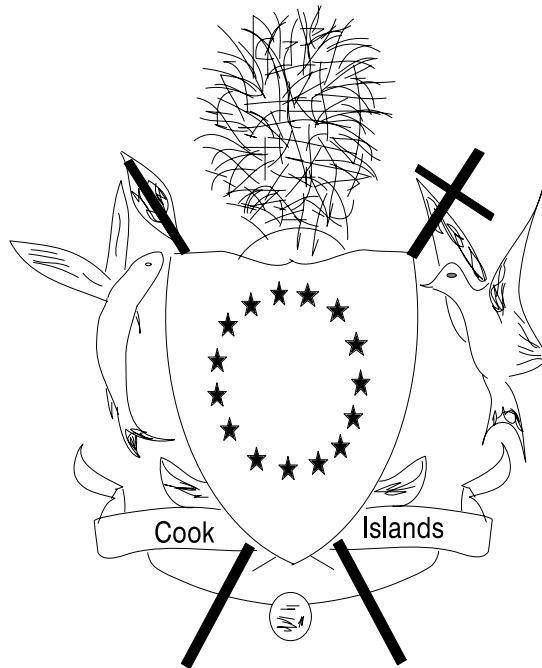

The Cook Islands

BUDGET POLICY STATEMENT

2008/2009



Government of the Cook Islands

March 2008

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STATEMENT OF FISCAL RESPONSIBILITY

This Budget Policy Statement (BPS) is prepared in accordance with Section 11 of the Ministry of Finance and Economic Management Act 1995-96, which states that the Minister of Finance shall no later than the 31st day of March cause a Budget Policy Statement to be published.

In accordance with Section 30(2) of the Ministry of Finance and Economic Management Act 1995-96, the Minister of Finance and the Financial Secretary shall prepare and sign a Statement of Responsibility for the financial statements.

The integrity of the disclosures and consistency with the requirements of the Ministry of Finance and Economic Management Act 1995-96 are warranted in relation to financial statements included within this Budget Policy Statement.

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Sir. Terepai Maoate
Minister of Finance

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Sholan Ivaiti
Financial Secretary

BUDGET POLICY STATEMENT 2008/09

1.1 INTRODUCTION

The economic growth of the Cook Islands has been consistent over recent years. Our past prudent fiscal management has been successful and has seen our Standard and Poor's rating improve from 'BB-' to 'BB' with a positive outlook. This indicates that Government is succeeding in its goal of providing a stable fiscal platform to ensure an enabling environment for private sector growth. Continued strong oversight of Government's fiscal policy development and delivery in conjunction with robust budgetary processes will help the Cook Islands achieve our long term national goals.

In the fiscal period 2007/2008, we began the process of aligning our nation's yearly budget to the 'Te Kaveinga Nui and National Sustainable Development Plan (NSDP), thus, providing the development framework to sustain growth in the long run.

Budget 2008/2009 builds upon the foundation that was laid in the last fiscal period. This fiscal year will be another vital step towards achieving the long term goals and the national vision of our country.

In this Budget Policy Statement (BPS), Government sets out its:

- Medium Term Fiscal Policy;
- Key Policy Objectives derived from the NSDP strategic framework; and
- Intentions for the Budget 2008/2009.

1.2 MEDIUM TERM FISCAL POLICY

The Ministry of Finance & Economic Management Act 1995-96 sets out the long term principles to ensure fiscal responsibility on behalf of government in managing and sustaining a healthy macroeconomic environment for the Cook Islands.

These principles as set out in the Act are as follows:

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

As such Governments Medium Term Fiscal Policy is to

- Continue to run operating surpluses from sustainable revenue streams with a tight reign on recurrent expenditures
- Undertake new borrowings to finance infrastructure requirements in accordance with Governments existing commitments within prudent debt levels
- Continue to build sufficient debt reserves to cover such borrowings and maintain a healthy net worth position
- Maintain a healthy taxation regime, whilst reassessing the total removal of protective import levies with a focus on maintaining the sustainability of smaller domestic suppliers faced with international competition, and further to review taxation regimes in the outer islands with a focus on providing incentives that will improve working environments that does not significantly impact on the revenue streams of Government.

As above, Governments medium term fiscal policy is to maintain macroeconomic stability that assists in facilitating and promoting a favorable economic environment that focuses on private sector led growth.

1.3 KEY POLICY OBJECTIVES

This Budget Policy Statement builds upon the eight key policy objectives of the last fiscal period that are captured within the NSDP strategic framework:

1. Strengthen Institutional Support
 - Strengthen the machinery of Government to achieve our key policy objectives and to support the implementation of the NSDP
2. Social Well-being and Cultural Harmony
 - Improve the social wellbeing of our people by investing in the social development of our nation and in harmony with our culture
3. Good Governance
 - Enhance good governance practises for greater public confidence in our governance systems
4. Economic Growth
 - Strive for a sustainable economy by creating an environment conducive to growth to greater enhance our private sector led economy
5. Sustainable natural resources and environment
 - Ensure that our economic growth is in harmony with our environment while being mindful of the effects of climate change on our sustainable development
6. Affordable Infrastructure
 - Implement the Preventative Infrastructure Master Plan to support the economic, social and environment sustainability of our nation

7. Secure and resilient Community
 - Provide for a safe, secure and resilient community
8. Effective Foreign Affairs
 - Maintain and strengthen our Foreign Affairs and Immigration Policy

1.4 GOVERNMENTS INTENTIONS FOR BUDGET 2008/09

Through Budget 2008/2009 we intend to progress our overarching policy objectives targeting key priority areas identified by Government.

STRENGTHEN INSTITUTIONAL SUPPORT

Policy Objective: Strengthen the machinery of Government to achieve our overarching policy objectives and to support the implementation of the NSDP

Governance Framework

Government will institute a well coordinated Governance Framework that encompasses medium term planning, budgeting, monitoring and evaluation of the entire public service.

This framework will ensure the effective implementation of Government policy, thus operationalising the National Sustainable Development Plan.

It is accepted that a medium term consideration is relatively new to the way government currently operates; this will require a well planned approach of implementation that is systematically spread over a number of fiscal years. It is expected that this will require a large degree of restructuring of current institutional frameworks by both central and line agencies in order to be more effective and responsive in achieving quality outcomes for Government over the short, medium and long term. This will also include the collection and effective use of baseline data for all sectors as a foundation for monitoring the effectiveness of this framework.

It is a given that building the capacities of the central agencies to drive the development of this framework is paramount.

This will include reviewing and updating the existing legislations of central agencies to become more relevant and effective in providing the means for a whole of government approach to the Governance Framework.

In addition to setting down the road map for the implementation of a Governance Framework, a comprehensive review of the implementation of the National Sustainable Development Plan will be undertaken in January 2009.

Effective Institutional Frameworks

Government is mindful that the Governance Framework will provide a solid foundation for the institutional strengthening of the machinery of Government as a whole. Line ministries will be expected to put into place the necessary institutional frameworks to complement the Governance Framework. Possible changes to organisational structures, legislations, strategies and capacity building to improve the delivery of Government's policy priorities will be supported.

SOCIAL WELLBEING AND CULTURAL HARMONY

Policy Objective: Improve the social wellbeing of our people by investing in their social development in harmony with our culture

Health and Education

Government is committed to the delivery of quality health and education services for our people through the implementation of the Cook Islands Health Strategy and the recently completed National Education Master Plan. We will continue to bring to fruition the recommendations of the Health Management Review by strengthening the institutional framework of the Ministry of Health to ensure effective and efficient delivery of health services.

Human Resources

Government recognises that our human resources development is critical to nation building. In this fiscal period, Government will continue to implement the outcomes of the Tertiary Education Sector Review. Therefore, Government has committed to providing New Zealand and internationally recognised tertiary qualifications through country trades training institutions in 2007-08. This is a milestone for the Cook Islands and Government intends to continue improving the quality and quantity of necessary training programmes that align with national capacity building priorities.

We will continue to explore the most efficient means of implementing a Sector Wide Approach to education and human resource development.

To guide programmes in national capacity building priorities the urgent development of a Human Resources Strategy will be undertaken. This strategy will complement government efforts in economic & social development and ensure that capacity gaps are reduced and as a result efficiencies achieving economic growth are enhanced. As such, Government will ensure that all relevant assistance is utilized accordingly to achieve this strategy.

Government recognises that there are incentives in place for encouraging Cook Islanders to return and contribute to the sustainable growth of our economy. Government is committed to review the effectiveness of these incentives and will complement this exercise through the development of a communication strategy to create awareness of these programs.

Youth

Government has developed the National Youth Policy and will look to implement important facets of this document.

In recognition of the positive contribution that our young people can make to our nation's development, Government will undertake to explore opportunities for strengthening our investment in youth and sports. Government will seek to successfully implement the youth policy by re-establishing the National Youth Council, while seeking avenues for developing policy options for the establishment of Youth Centres on Rarotonga and the Outer Islands.

Welfare Benefit

Government will ensure welfare benefits reflect and respond to the needs of our people given the increased cost of living since the most recent adjustment to benefits. Government intends to review the administration and delivery of all Welfare Benefits to develop a more wholesome policy in this area. It is anticipated that this will drive a new approach to the delivery of Welfare Benefits. A review and possible amendment of the Welfare Act 1989 will commence in 2009-10.

Superannuation

Government intends to ensure that pensions are not the only means whereby the future lifestyle needs of Cook Islanders can be met as they move into retirement. The Cook Islands National Superannuation Fund will play a pivotal role in the coming years and its continued growth is important for the future social wellbeing of our people.

The Elderly

We acknowledge that our older people must be valued and have the right to dignity and security in their senior years. Government will develop a policy to enhance the wellbeing of our senior citizens.

Community-Based Support and Services

NGOs and community organisations deliver the bulk of our social services. In this fiscal period, Government will consider mechanisms for strengthening and institutionalising financial assistance to sustain the delivery of support programmes by NGOs and community-based agencies.

Cost of Living Adjustment

Government is committed to review its policy for providing COLA adjustments across the Public Service as implemented in the 2007/08 Appropriation Amendment and devise the most

appropriate way in which COLA adjustments are provided in future. A COLA Advisory Committee has been formed to conduct this review. Outcomes of the Committees deliberations will be incorporated into the 2008-09 Appropriation and will be expected to reflect treatment of both the public servants as well as those receiving Welfare Benefits.

Job Sizing

The outcome of the reviews on promoting the relevance of the job sizing exercise to the Cook Islands public sector will be considered favourably. This is in the spirit of promoting relativity across the public service in line with good employer principles.

GOOD GOVERNANCE

Policy Objective: Enhance good governance practices for greater public confidence in our governance systems

Law and Order

Budget 2008/2009 has a strong commitment to enhancing the performance and productivity of all of Government including the agencies that uphold justice, law and order.

The implementation of the recommendations contained within the Robinson Police Review will continue during this fiscal year primarily focusing on addressing the inadequacies in human resources, information technology and reviewing outdated legislations to enhance the performance of our police force.

We have in recent times experienced the rise of criminal behaviour by juveniles and people at risk. We will investigate the issues surrounding the rise of crime to determine possible solutions which may include the development of an 'Open Unit' for juveniles and other people at risk.

Recent times have also demonstrated the vulnerability of our people and communities to exploitation. Government will push for the introduction of various new legislations which include but are not limited to; Intellectual Property, Copyright and Industrial Property legislations. This fiscal period will also see the continuation of the review of land management with particular focus on the Land Use Act and will consider the introduction of official property valuations.

Electoral Processes

Government recognises the deficiencies in the Electoral Act 2004 and will in this fiscal term review this Act specifically in the areas of the cost of the electoral process and political party campaign funds. Government will also continue to review the administration and management of the said Act to ensure a democratic and just electoral process.

Governance

Government is open to opportunities for public servants wishing to move into the private sector or retirement and intends to assist with the transition. It is hoped that many will endeavour to undertake their own business ventures and make valuable contributions to the growth of the Cook Islands economy. Government is prepared to provide the appropriate tools to ease the transition into new business opportunities.

Government will continue to ensure that the operations of the financial sector are inline with international standards to safeguard the future of the industry.

The Ombudsman's office continues to promote transparency and accountability in government processes, key to this will be the establishment of the Official Information Act 2008. These efforts will in turn ensure that the human rights of our people are respected.

ECONOMIC GROWTH

Policy Objective: Strive for a sustainable diverse economy by creating an environment conducive to growth to greater enhance our private sector led economy

Economic Planning and Policy

Sustainable economic growth is a high level priority for Government. The private sector is considered the key driver in increasing output in the Cook Islands and efforts to promote growth in the private sector will be supported within our fiscal constraints. Government does have a role to play in fostering economic growth especially where there are market failures. To ensure that Government interaction with the private sector is effective an Economic Sector Plan will be developed in conjunction with a governance framework.

Agriculture and Marine Resources

Opportunities for the Southern Group to increase economic growth through agricultural initiatives will be explored and encouraged. Additionally, policy initiatives stemming from the Ministry of Agriculture's collaborations with FAO and Growers Association's will be carefully considered.

Opportunities for Northern Group economic expansion in the areas of fisheries and pearls will be promoted. Initiatives considered effective from both the Ministry of Marine Resource's (MMR) Corporate Plan, the Cook Islands Pearl Authority strategic marketing plan (once endorsed), promotional activities for commercial fisheries will be supported

Manganese nodules have the potential to provide significant economic wealth for the Cook Islands. The key driver for the development of this resource will be technological advances that will allow extraction to occur without any significant detrimental effect to the marine ecosystem. Given the potential value of this resource, it is vital that Government develops comprehensive policy, follows robust processes, and acquires sound expert advice to ensure this resource is effectively managed to the maximum benefit of the Cook Islands.

Government will ensure that the Cook Islands marine resources are managed in a long term sustainable manner, through effective planning and policy development by MMR in consultation with relevant industry stakeholders.

Outer Islands

Outer Islands Development Grant Fund

Also expected to facilitate economic development in the outer islands will be the newly formed Business Trade Investment Board, where efforts to streamline and make more accessible the Outer Islands Development Grant Fund are expected.

Access to Market Centres

A crucial factor for stimulating economic growth in the Outer Islands is a reliable and effective access to market centres both domestically and nationally. In this regard Government supports well developed initiatives that help overcome the challenges currently being faced both in terms of sea and air transportation. This will include undertaking a domestic aviation study to determine the most appropriate method of establishing and supporting essential air services and the provision of appropriate support for a vessel to cater for outer islands shipping. Government will also consider providing the means to facilitate storage for exports. This is to not only ensure opportunities for economic development but to also enhance social wellbeing.

Cost of Fuel

This Government will attempt to resolve the fuel issue of the Cook Islands and will look at the developing and initiating the use of renewable energy.

Tourism

Government continues to acknowledge tourism as the main driver of the Cook Islands economy and continues to support the implementation of the Tourism Master Plan. Particular reference is given to outer islands development and reviewing and managing relationships with air service providers, to ensure accessibility while maintaining cost effectiveness.

Commerce Commission

Government will consider the relevance of the Commerce Commission Bill to our context and to the economic direction that government wishes to undertake and will revise this Bill accordingly with paramount focus on fair trading.

SUSTAINABLE NATURAL RESOURCES AND ENVIRONMENT

Policy Objective: Ensure that our economic growth is in harmony with our environment while being mindful of the effects of climate change on our sustainable development

Environment Sustainability

As the present guardians of our environment, we must maintain and enhance its qualities. The National Environment Strategic Action Framework 2005-2009 (NESAF) under the umbrella of the NSDP, sets clear goals for a holistic approach to environment sustainability, setting priorities and collective responsibilities for action by all sectors. In this fiscal period, Government will review the NESAF to ensure that its goals, priorities and implementation will continue to provide successive generations with the opportunity to reap the benefits of our environment.

Waste management

The impact of waste on our natural resources and environment is of serious concern. Government recognises that better waste management systems are essential for minimising this impact. Government will immediately endorse the Waste Management Strategy and will deal with our waste management issues in partnership with key stakeholders guided by this document. Operations over the 2008-09 fiscal year will focus on implementing programmes toward privatising the waste management site and developing policy to support a user pays system.

The Tereora/Tepuka area continues to suffer the malfunctions of its sewage system. In Budget 2007-2008, Government committed to the upgrade and repair the Enviroflo in Tereora/Tepuka as an interim measure to enable the development of a comprehensive sewerage plan for the community taking into consideration possible future expansion in this vicinity which will be implemented in 2008-09.

Climate Change

Climate change is an issue that is increasingly gaining prominence globally and in the Cook Islands. It is unavoidable and we must have in place adaptation and mitigation measures against the effects of climate change. This includes the provision of cyclone shelters for all communities. Government is prepared to consider the institutionalisation of climate change and will explore the best means to do so.

AFFORDABLE INFRASTRUCTURE

Policy Objective: Implement the Preventative Infrastructure Master Plan to support the economic, social and environment sustainability of our nation

Infrastructure Sector

Improvements to the nation's infrastructure are crucial to the country's development. To achieve this, the Preventative Infrastructure Master Plan (PIMP) was unveiled in 2007. It is expected that moves towards implementing the plan will begin in earnest in the 2008/09 financial year and Government supports initiatives that will facilitate this.

Similarly, reviews of the Ministry of Works and the Infrastructure Sector which are underway will be crucial to ensuring the smooth implementation of the PIMP. Accordingly, prioritised recommendations from reviews that have been finalised and endorsed will receive the backing of Government

Pacific Mini Games 2009

Government acknowledges both, the importance of successfully hosting the 2009 Pacific Mini Games, and that the start of the games is drawing closer. It is also acknowledged that many Government Ministries and Agencies have important roles to play, thus initiatives which will contribute to the successful hosting of the games are supported.

Government Offices

Government recognises that leases on public service offices will be coming to an end over the coming years with the possibility of non renewal. It is paramount that Government ensure sufficient office space is provided to guarantee that services will not be affected. Government will make certain the long-term effectiveness of how and where offices will be situated.

Telecommunications

Government is committed to providing the best means of telecommunications possible to our communities within our financial constraints. In Budget 2008/2009, we will explore the most viable options for our country's future telecommunications needs. This will include a reviewing the institutional frameworks that govern our telecommunications sector.

ICT

Government has progressed in the implementation of the E-Government programme in partnership with the private sector by setting up Ministry websites. Currently, Ministry websites have been and will continue to be developed and managed for enhanced distribution of official

information about Government's functions and operations. In this fiscal year, Government will direct its efforts in ICT to the implementation of network infrastructure essential for E-Governance including committing to the development of computerised border control. Integral to this process is the consideration of the standardised software and hardware needs of government and building the capacity to successfully implement Government's ICT initiatives.

The Cook Islands will foster relationships with regional and international bodies that will give opportunities for both the public and private sectors to embrace the prospects for robust and financially viable ICT development that will be beneficial to the future progress of the country.

SECURE AND RESILIENT COMMUNITY

Policy Objective: Provide for a safe, secure and resilient community

Disasters

Adoption of a Government wide, stakeholder driven, public private partnership approach towards disaster risk reduction and disaster risk management is fundamental for avoiding or minimising the effects of disasters on our communities. Government has passed the Disaster Management Act and will therefore focus its efforts on developing operational procedures necessary for the implementation of the said legislation.

EFFECTIVE FOREIGN AFFAIRS

Policy Objective: Maintain and strengthen our Foreign Affairs and Immigration

International Relations

Government recognises the ongoing need to maintain and develop strong international relations with bilateral and multilateral partners in order to promote the interests of the Cook Islands in the modern global environment.

Immigration

Government recognises the need for continued strengthening of existing immigration policies and management capacity to reflect the social and economic environment of the Cook Islands. Government therefore recognises the urgent need to establish a stronger management regime for border management as highlighted in the recommendations of the Audit Report on Immigration.

Trade

Government is also aware of the ongoing need to develop an effective trade policy, which was supported in the 2007/2008 appropriation. This trade policy is expected to guide the national position to trade agreements on an international stage. Government encourages greater cooperation within its entities for the completion of this policy.

1.5 CONCLUSION

Budget 2008/2009 will build upon the achievements of the last fiscal period with continued emphasis on aligning policy priorities to the medium and long term goals of our nation as set out in the 'Te Kaveinga Nui' and National Sustainable Development Plan (NSDP).

The budgetary allocations in Budget 2008/2009 on education, health and social development will enhance human development, while investment in infrastructure and systems to maintain and improve the quality of our natural resources are geared to provide the basis for economic, social and environment development with a lasting impact on the quality of life for the people of the Cook Islands over the long term.

Mindful of the need to increase the impact of its spending, Government through Budget 2008/2009 seeks greater efficiency gains within and across the public service. Better value for money in the delivery of public services will arise from institutional strengthening, improved management, effective use of information systems and technology, and stronger coordination and collaboration at the sectoral and national levels. On these foundations, a progressive realisation of the social, economic and environmental rights for Cook Islanders is underway.

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Sir Terepai Maoate
Minister of Finance