Use of Goods and Services | | | | | | |
| 48 | Audit | Audit Fees | 48 | 48 | - | - |
| 30 | Crown Law | Operation Eagle Defendants * | - | - | - | - |
| 195 | Cultural Development | Te Maeva Nui Constitution Celebrations | 196 | 195 | 1 | 1 |
| 388 | Education | Tertiary Training Institutions | 380 | 382 | (2) | (0) |
| 15 | Finance & Economic Management | Audit of Crown Accounts | 15 | 15 | - | - |
| 164 | Finance & Economic Management | National Superannuation Fund | 142 | 147 | (5) | (4) |
| - | Finance & Economic Management | Standard and Poors Subscription | 20 | 20 | - | - |
| - | Justice | General Elections, Petitions and By-Elections | 25 | 27 | (2) | (9) |
| 30 | Head Of State | Domestic Hosting Entertainment | 8 | 2 | 6 | 80 |
| 259 | Health | Pharmaceuticals | 334 | 352 | (18) | (5) |
| 33 | Infrastructure and Planning | OI Unanticipated Breakdowns | 50 | 61 | (11) | (21) |
| 201 | Infrastructure and Planning | Waste Management | 273 | 287 | (15) | (5) |
| 36 | Internal Affairs | Lease extension | 36 | 36 | - | - |
| 203 | Internal Affairs | Vaka Maintenance | 200 | 194 | 6 | 3 |
| 362 | Parliamentary Services | Civil List - Operating Expenses | 265 | 250 | 15 | 6 |
| 21 | Parliamentary Services | PPAPD - FDOC Secretariat | 18 | 13 | 4 | 23 |
| 135 | Prime Minister's Office | Social Responsibility Fund | 98 | 73 | 25 | 25 |
| - | Prime Minister's Office | Self Government Golden Anniversary | 125 | 33 | 92 | 73 |
| - | Prime Minister's Office | Local Government Elections | 18 | 18 | (1) | (3) |
| - | Police | Search and Rescue | 10 | 10 | - | - |
| 33 | Police | Serious Crime Investigations | 25 | 11 | 14 | 57 |
| 34 | Police | Te Kukupa - Fuel Contribution | 70 | 40 | 30 | 43 |
| 150 | Police | Te Kukupa - Refit # | - | - | - | - |
| 1,000 | Tourism Corporation | Marketing Resources - Tourism Growth Strategy | 1,125 | 987 | 138 | 12 |
| - | Prime Minister's Office | Returned Services Association | - | - | - | - |
| 20 | Prime Minister's Office | Cook Islands Marine Park | 20 | 20 | - | - |
| - | Prime Minister's Office | Community Development Fund | 50 | 9 | 41 | 81 |
| - | Foreign Affairs | IMO - Maritime Cook Islands | 32 | 32 | - | - |
| 3,357 | | | 3,579 | 3,261 | 318 | 9 |
| Subsidies | | | | | | |
| 163 | Education | University of the South Pacific Contribution | 143 | 72 | 71 | 50 |
| 5,207 | Finance & Economic Management | Air New Zealand - Subsidies | 6,175 | 4,480 | 1,695 | 27 |
| 488 | Finance & Economic Management | Apex - Profit Guarantee | 750 | 376 | 374 | 50 |
| 25 | Finance & Economic Management | FSC - subsidy to meet depreciation expenses | 18 | 20 | (3) | (14) |
| - | Finance & Economic Management | Subsidy of audio/visual broadcasting in Pa Enea | 23 | 23 | - | - |
| 5,882 | | | 7,108 | 4,970 | 2,137 | 30 |
| Social Assistance | | | | | | |
| 45 | Education | Government Funded Scholarships | 140 | 78 | 62 | 44 |
| 305 | Health | Patient Referrals | 275 | 275 | - | - |

| 2013/14 Actual | Administering Ministry | POBOC | Budget | Actual | Variance | |
|-------------------|-------------------------------|---|---------------|---------------|--------------|-----------|
| ('000) | | | (000) | (000) | (000) | % |
| 72 | Health | Nursing School | 94 | 154 | (61) | (65) |
| 98 | Health | NCD Fund | 98 | 91 | 7 | 7 |
| 6,799 | Internal Affairs | Welfare Payments | 8,367 | 7,646 | 721 | 9 |
| - | Justice | Legal Aid | 20 | 20 | - | - |
| 7,319 | Other Expense | | 8,993 | 8,265 | 728 | 8 |
| 1,079 | Education | Private School Funding | 991 | 1,007 | (16) | (2) |
| - | Finance & Economic Management | Pacific Catastrophe Risk Insurance | 60 | 68 | (7) | (12) |
| 542 | Foreign Affairs | International Subscriptions | 273 | 36 | 237 | 87 |
| 137 | Marine Resources | Establishment of Fisheries Development Facility | 100 | 100 | - | - |
| 209 | CI Seabed Minerals Authority | Establishment of Seabed Minerals Authority # | - | - | - | - |
| 80 | Internal Affairs | CISNOC Grant | 110 | 52 | 58 | 53 |
| 78 | Internal Affairs | CISNOC Support * | - | - | - | - |
| 45 | Internal Affairs | NGO and Welfare Organisations | 111 | 29 | 81 | 74 |
| 34 | Internal Affairs | Gender Regional Triennial Meeting * | - | - | - | - |
| 50 | Police | PICP * | - | - | - | - |
| 12 | Education | Education Ministers Forum * | - | - | - | - |
| 48 | MOIP | SOPAC Conference 2013 * | - | - | - | - |
| 94 | MOIP | PWWA conference 2013 * | - | - | - | - |
| 2,407 | | | 1,645 | 1,292 | 353 | 21 |
| 20,815 | Grand Total | | 22,657 | 19,318 | 3,339 | 15 |

* Expenditure items that have not been re-appropriated in the financial year 2014/15; # Appropriation has been moved to a Ministry/ Capital

The overall savings in POBOC expenditure (15 per cent) was mainly attributed to the Air New Zealand underwrite of the Sydney (\$1.42 million) and Los Angeles (\$3.05 million) routes and the TOA Apex Guarantee. Welfare payments were below budget by 9 per cent, however there are timing issues with the increase in rate of the pension for those aged 70 and over of \$15 a month.

Table 7
Welfare Payments – December 2014 YTD

| 2013/14 Actual | | 2014/15 Budget | 2014/15 Actual | Variance | |
|--|------------------------------------|-------------------|-------------------|------------|----------|
| ('000) | | ('000) | ('000) | ('000) | % |
| Legislated Payments | | | | | |
| 1,286 | Child Benefit | 1,336 | 1,388 | (52) | (4) |
| 124 | New Born Allowance | 155 | 113 | 42 | 27 |
| 4,581 | Old Age Pension | 5,888 | 5,316 | 571 | 10 |
| 202 | Destitute & Infirm Persons Payment | 198 | 210 | (12) | (6) |
| 29 | Maternity Leave | 72 | 35 | 37 | 52 |
| Non-legislated Welfare Payments | | | | | |
| 135 | Caregiver's Allowance | 173 | 143 | 30 | 17 |
| 280 | Christmas Bonus | 278 | 274 | 4 | 0.0 |
| 50 | Funeral Allowance | 84 | 84 | 0.4 | 0.0 |
| 60 | Power Subsidy | 60 | - | 60 | 100 |
| 13 | Special Assistance | 48 | 6 | 42 | 87 |
| 39 | BCI Transaction Fee | 75 | 77 | (2) | (3) |
| 6,799 | Total Welfare Payments | 8,367 | 7,646 | 721 | 9 |

Appropriation Analysis

Table 8

Ministries, Agencies & Ministerial Office Appropriation Analysis – December 2014 YTD

| Actual | | Budget | Actual | Variance | |
|---------------|--------------------------|---------------|---------------|-----------------|------------|
| ('000) | | ('000) | ('000) | ('000) | % |
| 17,777 | Personnel | 20,769 | 19,684 | 1,085 | 5 |
| 6,117 | Operating | 6,453 | 6,160 | 293 | 5 |
| 862 | Depreciation | 1,298 | 1,054 | 244 | 19 |
| 2,285 | Trading Revenue | 2,281 | 2,149 | (132) | (6) |
| 22,471 | Net Appropriation | 26,239 | 24,749 | (1,490) | (6) |

The significant December quarter savings are mainly attributable to the late passage of the 2014/15 Appropriation. The limited authorisation for expenditure was applied across all areas of government until the passage of the Appropriation by Parliament in mid November 2015. Expenditure savings are still evident in the December Quarter. Of 32 Ministries and Ministerial Offices in total, 27 ministries and ministerial offices were below budget while five were overspent at this stage.

Personnel

Personnel expenditure for the December 2014 quarter was \$1.09 million lower than budget estimates (-5 per cent). Out of thirty two agencies, twenty four had savings whilst eight had overspent. These savings are a result of unfilled vacancies and salaries reimbursed by ODA.

Operating

Operating expenditure for the December 2014 quarter was \$0.29 million lower than the budget estimates (-5 per cent). Twenty four agencies had savings totalling \$0.66 million while eight ministries overspent to a total of \$0.37 million.

Depreciation

Depreciation expenditure was \$0.24 million lower than the December 2014 budget (-19 per cent). A number of agencies have fully depreciated assets which they have budgeted for that are still in working condition. Twenty five agencies had savings totalling \$0.27 million while six had overspent to a total of \$0.03million.

Trading Revenue

Trading revenue in the December 2014 quarter was \$0.13 million lower than the budget estimate (-6 per cent). 17 agencies were appropriated trading revenue where nine agencies contributed to this decrease totally \$0.44 million in total.

Table 9**Pa Enea (Outer Islands) Appropriation Analysis – December 2014 YTD**

| Actual | | Budget | Actual | Variance | |
|---------------|--------------------------|---------------|---------------|-----------------|------------|
| ('000) | | ('000) | ('000) | ('000) | % |
| 2,696 | Personnel | 3,107 | 2,920 | 187 | 6 |
| 1,050 | Operating | 1,103 | 1,156 | (53) | (5) |
| 436 | Depreciation | 497 | 439 | 58 | 12 |
| 583 | Trading Revenue | 555 | 638 | 83 | 15 |
| 3,599 | Net Appropriation | 4,152 | 3,877 | (275) | (7) |

Personnel

Personnel expenditure for the December 2014 quarter was \$0.19 million lower than the December quarter budget (6 per cent). Out of 10 Outer Island Administrations, seven had savings while three had overspent. Aitutaki, Mangaia, Mauke, Palmerston and Manihiki all had significant savings as a result of unfilled vacancies.

Operating

Operating expenditure for the December 2014 quarter was \$0.05 million higher than the December quarter budget (-5 per cent). Three outer islands had savings totalling \$0.094 million while seven outer islands overspent to a total of \$0.15 million. These overspends were related to the early bulk purchases of fuel due to boat schedules to the Northern group and the purchase of some unbudgeted expense items.

Depreciation

Depreciation expenditure for the December 2014 quarter was \$0.058 million lower than the December quarter budget (-12 per cent). Eight outer islands had savings totalling \$0.06 million while three outer islands overspent to a total of \$0.01 million. These savings were mainly caused by the use of inaccurate and incomplete fixed asset registers to establish budget estimates.

Trading Revenue

Trading revenue for the December 2014 quarter was \$0.08 million higher than the December quarter budget (15 per cent). Seven outer islands exceeded their budget by \$0.10 million while three outer islands didn't meet their quarter budgets to a total of \$0.02 million. The increased revenue was attributed to the increased hiring of plant and equipment, shore excursion fees charged to tourist boats in Palmerston, increased stevedoring activities and water tank and pump sales.

Other General Government Operating Expenditure

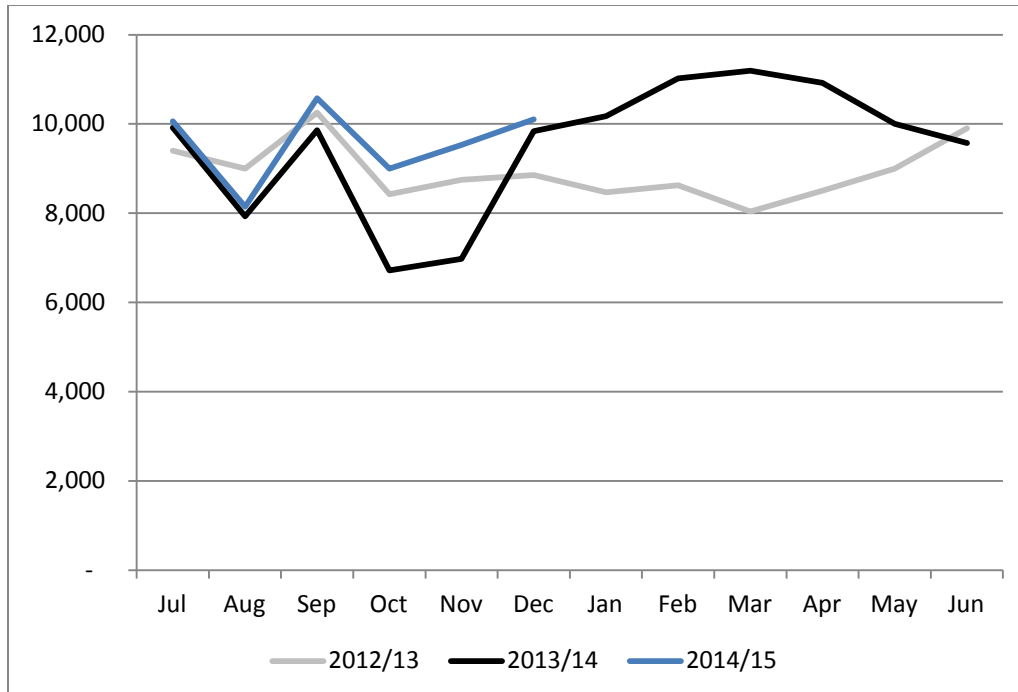
Table 10
Other General Government Operating Expenditure

| 2013/14 Actual ('000) | | 2014/15 Budget ('000) | 2014/15 Actual ('000) | Variance ('000) | % |
|-----------------------------|-----------------------------------|-----------------------------|-----------------------------|--------------------|------------|
| 1,024 | Airport Authority | 1,024 | 1,024 | - | - |
| 146 | Bank of Cook Islands | 90 | 91 | (0.7) | (0.8) |
| 175 | Te Aponga Uira | 175 | 175 | - | - |
| 1,272 | Asset Management | 900 | 863 | 37 | 4 |
| 648 | Debt Servicing Interest | 1,069 | 1,220 | (152) | (14) |
| 111 | Contingency Funds - Operating | 50 | 37 | 13 | 27 |
| 1,078 | Crown Infrastructure Depreciation | 1,460 | 1,460 | (0) | (0) |
| - | Depreciation Contingency Reserve | 1,550 | 1,550 | 0 | 0 |
| - | Transfer to Reserve Trust Fund | 258 | 258 | (0) | (0) |
| 4,454 | Total Other Operating | 6,576 | 6,679 | (103) | (2) |

Other operating costs for the General Government sector are two per cent over the 2014/15 Budget. The most significant variation contributing to this is the increase in Debt Servicing Interest as a result of unfavourable movement in exchange rates against the New Zealand Dollar (NZD) as outlined in Table 12.

Figure 3
Net Operating Expenditure Trends

Figure 3 demonstrate the trends over the previous two financial years of operating expenditure.



State Owned Entities (SOEs) Quarterly Reporting

Table 11 summarises the December 2014 quarter performances of Cook Islands Investment Corporation (CIIC), Airport Authority, the Bank of the Cook Islands, Ports Authority and Te Aponga Uira. It should be noted that the budget figures below represent the respective internal budgets of the SOEs. The appropriations approved to SOEs by Parliament are the social responsibility contributions of Government.

Table 11
SOE Quarterly Reporting – December 2014 YTD

| Actual | | Budget | Actual | Variance | |
|---------------|---------------------|---------------|---------------|-----------------|-------------|
| ('000) | | ('000) | ('000) | ('000) | % |
| 4,551 | Personnel | 4,391 | 3,982 | 409 | 9 |
| 11,622 | Operating | 13,287 | 12,215 | 1,072 | 8 |
| 3,476 | Depreciation | 3,286 | 3,839 | (553) | (17) |
| 19,213 | Trading Revenue | 19,275 | 19,557 | 282 | 1 |
| 436 | Net Activity | 1,689 | 479 | (1,210) | (72) |

Personnel

Personnel expenditure for the December 2014 quarter was \$0.41 million lower than Budget estimates (-9 per cent). This was mainly due to the delayed filling of new and vacant positions and below budget salary increments.

Operating

Operating expenditure for the December 2014 quarter was \$1.1 million lower than the Budget estimates (-8 per cent). Three out of the five SOEs made savings totalling \$1.30 million while Ports Authority and BCI had unfavourable movements totalling \$0.23 million relating to electricity and foreign exchange conversions with overseas payments.

Depreciation

Depreciation expenditure was \$0.55 million higher than the budget (17 per cent). This was mainly driven by Airport Authority's previously impaired assets being reinstated to its previous valuation (\$0.73 million).

Trading Revenue

Trading revenue in the December 2014 quarter was \$0.28 million higher than the Budget estimate (1 per cent). Te Aponga Uira reported \$0.13 million above budget as a result of increases in energy consumption and Ports Authority reported \$0.87 million above budget as a result of increased tariffs and commercial activity (cargo activity, rental charge and space, increase in Chinese fishing vessels off-loading at Avatiu Port). The other SOEs reported decreases against budget as a result of decreases in commercial activity.

Crown Borrowings

The Crown's gross borrowing for the December 2014 quarter was \$94.4 million, a decrease of \$1.2 million from the September 2014 quarter. This decrease was attributable to:

- a favourable movement in exchange rates against the New Zealand Dollar (NZD) of \$0.687 million;
- further repayment of principal of \$0.696 million during the quarter;
- offset by revaluation and drawdown adjustments of \$0.429 million relating to the Airport Authority ANZ loan.

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

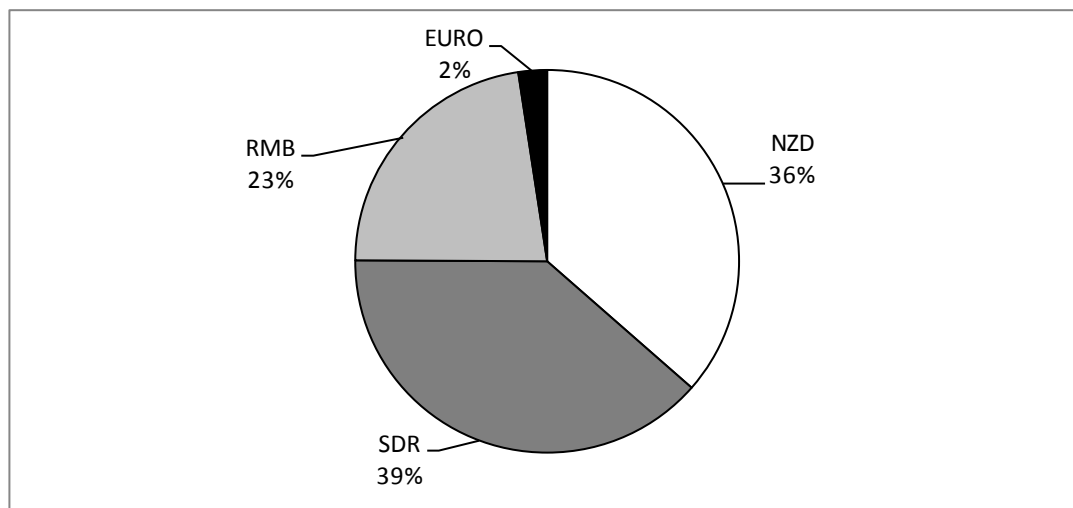
Table 12
Average Exchange Rates Used

| Foreign Exchange Currency | 30 September 2014 Average | 31 December 2014 Average | Changes |
|---------------------------|---------------------------|--------------------------|---------|
| EUR | 0.6121 | 0.6440 | 0.0319 |
| USD | 0.7767 | 0.7829 | 0.0062 |
| CNY | 4.7764 | 4.8555 | 0.0791 |
| SDR | 0.5239 | 0.5404 | 0.0165 |

The unrealised foreign exchange gain of \$0.7 million is largely the effect of the positive movement in the Special Drawing Rights (SDR) as about 39 per cent of the total government borrowing is denominated in SDR as illustrated in Figure 4.

Net borrowings by the General Government for this quarter were \$51.4 million, a \$0.8 million decrease from the September 2014 quarter. This decrease is made up of \$0.6 million net foreign exchange adjustment and \$0.4 million in principal repayments.

Figure 4
Composition of Crown Debt by Currency



Managing the exchange risk is an ongoing task for the Crown. Working closely with local banks over the global exchange rates movement to accommodate its annual debt servicing plan is paramount to the Crown.

Table 13 below summarised Crown's estimated debt position for December 2014 quarter.

Table 13
Crown Borrowings – December 2014 YTD

| Loan | Source (Currency) | Original Loan Amount in Currency ('000) | Loan Start Date | Loan Finalisation Date | Sept 14 Balance ('000) | Principal Payments ('000) | FOREX Adjustment ('000) | Revaluation/ Draw Down Adjustments | Dec 14 Balance ('000) | Change Dec 14 Qtr ('000) |
|--|------------------------------|--|----------------------------|---------------------------------------|---------------------------------------|--|--|---|--------------------------------------|---|
| Caisse Francais Development Loans | EURO | 5,413 | Jan-99 | Sep-18 | 2,686 | (257) | (154) | - | 2,275 | (411) |
| Import-Export Bank of China | CNY | 67,260 | Aug-08 | Aug-28 | 12,719 | - | (207) | - | 12,512 | (207) |
| China - Rarotonga Water Ring Project | CNY | 118,000 | Dec-12 | Dec-13 | 8,828 | - | (144) | - | 8,684 | (144) |
| ADB 461 Multi Project Loan | SDR | 1,000 | Nov-80 | Aug-20 | 630 | - | (5) | - | 625 | (5) |
| ADB 567 01st CIDB Loan | SDR | 1,500 | Jul-82 | Apr-22 | 616 | (37) | (5) | - | 573 | (43) |
| ADB 849 2nd Multi-Project Loan | SDR | 2,067 | Dec-87 | Aug-27 | 2,068 | - | (16) | - | 2,052 | (16) |
| ADB 1031 TCI Loan | SDR | 3,541 | Oct-90 | Aug-30 | 4,866 | - | (39) | - | 4,828 | (39) |
| ADB 1155 2nd CIDB Loan | SDR | 939 | Mar-92 | Dec-31 | 1,260 | (35) | 25 | - | 1,250 | (10) |
| ADB 1171 TCI Emergency Loan | SDR | 291 | Aug-92 | Jun-32 | 433 | (12) | 8 | - | 429 | (3) |
| ADB 1309 Pearl Loan | SDR | 336 | Dec-94 | Aug-34 | 469 | - | (4) | - | 465 | (4) |
| ADB 1317 Education Loan | SDR | 1,836 | Feb-95 | Aug-34 | 2,863 | - | (23) | - | 2,841 | (23) |
| ADB 1380 3rd CIDB Loan | SDR | 1,538 | Jan-96 | Sep-35 | 2,371 | - | (19) | - | 2,352 | (19) |
| ADB 1466 Economic Restructuring Loan | SDR | 3,430 | Sep-96 | Sep-36 | 5,239 | - | (41) | - | 5,198 | (41) |
| ADB 1588 Cyclone Emergency Rehab Loan | SDR | 1,895 | Jun-05 | Jun-45 | 878 | - | (7) | - | 871 | (7) |
| ADB 1832 Waste Management Loan | SDR | 1,695 | Dec-01 | Jun-33 | 2,490 | (63) | 43 | - | 2,471 | (20) |
| ADB 2174 Cyclone Emergency Assist Loan | SDR | 1,895 | Jun-05 | Jun-45 | 3,529 | - | (28) | - | 3,501 | (28) |
| ADB 2472 Avatiu Port Development | NZD | 10,309 | Sep-09 | Nov-33 | 9,975 | (87) | - | - | 9,888 | (87) |
| ADB 2473 Avatiu Port Development | SDR | 4,524 | Sep-09 | Nov-40 | 8,984 | - | (71) | - | 8,913 | (71) |
| ADB 2739 Amend Avatiu Port Development | NZD | 5,322 | Dec-11 | Nov-35 | 5,322 | - | - | - | 5,322 | - |
| ADB 2946 Economic Restructuring Loan 2 | NZD | 7,250 | Dec-12 | Dec-28 | 7,250 | - | - | - | 7,250 | - |
| ADB 2565 Economic Restructuring Loan 1 | NZD | 11,053 | Jan-10 | Oct-24 | 10,048 | - | - | - | 10,048 | - |
| ANZ - Airport Authority | NZD | 8,100 | Apr-11 | Apr-16 | 1,833 | (205) | - | 429 | 2,057 | - |
| Total Gross Borrowings | | | | | 95,358 | (696) | (687) | 429 | 94,403 | (1,178) |
| <i>Total Loans with ADB</i> | | | | | 69,292 | (234) | (182) | - | 68,876 | (416) |
| <i>Total Loans with Other Sources</i> | | | | | 26,066 | (462) | (505) | - | 25,527 | (762) |
| Total Gross Borrowings | | | | | 95,358 | (696) | (687) | - | 94,403 | (1,178) |
| Less Loan Reserve | | | | | 16,866 | - | - | - | 16,866 | - |
| Net Borrowing by the Crown | | | | | 78,492 | (696) | (687) | - | 77,537 | (954) |
| Less Avatiu Port Development | | | | | 24,281 | (87) | (71) | - | 24,122 | (159) |
| Less ANZ - Airport Authority | | | | | 1,833 | (205) | - | 429 | 2,057 | - |
| Net Borrowing by the General Government | | | | | 52,378 | (404) | (616) | (429) | 51,358 | (796) |

The Crown Loan Reserve Fund (LRF)

In 2001 an informal reserve was established to enable the Crown to access and subsequently on lend concessional loans to State Owned Enterprises (SOEs). Repayment terms with the external lenders included a grace period (of normally five years) that was not extended to the SOEs. SOEs were required to service the average debt servicing cost at the initial point of drawing down the loan. These funds were subsequently set aside into a debt reserve.

In February 2014, the Parliament of the Cook Islands passed *the Cook Islands Loan Repayment Fund Act 2014* formally creating a Loan Reserve Fund (LRF). The effect of the LRF is to quarantine those monies previously accumulated from being utilised for anything outside of debt servicing requirements. It also legislated a framework for management of all sovereign public debt and ensuring the timely allocation of money from the budget and repayment as required of all sovereign debt held by the Crown.

At the time of this publication, the LRF has sufficient funds to fully cover all debts owed by on behalf of SOEs to lenders. These SOEs include the Bank of the Cook Islands, Te Aponga Uira as well as Telecom Cook Islands Limited.

MFEM has now awarded the tender and are in the process of negotiating the contract.

Table 14 Loan Repayment Fund Statement 2014/15

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Opening LRF balance | 16,211 | 16,272 | 16,250 | 15,659 | 13,318 |
| Transfer in | 6,107 | 6,107 | 6,107 | 6,107 | 6,107 |
| Interest earned (avg 2%) | 324 | 325 | 325 | 313 | 266 |
| Total transfer in | 6,431 | 6,433 | 6,432 | 6,420 | 6,374 |
| Repayment from LRF balance | | | | | |
| Principal | 1,207 | 1,234 | 1,261 | 1,261 | 980 |
| Interest | 127 | 116 | 105 | 94 | 82 |
| Total repayment from LRF | 1,334 | 1,350 | 1,366 | 1,355 | 1,063 |
| Repayment of other debt | | | | | |
| Principal | 3,175 | 3,151 | 3,756 | 5,636 | 5,691 |
| Interest | 1,861 | 1,954 | 1,902 | 1,771 | 1,639 |
| Total repayment other debt | 5,037 | 5,105 | 5,658 | 7,407 | 7,330 |
| Other service fees * | - | - | - | - | - |
| LRF stock balance | 16,272 | 16,250 | 15,659 | 13,318 | 11,299 |

*Other service fees is the management cost of the fund, this will be determined and paid to the successful bidder.

Table 14 estimates the movement of the LRF over the next four years. The amount of \$6.1 million transferred in annually is the total average amortised debt repayment for the Crown over a period of five years. This is different from the actual debt service which is the total amount transferred out of the LRF.

General Government Cash Reserves

General government cash reserves at the December 2014 quarter were \$16.2 million, an increase of \$0.3 million from the September 2014 quarter. The slight increase in cash reserves between the quarters is a result of interest earned on term deposits.

Table 15
Cash Reserves – December 2014 YTD

| | June 14 Qtr ('000) | Sept 14 Qtr ('000) | Dec 14 Qtr ('000) | Change Sept 14 Qtr ('000) |
|--|-----------------------|-----------------------|----------------------|------------------------------------|
| Total Term Deposit at the Bank | | | | |
| Westpac | 3,151 | 3,151 | 3,236 | 85 |
| ANZ | 28,641 | 28,534 | 28,841 | 307 |
| ANZ - ADB USD 10 million | 3,930 | 3,939 | 3,945 | 6 |
| BCI | 18,128 | 16,142 | 16,357 | 215 |
| Total Term Deposit at the Bank * | 53,850 | 51,766 | 52,379 | 613 |
| Committed: | | | | |
| Trust Fund General Reserve | 2,911 | 2,911 | 2,911 | - |
| Disaster Response Trust ¹ | 536 | 536 | 536 | - |
| Loan Reserve Fund ² | 16,866 | 16,866 | 16,866 | - |
| ADB USD 10 million loan - Project pending ³ | 11,180 | 9,189 | 9,476 | 287 |
| Trust Account Deposit ⁴ | 2,788 | 2,801 | 2,872 | 71 |
| Carry Forward Contingency – OPEX ⁵ | 500 | 500 | 500 | - |
| Working Capital ⁶ | 3,000 | 3,000 | 3,000 | - |
| Total Commitment for this year | 37,781 | 35,803 | 36,161 | 358 |
| Estimated General Cash Reserve | 16,069 | 15,963 | 16,218 | 255 |

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

¹ Disaster Response Trust – funds set aside for emergency response in the event of disasters

² Loan Reserve Fund – established in 2001 to hold SOE loan repayments to the Crown

³ ADB USD 10 million loan – ADB Economic Recovery Support Program loan funds used to fund Project City

⁴ Trust Account Deposit – funds held on behalf of Land Trust and Workers Compensation Trust

⁵ Carry Forward Contingency – funds tagged for any carry forwards of operating expenditure

⁶ Working Capital – funds tagged to cover overall Government cash flow requirements

Official Development Assistance

The Development Coordination Division (DCD) of MFEM administers all international development assistance. It is estimated that ODA accounts for 14 per cent of the national economy and 28 per cent of the national budget in 2013/14. This chapter has been amended to incorporate the COFOG classifications required for GFS reporting purposes.

New Zealand

The next tranche of NZ Aid funding for Te Mato Vai (TMV) has not yet been received as this is tagged to the submission of a progress report. Spends in TMV this quarter relate to funding received from the CI Government appropriation. Renewable Energy spending is scheduled in Q1-4 with completion expected in May 2015. The Health budget represents the full annual allocation from the NZ GFA (HSV Program) paid over to MOH, so appears as overspend. Gender program spending under the SIF program is below budget. The Gender Steering committee and INTAFF are currently addressing implementation delays. Defense spending under NZ relates to the Te Kukupa refit, funded by Australia but no reporting has been received for the period July-December 2014.

UNDP

The under spend on Environment is due to the GEF Small Grants program not mobilising at December 2014. The Red Cross has now been appointed the National Host Institution (program secretariat). The Ridge to Reef Program is still in design phase and no UN reporting has been received. FAO support for the agriculture sector strategy is in progress. Following the UN programs review after the development partners meeting, a UN reporting system is being established with UNDP "delivery as one" as of the mechanisms.

China

Ropes and floats for the Pearls Program arrived on 23 December 2014 and heavy machinery in January 2015. The spend of \$9 million will be recorded in the March 2015 Quarter, which is on track.

India

Funds have not been received, but it is expected that the Indian High Commission will advise on disbursement in the March Quarter 2015.

EU

The EDF10 TCF is now closed. All EU support is now direct to Treasury through a sector reform contract (budget support).

ADB

ADB spending is progressing to expectation. There has been some shift in focus to cater for Cook Island Government request for technical assistance.

PEC (Japan) funds have been programmed for the southern group Renewable Energy Program with spends expected in 2015 or early 2016. No spend is anticipated this financial year.

SIDS, SOPAC & SPC - No Partner reporting

The Year to Date ODA conversion ratio is at 50% (year 2013-14 was 54%). The annual rate is expected to be slightly higher once partner reporting is completed.

Table 16 ODA Expenditure - December 2014 YTD

| | General Public Service (000) | Defence (000) | Public Order & Safety (000) | Economic Affairs (000) | Environ Protection (000) | Housing & Community Amenities (000) | Health (000) | Recreation, Culture & Religion (000) | Education (000) | Social Protection (000) | TOTAL DONOR (000) |
|----------------------|---------------------------------------|------------------|--------------------------------------|------------------------------|--------------------------------|--|-----------------|---|--------------------|-------------------------------|-------------------------|
| <u>ADB</u> | | | | | | | | | | | |
| YTD Budget | 128 | - | - | 188 | - | - | - | - | - | 46 | 361 |
| YTD Actual | - | - | - | 101 | - | - | - | - | - | 118 | 218 |
| \$ Variance | 128 | - | - | 87 | - | - | - | - | - | (72) | 143 |
| % Variance | 100 | - | - | 46 | - | - | - | - | - | (156) | 40 |
| <u>NZAID</u> | | | | | | | | | | | |
| YTD Budget | - | 1,724 | - | 3,838 | 6 | 1,602 | 141 | - | 1,694 | 590 | 9,594 |
| YTD Actual | - | - | - | 4,291 | - | 1,211 | 250 | - | 1,689 | 578 | 8,020 |
| \$ Variance | - | 1,724 | - | (453) | 6 | 391 | (109) | - | 4 | 11 | 1,574 |
| % Variance | - | 100 | - | (12) | - | 24 | (78) | - | 0.3 | 2 | 16 |
| <u>UNDP</u> | | | | | | | | | | | |
| YTD Budget | - | - | - | - | 728 | - | - | - | - | - | 728 |
| YTD Actual | - | - | - | - | 97 | - | - | - | - | - | 97 |
| \$ Variance | - | - | - | - | 631 | - | - | - | - | - | 631 |
| % Variance | - | - | - | - | 87 | - | - | - | - | - | 87 |
| <u>AusAID</u> | | | | | | | | | | | |
| YTD Budget | - | - | - | - | - | - | - | - | - | 34 | 34 |
| YTD Actual | - | - | - | - | - | - | - | - | - | 25 | 25 |
| \$ Variance | - | - | - | - | - | - | - | - | - | 9 | 9 |
| % Variance | - | - | - | - | - | - | - | - | - | 27 | 27 |
| <u>China</u> | | | | | | | | | | | |
| YTD Budget | - | - | - | - | - | 4,488 | - | - | - | - | 4,488 |
| YTD Actual | - | - | - | - | - | - | - | - | - | - | - |
| \$ Variance | - | - | - | - | - | 4,488 | - | - | - | - | 4,488 |
| % Variance | - | - | - | - | - | 100 | - | - | - | - | 100 |

| | General Public Service (000) | Defence (000) | Public Order & Safety (000) | Economic Affairs (000) | Environ Protection (000) | Housing & Community Amenities (000) | Health (000) | Recreation, Culture & Religion (000) | Education (000) | Social Protection (000) | TOTAL DONOR (000) |
|------------------------------|---------------------------------------|------------------|--------------------------------------|------------------------------|--------------------------------|--|-----------------|---|--------------------|-------------------------------|-------------------------|
| <u>FAO&FFA</u> | | | | | | | | | | | |
| YTD Budget | - | - | - | 74 | - | - | - | - | - | - | 74 |
| YTD Actual | - | - | - | - | - | - | - | - | - | - | - |
| \$ Variance | - | - | - | 74 | - | - | - | - | - | - | 74 |
| % Variance | - | - | - | 100 | - | - | - | - | - | - | 100 |
| <u>India</u> | | | | | | | | | | | |
| YTD Budget | - | - | - | - | - | 38 | - | - | - | - | 38 |
| YTD Actual | - | - | - | - | - | - | - | - | - | - | - |
| \$ Variance | - | - | - | - | - | 38 | - | - | - | - | 38 |
| % Variance | - | - | - | - | - | 100 | - | - | - | - | 100 |
| <u>EU</u> | | | | | | | | | | | |
| YTD Budget | 12 | - | - | - | 89 | - | - | - | - | - | 101 |
| YTD Actual | 54 | - | - | 28 | 19 | - | - | - | - | - | 102 |
| \$ Variance | (42) | - | - | (28) | 70 | - | - | - | - | - | (0.3) |
| % Variance | (345) | - | - | - | 78 | - | - | - | - | - | (0.3) |
| <u>PEC (Japan)</u> | | | | | | | | | | | |
| YTD Budget | 250 | - | - | - | - | - | - | - | - | - | 250 |
| YTD Actual | - | - | - | - | - | - | - | - | - | - | - |
| \$ Variance | 250 | - | - | - | - | - | - | - | - | - | 250 |
| % Variance | 100 | - | - | - | - | - | - | - | - | - | 100 |
| <u>SIDS,SPC,SOPAC</u> | | | | | | | | | | | |
| YTD Budget | - | - | - | 192 | - | - | - | - | - | - | 192 |
| YTD Actual | - | - | - | - | - | - | - | - | - | - | - |
| \$ Variance | - | - | - | 192 | - | - | - | - | - | - | 192 |
| % Variance | - | - | - | 100 | - | - | - | - | - | - | 100 |

| | General Public Service (000) | Defence (000) | Public Order & Safety (000) | Economic Affairs (000) | Environ Protection (000) | Housing & Community Amenities (000) | Health (000) | Recreation, Culture & Religion (000) | Education (000) | Social Protection (000) | TOTAL DONOR (000) |
|-------------------------------------|---------------------------------------|------------------|--------------------------------------|------------------------------|--------------------------------|--|-----------------|---|--------------------|-------------------------------|-------------------------|
| <u>UN(UNFPA.UNADAPT.WHO)</u> | | | | | | | | | | | |
| YTD Budget | - | - | - | - | 877 | - | 126 | - | - | - | 1,003 |
| YTD Actual | - | - | - | 5 | 213 | - | - | - | - | - | 217 |
| \$ Variance | - | - | - | (5) | 665 | - | 126 | - | - | - | 786 |
| % Variance | - | - | - | (100) | 76 | - | 100 | - | - | - | 78 |
| <u>GLOBAL</u> | | | | | | | | | | | |
| YTD Budget | - | - | - | - | - | - | 23 | - | - | - | 23 |
| YTD Actual | - | - | - | - | - | - | - | - | - | - | - |
| \$ Variance | - | - | - | - | - | - | 23 | - | - | - | 23 |
| % Variance | - | - | - | - | - | - | 100 | - | - | - | 100 |
| <u>GEF</u> | | | | | | | | | | | |
| YTD Budget | - | - | - | 15 | 170 | - | - | - | - | - | 185 |
| YTD Actual | - | - | - | 23 | 64 | - | - | - | - | - | 87 |
| \$ Variance | - | - | - | (8) | 106 | - | - | - | - | - | 98 |
| % Variance | - | - | - | 100 | 62 | - | - | - | - | - | 53 |
| <u>UNESCO</u> | | | | | | | | | | | |
| YTD Budget | 21 | - | - | - | - | - | - | - | - | - | 21 |
| YTD Actual | 71 | - | - | - | - | - | - | - | - | - | 71 |
| \$ Variance | (50) | - | - | - | - | - | - | - | - | - | (50) |
| % Variance | (235) | - | - | - | - | - | - | - | - | - | (235) |
| <u>TOTAL COFOG</u> | | | | | | | | | | | |
| YTD Budget | 411 | 1,724 | - | 4,306 | 1,870 | 6,128 | 290 | - | 1,694 | 670 | 17,092 |
| YTD Actual | 126 | - | - | 4,447 | 392 | 1,211 | 250 | - | 1,689 | 721 | 8,837 |
| \$ Variance | 286 | 1,724 | - | (141) | 1,478 | 4,916 | 40 | - | 4 | (51) | 8,256 |
| % Variance | 69 | 100 | - | (3) | 79 | 80 | 14 | - | 0.3 | (8) | 48 |

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 airlines remit the departure tax component of tickets sold. |
| 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

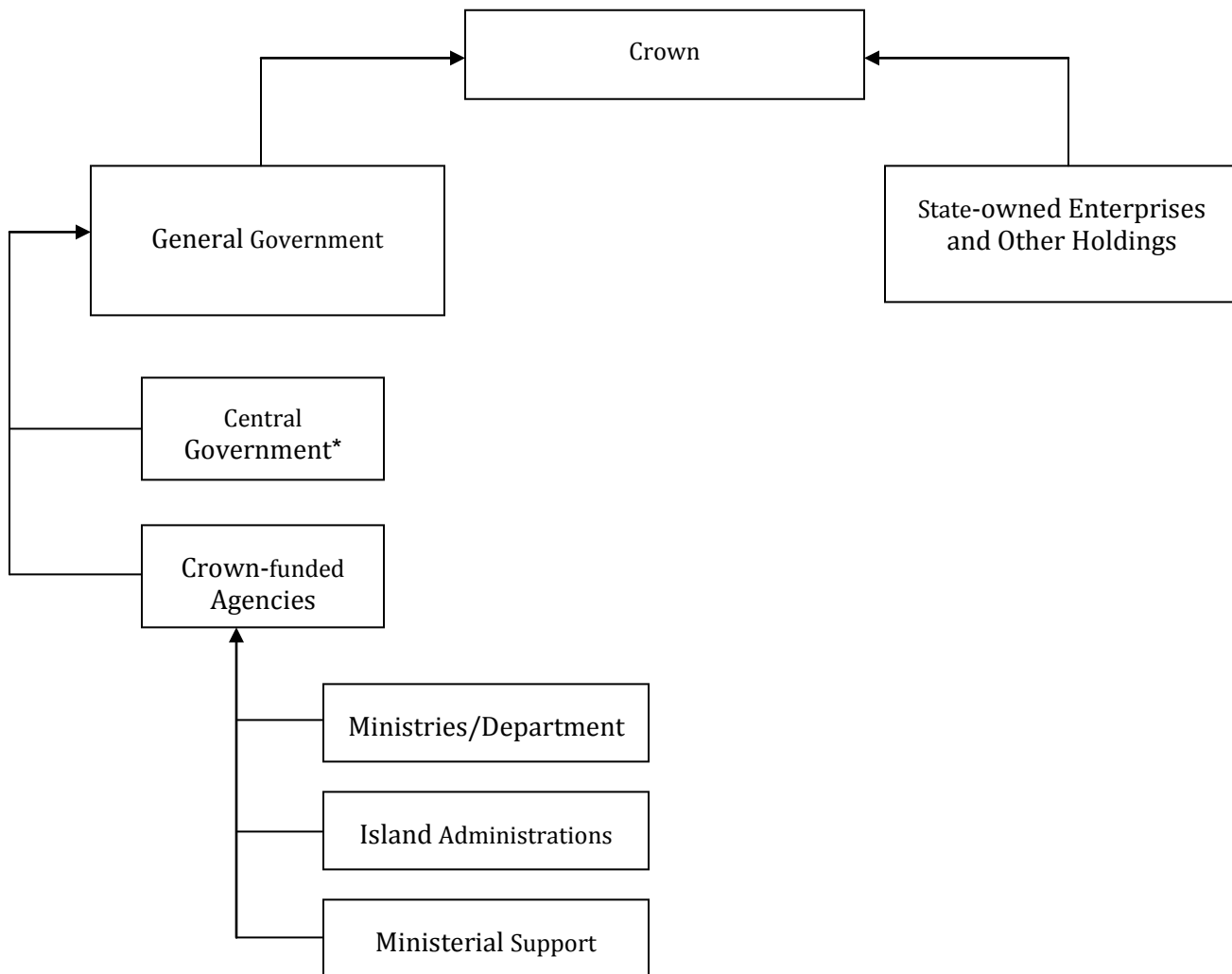
Appropriations are the funding-source provided by the Crown (as a Central Government entity) to allow the recipients (Crown-funded Agencies – see term below) to carry out their purposed operations.

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