

Budget Breakfast

Islander Hotel
Thursday 30 October
Rarotonga

Today's Presentation

- The Bottom Line Numbers
- Revenue
- Expenditure
- Capital Expenditure and Affordability
- Debt
- Economic Performance
- Official Development Assistance
- Questions/Discussion

The Bottom Line Numbers

The State of the Operational Budget

(\$000)	2013/14 (Actual)	2014/15 Budget	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast
Underlying Revenue	119,141	123,203	123,549	121,987	123,840
Underlying Expenditure	115,568	123,195	123,639	125,060	124,175
Underlying Operating Balance	3,573	9	-90	-3,072	-335

% of GDP	2013/14 (Actual)	2014/15 Budget	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast
Underlying Revenue	31.2	31.1	30.9	31.4	31.3
Underlying Expenditure	30.0	31.1	30.9	32.1	31.4
Underlying Operating Balance	1.1	0.0	0.0	-0.8	-0.1

GFS Revenue

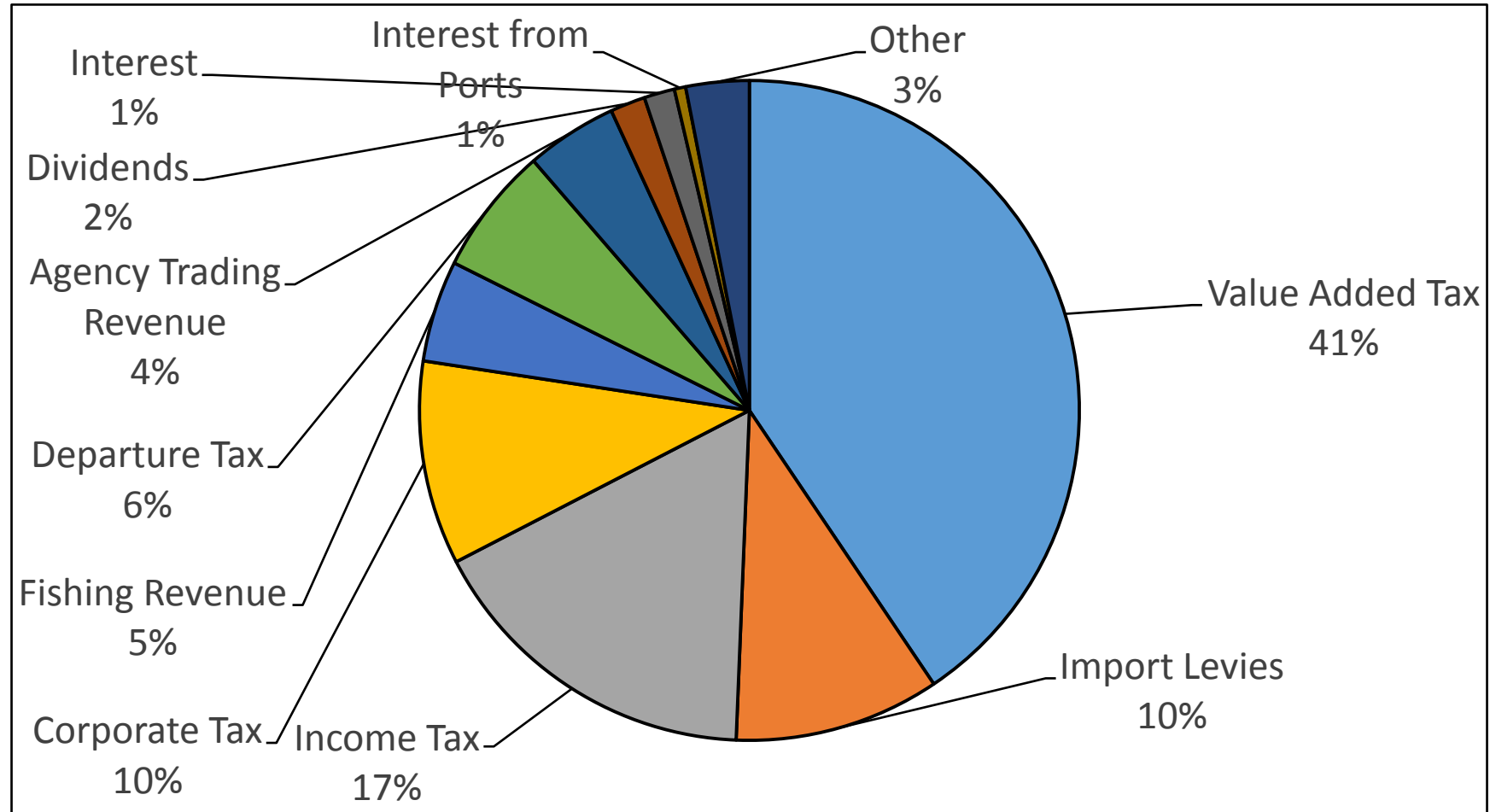
	2014/15	2015/16	2016/17	2017/18
	Budget	Estimate	Projected	Projected
Total revenue	186,966	158,299	146,471	148,324
Taxes	108,695	110,415	108,825	110,704
Social contributions	20	20	20	20
Grants	63,762	34,749	24,484	24,484
Current	17,597	12,629	9,549	9,549
Capital	46,166	22,120	14,935	14,935
Other revenue	14,488	13,114	13,142	13,115

GFS Expenses

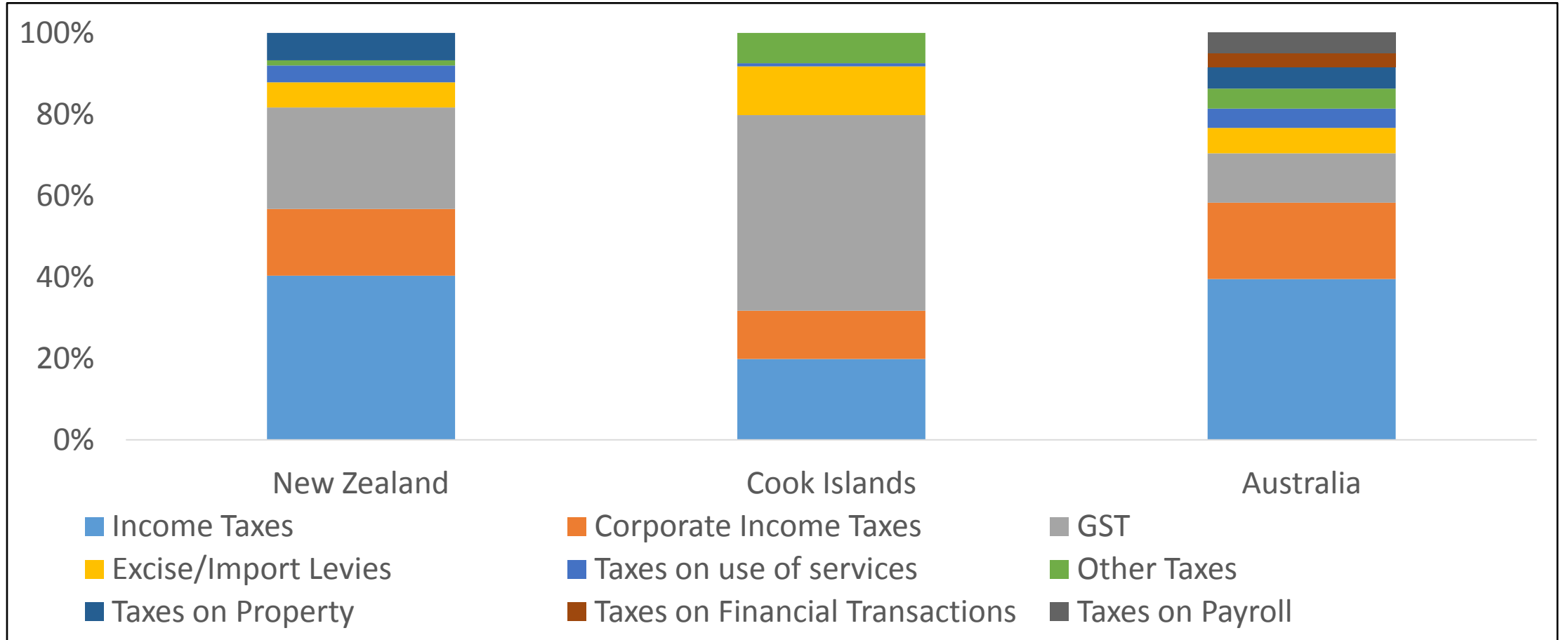
	2014/15	2015/16	2016/17	2017/18
	Budget	Estimate	Projected	Projected
TOTAL EXPENSE	140,792	136,268	134,609	133,724
Compensation of employees	48,704	48,692	48,689	48,685
Use of goods and services	42,312	37,668	34,078	33,319
Depreciation	9,785	9,758	11,755	11,771
Interest	2,137	2,285	2,223	2,085
Subsidies	15,026	15,026	15,026	15,026
Grants	0	0	0	0
Social benefits	17,501	17,570	17,570	17,570
Other expense	5,323	5,267	5,267	5,267
NET OPERATING BALANCE	46,174	22,030	11,862	14,600

Our Revenues

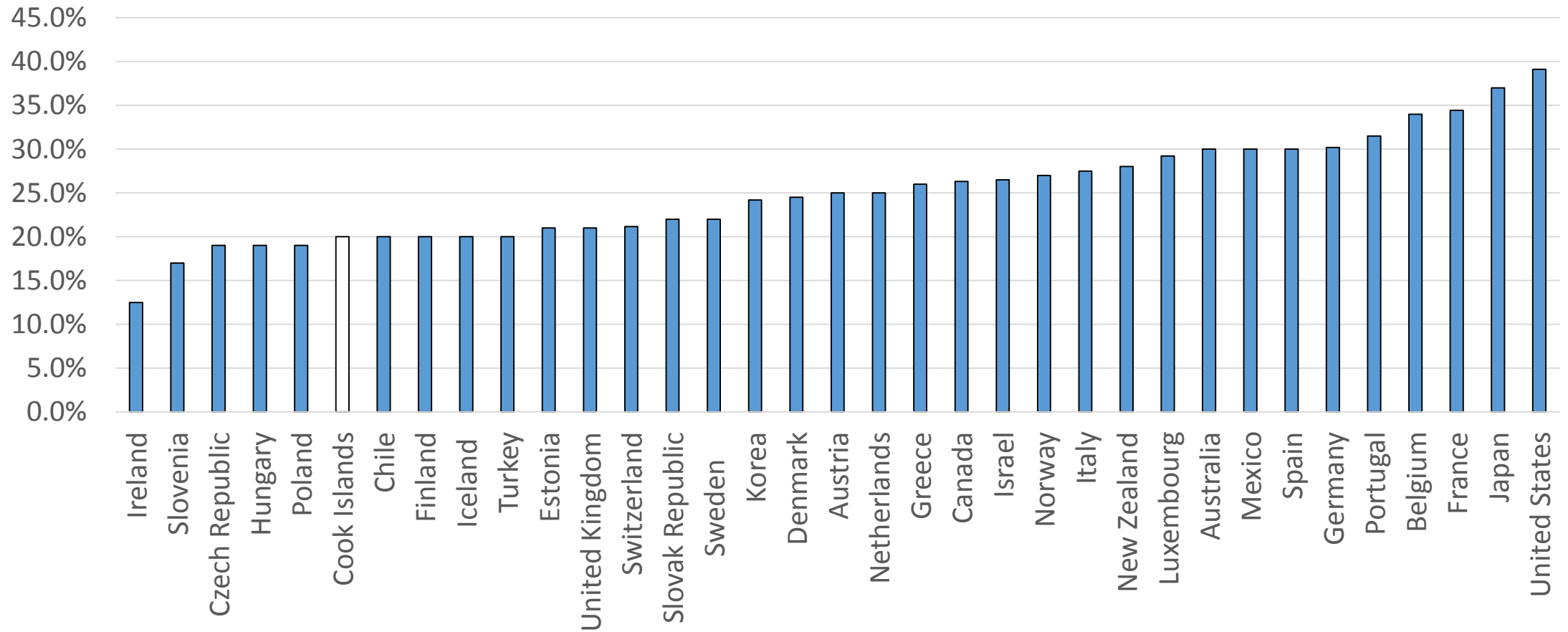
Underlying Revenue \$123 million



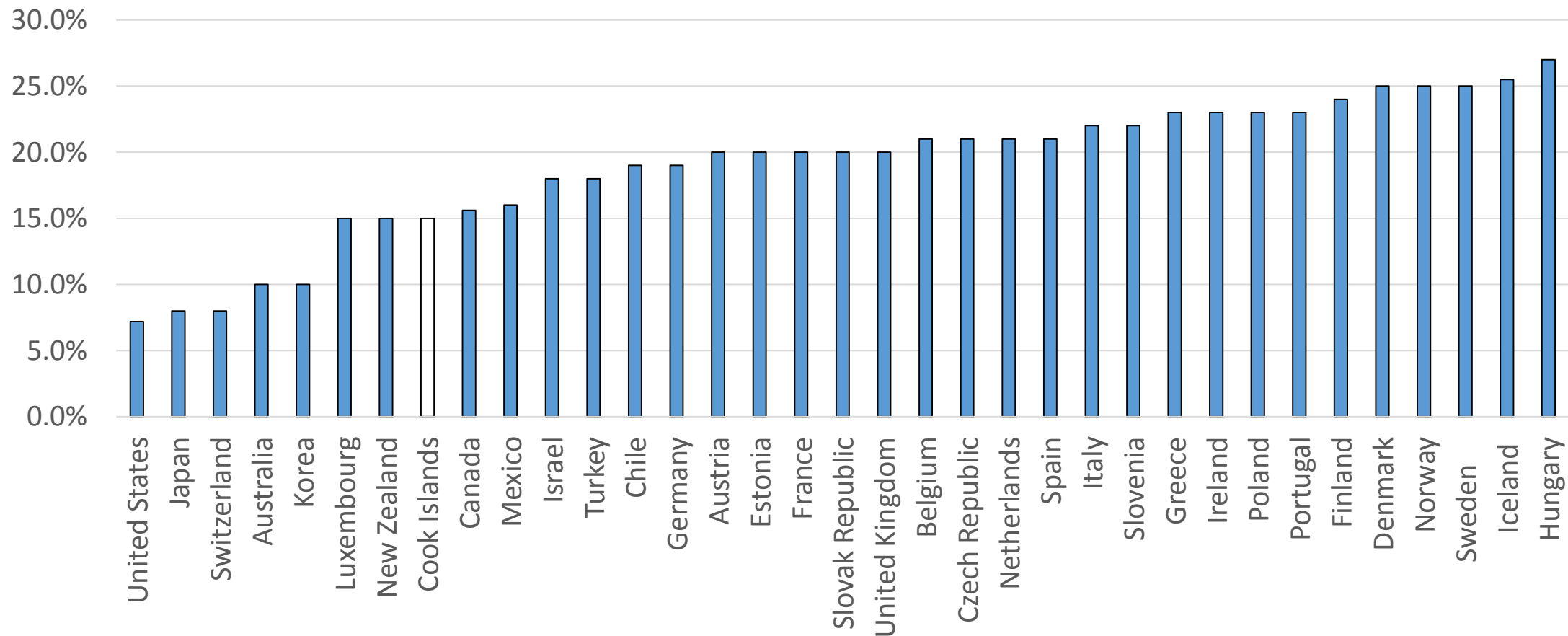
How does our Tax Effort Compare?



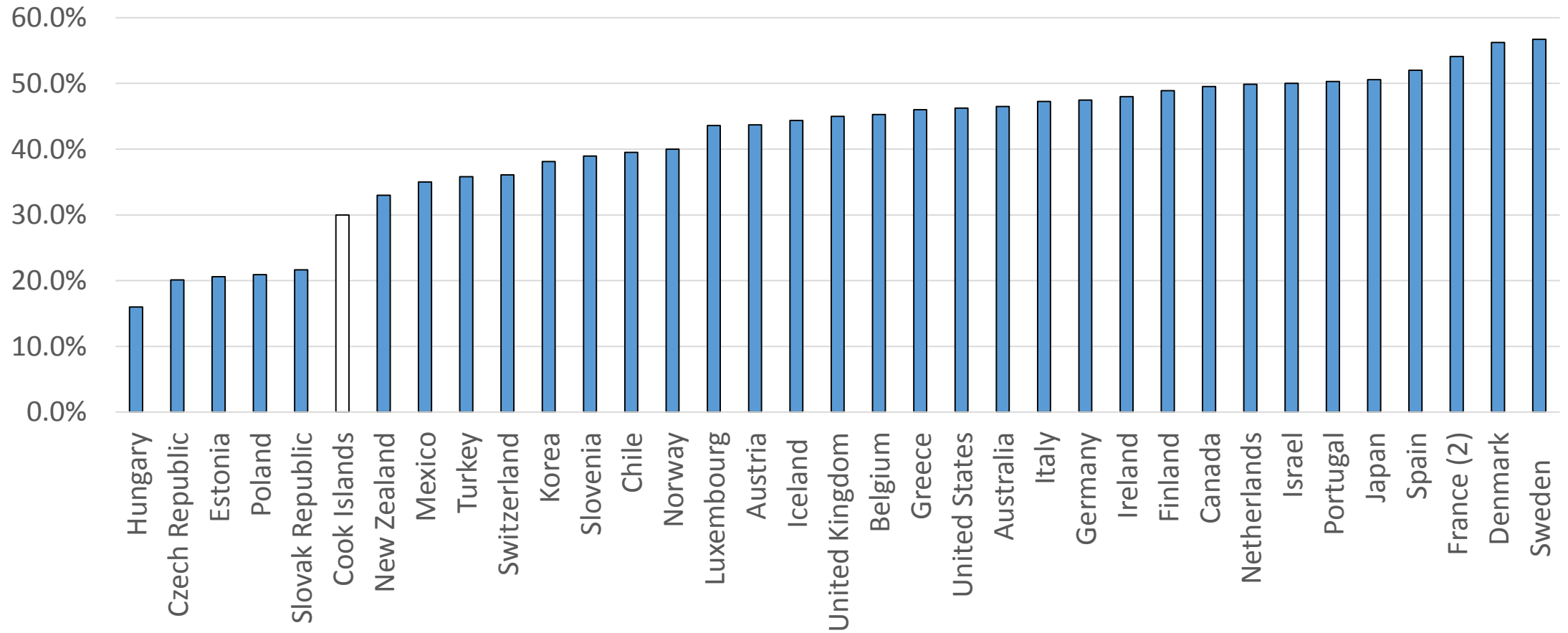
Top Marginal Corporate Tax Rate



VAT Consumption Tax Rate



Top Marginal Income Tax Rate



Taxation Profile

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
VAT	41.4	50.0	50.5	49.2	50.0
Income tax	22.8	20.7	21.3	20.7	21.1
Company tax	11.7	12.3	12.4	12.1	12.3
Import levies	11.5	12.4	12.6	13.1	13.4
Withholding tax	1.5	0.0	0.0	0.0	0.0
Departure tax	7.6	7.7	8.0	8.2	8.4
Total	96.5	103.1	104.8	103.2	105.1

Changes to Revenue this Year

- One off Fishing Fines of \$1.2 million and sale of currency \$0.130 million.
- Departure Tax automatically increased from \$65.00 to \$66.30 on 1 July 2014.
- Removal of drivers licence fees – ongoing cost of around \$0.350 million per annum
- One off refund of income back to people on New Zealand Superannuation at a cost of \$0.4 million.
- Import Levies on Tobacco had the last scheduled increase of 33 per cent on 1 July 2014.

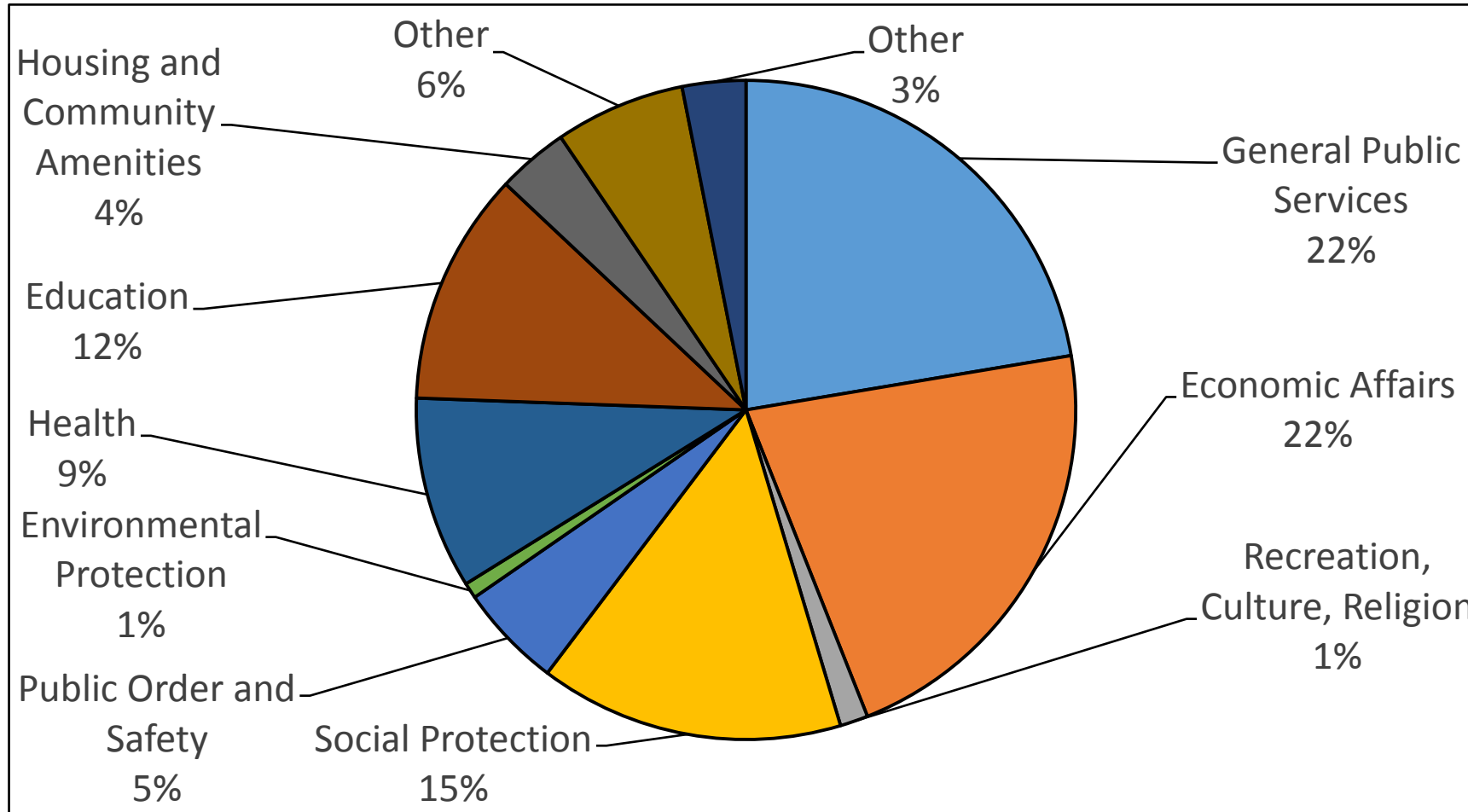
Threats to Revenue

The rest on economic activity, the budget has four scenarios

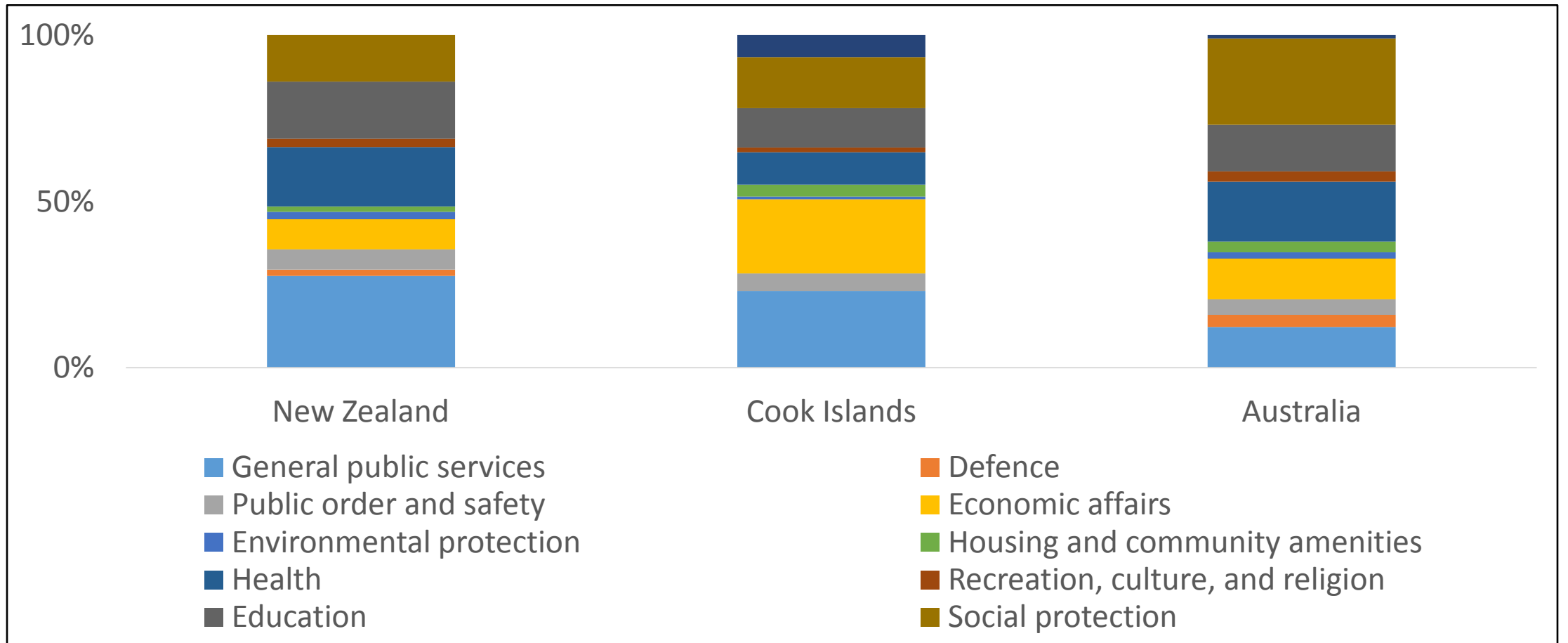
- Capital projects experience slippage similar to that experienced in the last two years
- Local capacity to carry out capital projects is approaching its limits
- Weaker than expected tourism arrivals
- Suppliers of tobacco products stretch out inventories till the end 2015/16

Our Recurrent Expenditure

Underlying Expenditure \$123 million



How does our Expenditure Compare



Overall Spending

Education

- \$14.5 million (Public Schools, Private Schools, Scholarships)

Health

- \$13 million (Operations, pharmaceuticals and specialist visits)

Tourism

- \$18 million (CITC, Underwrite and Marketing)

Welfare (Pensions, child benefit, allowances)

- \$17 million

Overall Spending

Police

- \$4 million

Fiftieth Anniversary

- \$1 million (Te Maeva Nui Celebrations and fiftieth anniversary)

Pa Enea Transfers

- \$24 million (Including \$5.5 million of Trading Revenue)

New Initiatives

Description	2014/15	2015/16	2016/17	2017/18	Total
Annual PAYE funding for overseas staff	55	55	55	55	220
Tourism fleet marketing	250	250	0	0	500
Disaster Response Fund	100	0	0	0	100
Increase 70 yoa pension 15 per month	60	120	120	120	420
Internal Audit Function at MFEM	20	35	35	35	125
Tax Outreach Officer	20	35	35	35	125
Nursing School	50	97	97	97	341
Self-Government Golden Anniversary	250	250	0	0	500
Petition and By-election Costs	50	0	0	0	50
Pa Enuā Education grant assistance	112	112	112	112	447
Severance Pay-Civil List	50	0	0	0	50
Transfer HOMs POBOC to OPSC	(1,145)	(1,145)	(1,145)	(1,145)	(4,579)
HOMs POBOC	1,145	1,145	1,145	1,145	4,579

New Initiatives

Description	2014/15	2015/16	2016/17	2017/18	Total
Transfer Seabed POBOC to Ministry	(340)	(290)	(290)	(290)	(1,210)
Seabed POBOC	123	123	123	123	493
Seabed POBOC	212	212	212	212	847
Increase trading revenue adjustment Justice	32	32	32	32	129
Cease retiree scheme	(20)	(20)	(20)	(20)	(80)
Community Development Fund	100	100	100	100	400
Increase to International Subscriptions	4	4	4	4	16
Local Government Elections	35	0	0	0	35

Our Capital Expenditure

Capital Spending by Cook Islands Government

Around \$47 million in spending over two years

- \$2 million for bridges and drainage in Rarotonga
- \$5 million for Project City
- \$1 million for Atiu sealing of runway
- \$1.25 million Rutaki Foreshore revetment (15/16)
- \$5 million for sanitation in Rarotonga and Aitutaki
- \$4.7 million for renewable energy
- \$16 million for Te Mato Vai
- \$0.9 million water tank subsidy Rarotonga (14/15)

How will we pay for the Capital

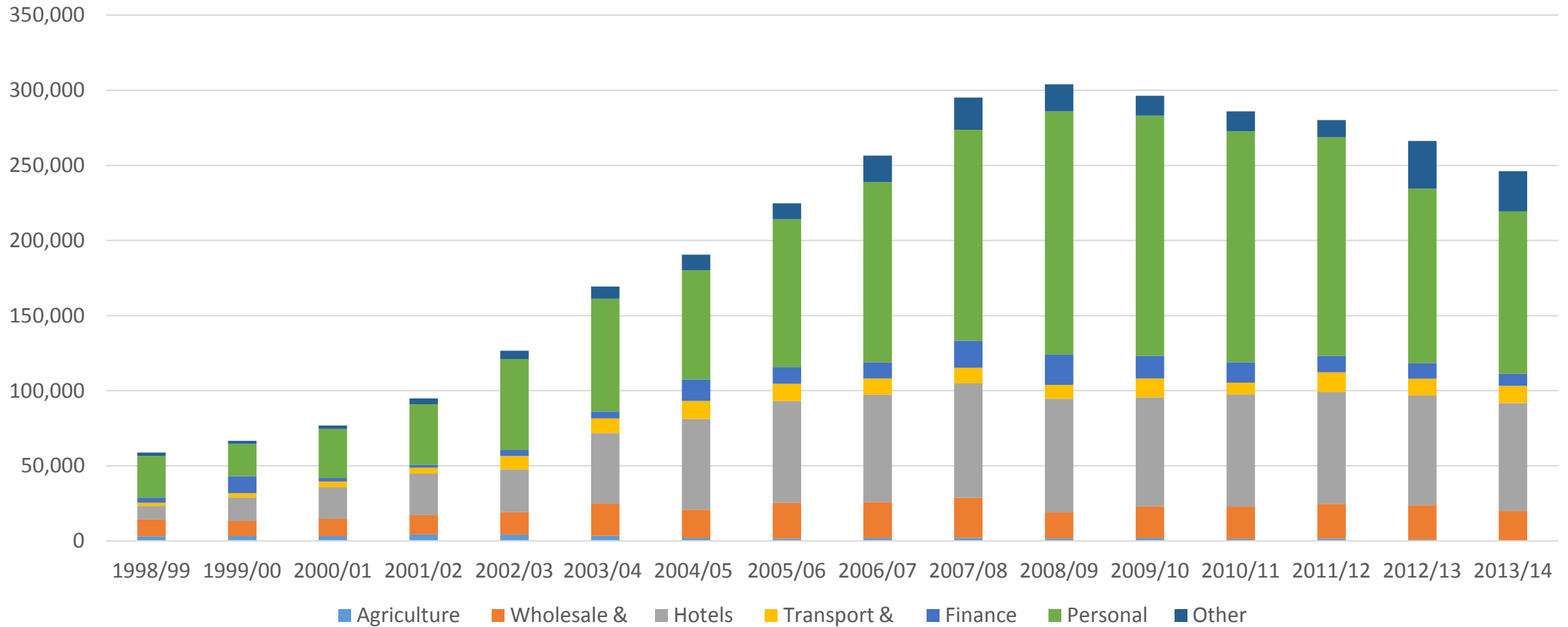
- Depreciation of around \$18 million over the next two years which is not given to agencies.
- ADB Economic Recovery Programme of around \$11 million.
- Unencumbered cash reserves of around \$16 million.

Our Debt

Debt in the Cook Islands

- Currently, the Gross public sector debt of \$94 million is just under 22 per cent of estimated GDP for 2014/15.
- Taking the Loan Repayment Fund Amount of \$16.1 brings this number down to \$78 million approaching 20 per cent of GDP.
- Total private sector debt to local banks was just under double net public sector debt at \$170.5 million, or 43 per cent of GDP.

Non Public Sector Debt



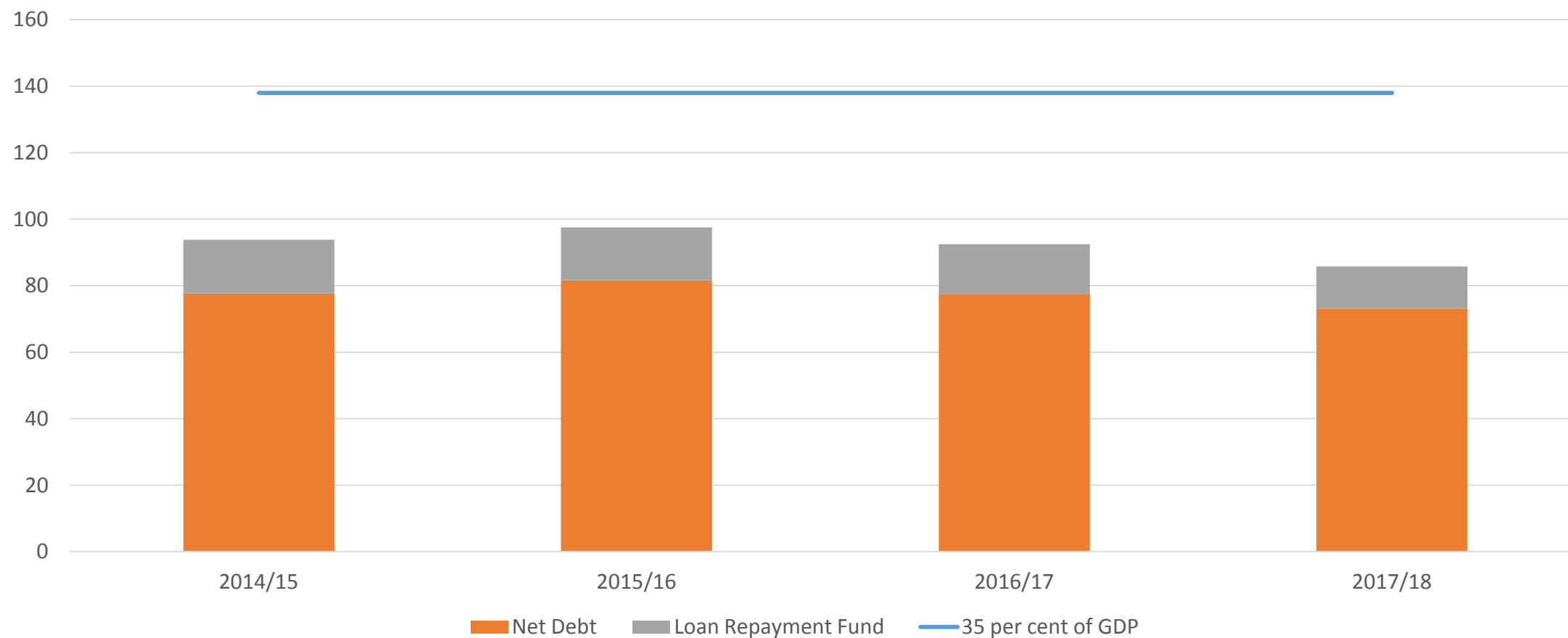
Level of Debt

Current Statement	2014/15 Proj	2015/16 Proj	2016/17 Proj	2017/18 Proj
Statement of Borrowings	\$m	\$m	\$m	\$m
Gross Crown Debt, End of FY	93.7	97.5	92.6	85.9
... net of loan reserves, End of FY	77.7	81.6	77.4	73.1
as percentage of GDP	19.6%	20.4%	19.9%	18.5%
Loan Repayment Reserves Held	16.1	15.9	15.1	12.7
Gross Debt Servicing	6.2	6.3	6.9	8.5
Net Debt Servicing	4.2	4.2	4.4	5.9
... as percentage of Total Revenue	3.4%	3.4%	3.6%	4.8%

What is the Limit on Debt

- No set debt limit, we use a framework of 35 per cent of GDP this equates to \$138 million,
- MFEM view is that net public sector debt could sit at levels of \$119 million (30 per cent of GDP – need a buffer in case of a natural or economic shock).
- Incurred debt needs to be rigorously tested to ensure that it is focussed on investments that provide a robust economic rate of return which would exceed the cost of borrowing.

Debt to GDP at 2014/15 GDP Levels



Biggest Risk to Debt is Foreign Exchange

The biggest risk to Debt is volatile movements in the New Zealand dollar against the RMB (China) and SDR (mostly USD in NZED)

- How do we mitigate?

The best way is to convert into NZD is when there is a good opportunity. But it is a long process and has interest implications on some of the older loans need to be taken into account, ie fixed 1 per cent v a variable rate under the NZD

Loan Repayment Fund

- Currently under Tender – hopefully finalised in late November early December.
- MFEM have prepared the first report as required by the law to inform on the proposed loan from the ADB for renewable energy investments across the southern group of the Cook Islands.

Proposed New Loan

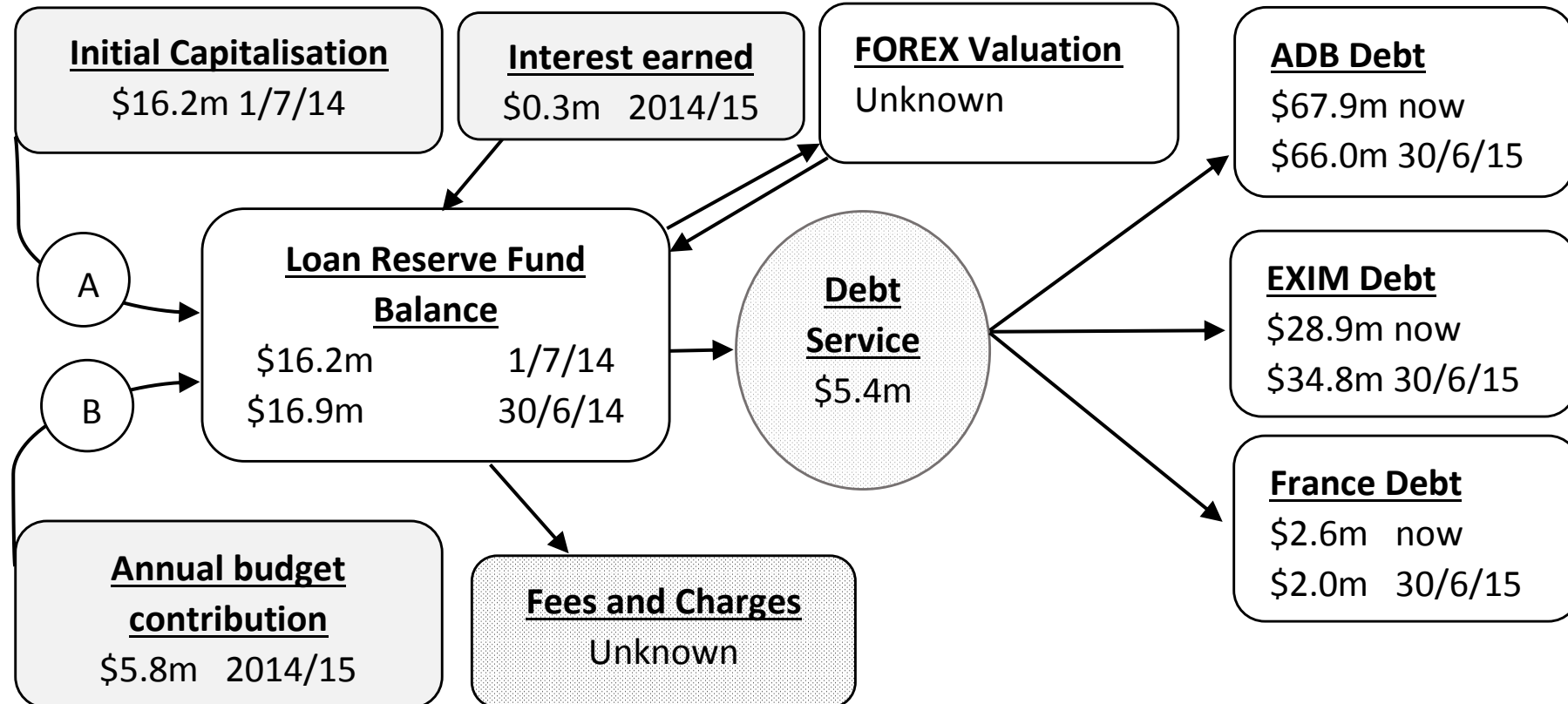
A \$13 million loan with the ADB (In NZD) coupled with grant funding from the European Union and PEC funding from Japan (but outlined as Cook Islands money) totalling \$27.8 million will:

- support the construction of up to six solar photovoltaic power plants in the Cook Islands Southern group (Mauke, Mitiaro, Mangaia, Atiu, Aitutaki and Rarotonga) ;
- provide institutional strengthening to the Office of the Energy Commissioner (OEC) and Renewable Energy Development Division (REDD); and
- provide project management support to the power utilities, Te Aponga Uira (TAU), and REDD to implement core and non-core subprojects.

Renewable Energy Investment/Loan

Source	(\$million)	Share of total
<i>Asian Development Bank</i>		
Ordinary Capital Resources (loan)	12.98	48%
European Commission (grant)	8.37	31%
Government of the Cook Islands*	5.83	21%
Total	27.18	100%

The Loan Repayment Fund



Our Economic Performance

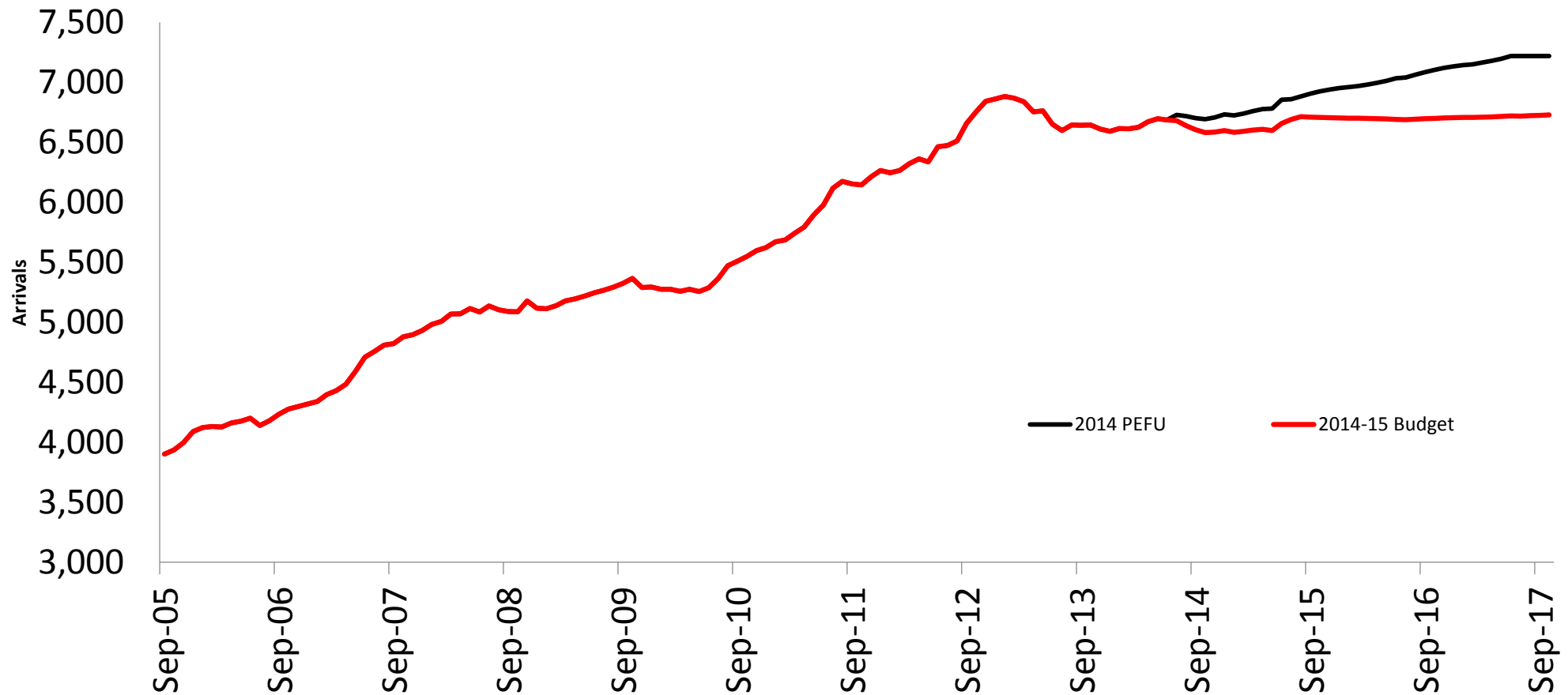
Economic Growth

	2013/14		2014/15		2015/16	
	2014 PEFU	2014-15 Budget	2014 PEFU	2014-15 Budget	2014 PEFU	2014-15 Budget
Nominal GDP growth (per cent)	4.8	2.6	3.9	4.5	1.9	1.1
Real GDP growth (per cent)	2.2	2.0	-0.7	2.9	-1.1	-0.3

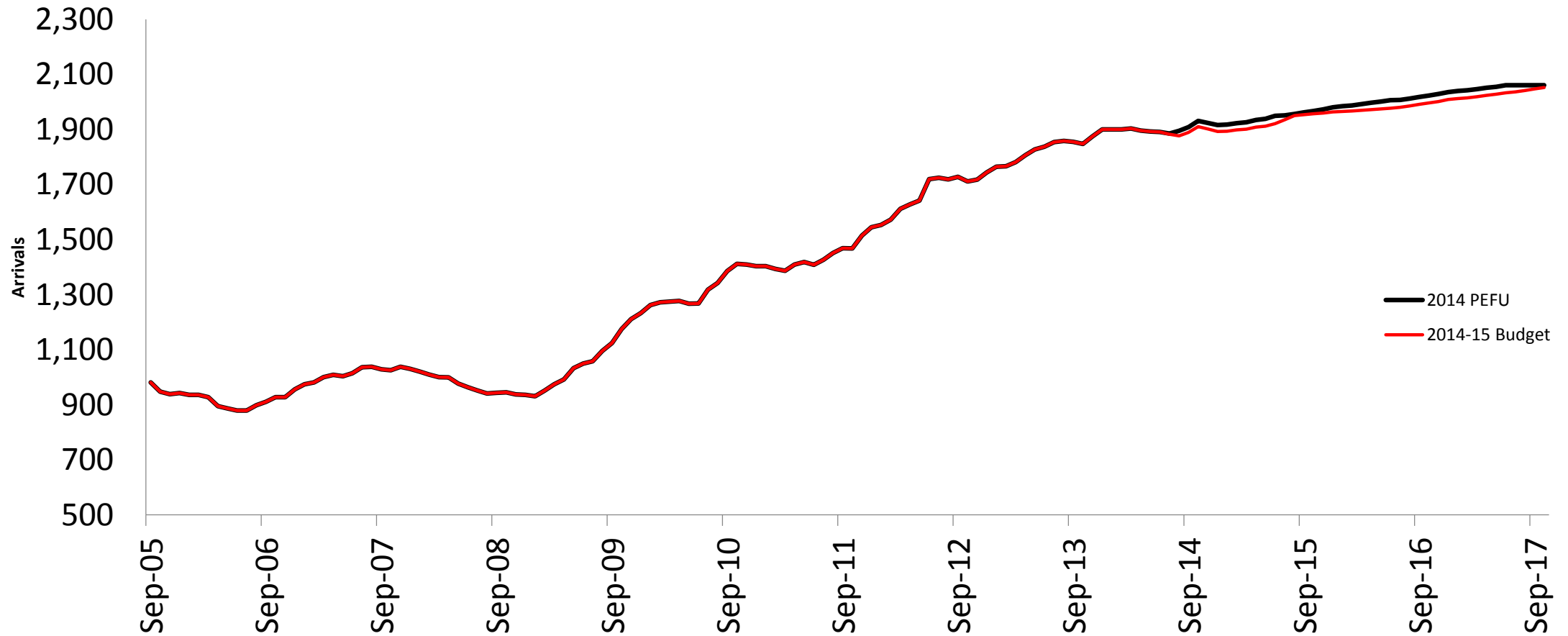
Total Tourism Numbers

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2012/13	39,113	31,571	20,493	29,732	120,909
2013/14	39,031	31,902	21,294	30,627	122,854
2014/15	37,722	31,724	21,300	31,400	122,200
2015/16	39,100	31,600	21,200	31,300	123,200
2016/17	39,300	31,900	21,300	31,600	124,100
2017/18	39,500	32,200	21,500	31,900	125,000

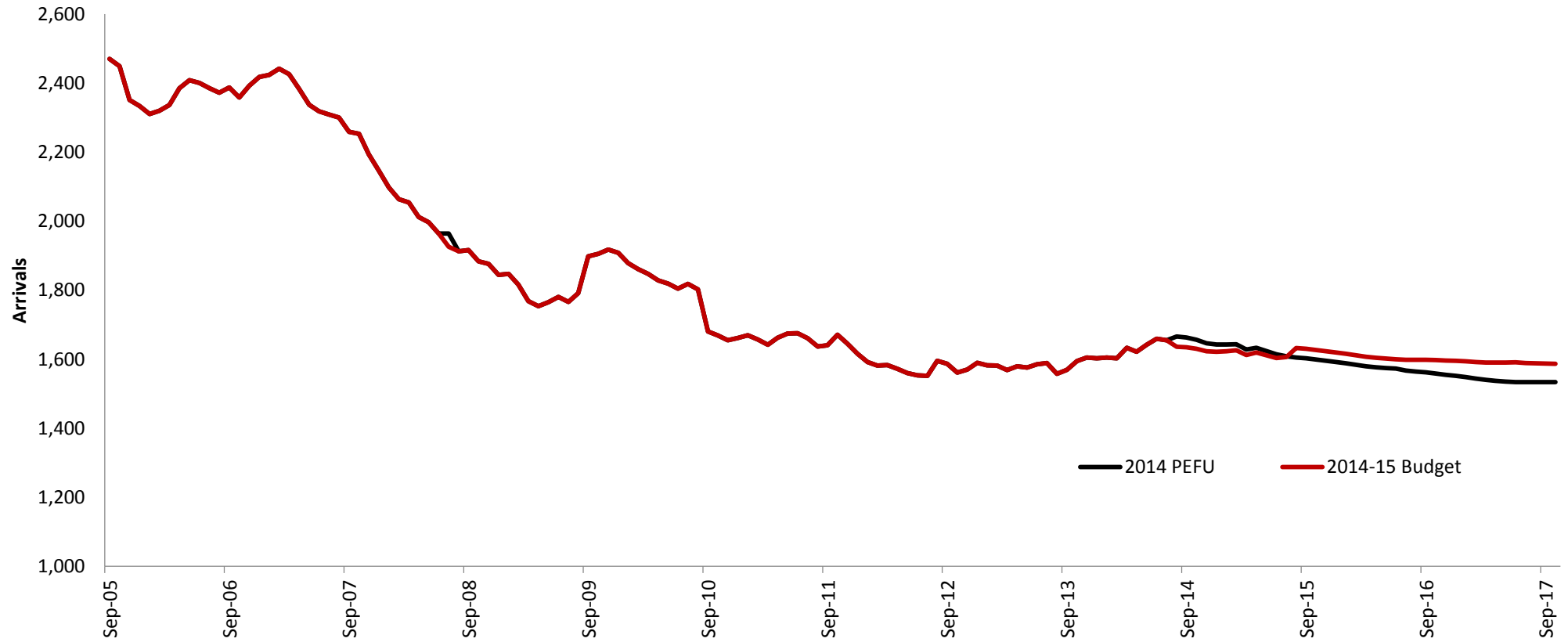
New Zealand monthly visitor arrivals 2005-17



Australia monthly visitor arrivals 2005-17



Other major markets monthly arrivals (12 month moving average) 2005-2017



Official Development Assistance

Where is the ODA going?

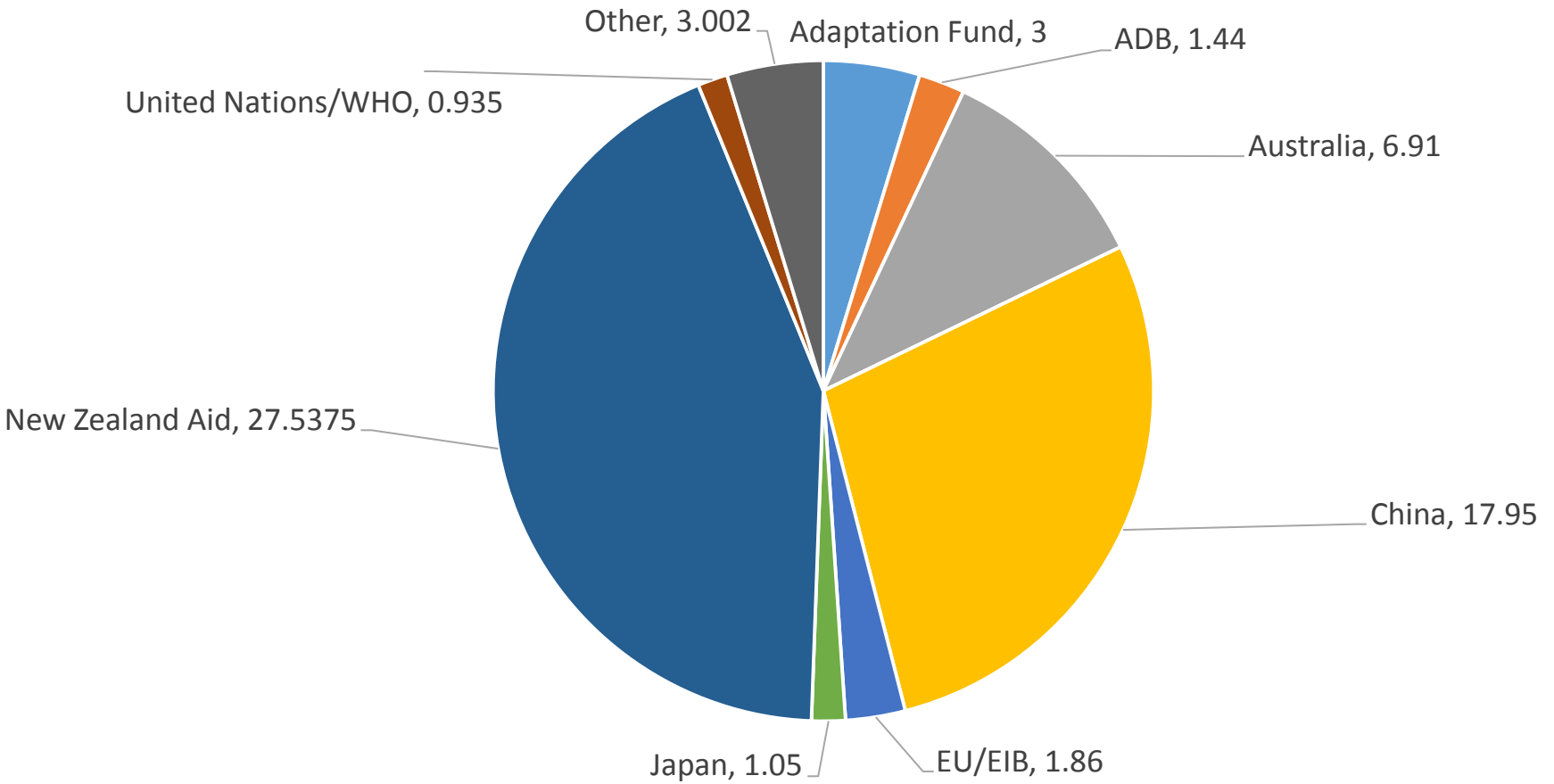
ODA in 2014/15 is programmed at a value of \$63 million, last year we spent \$32.2 million. However this year we have some significant projects coming through

New Zealand – Renewable Energy Northern Group, Te Mato Vai, Sanitation, education and Health

Australia – Kukupa refit

China – Heavy Equipment and Nikao Apii school

Who is Providing the ODA



Website Details

WWW.MFEM.GOV.CK

Budget Book Numbers 1, 2 and 3.

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