



Technical Assistance Consultant's Report

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Cook Islands: Public Sector Review and Improvements (Financed by the Technical Assistance Special Fund)

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Ministry of Finance and Economic Management

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Asian Development Bank

1. Introduction

I traveled to the Cook Islands from the 5th of February to the 21st of February, 2009 in the fourth mission of longer-term project jointly financed by the Asian Development Bank (ADB) and International Monetary Fund (IMF)/Pacific Financial Technical Assistance Centre (PFTAC) with the primary objective of assisting the Cook Islands Ministry of Finance and Economic Management (MFEM) to move towards the sustainable implementation of a system of medium-term budgeting within a macro-fiscal framework.

This mission was the 2nd of three consecutive missions associated with the project that are to be financed directly by the ADB, with ongoing technical oversight by the IMF/PFTAC Public Financial Management Advisor.

2. Main Findings and Recommendations

In the previous missions in relation to the implementation of medium-term budgeting in the Cook Islands, which was conducted in the period July to December 2008, it had been already concluded that the best way forward in the next phases of the medium-term budgeting project to ensure sustainability was to move to the project to a bottom up approach. This was to involve the development of a medium-term budget for the Cook Islands that was premised on a clear and robust understanding of the full costs of the government's ongoing policies that could better inform Cabinet's future decisions on resource allocation. Towards that end, on the basis of a trial by two selected ministries, the preparation of medium-term estimates of the costs of existing policies (the baseline estimates) by all ministries had been initiated in November/December 2008, with results of that round of estimates preparation to be consolidated and analyzed in the January/February 2009 mission.

In order to maintain the momentum with the project, the specific major objectives assigned to the January/February mission to the Cook Islands were to assist the authorities in MFEM to:

- i. develop procedures for, and assist with, the first consolidation of the medium term multi-year estimates of the ministries and agencies; and
- ii. assist the authorities to brief Cabinet on the consolidated estimates to better inform the Budget Policy Statement for 2009-2010.

At the commencement of the mission,

- i. a number of ministries had not lodged their baseline medium-term estimates with MFEM before the mission had commenced; and
- ii. a further number of agencies had submitted so late that MFEM had not had sufficient time to review the estimates submitted to ensure they were consistent with the guidelines previously issued,

as had been originally intended. In part, this outcome was a reflection of the comparatively compressed timetable for baseline estimates preparation implicit in the outcomes of the previous mission. However, the major contributor to this outcome was the inability on the part of some ministries and agencies to adhere to the estimates preparation timetable that had been set and previously discussed with Heads of Ministries (HoMs).

As a result of these outcomes, there was no comprehensive estimates database, on which base the primary tasks of the February 2009 mission available at the commencement of the mission. As a comprehensive estimates database was absolutely critical for the development and validation of processes and procedures for the consolidation of the medium term multi-year estimates of existing policy of the ministries and agencies, a significant proportion of the first half of the mission was spent on further 'one-to-one' training for the recalcitrant ministries and agencies on the operational aspects of the preparation of medium-term baseline estimates of existing policy.

By the conclusion of the mission, all ministries and agencies had submitted their first round baseline estimates, albeit very late for some large ministries (such as Health and Infrastructure and Planning), though the late submission meant that for some of the ministries there had not been sufficient time for MFEM to review the estimates submitted to ensure they were consistent with the estimates preparation guidelines previously issued. As a result, the consolidation processes and procedures that were developed could only be tested and validated with incomplete/inconsistent estimates data. This data was inadequate to prepare advice to Cabinet on the consolidated estimates to better inform the Budget Policy Statement for 2009-2010. This task would have to await finalisation of the outstanding baseline estimates.

Even allowing for the incomplete and inconsistently based baseline estimates data, the outcome of the consolidation exercise indicated that the authorities will face some significant challenges in the years ahead in attempting to match the demands being placed on the Government by civil society with the resources likely to be available to it. In that regard, it was strongly recommended that MFEM monitor the revenue projections and the underlying parameters proactively to minimise the risk that overly-optimistic revenue projections lead to unsustainable levels of expenditure.

3. Follow-up Action / Other Remarks

On presentation to the authorities of the template to be used to consolidate and report on the medium-term budget estimates, it became clear that at the operational level there was limited exposure to using the more complex formulae in Excel to manage a database. After discussion with management, it was concluded that the sustainability of the medium-term budget would be enhanced if a series of hands-on training sessions were given during the next mission. At the request of the CEO of the Office of the Prime Minister, before the next mission the consultant will review the current Cabinet Handbook to ascertain what changes may be required to ensure Cabinet practices and procedures support the thrust of the move to implement medium-term budgeting in the Cook Islands.

Reflecting the importance of integrating the medium-term budget processes into the annual budget processes, templates were developed for the development of the 2009-10 annual budget estimates. At the same time, the medium-term budget consolidation processes were:

- i. modified to reflect the nature of estimates data to be collected and reported on in connection with the 2009-10 budget; and
- ii. enhanced to provide for the automated generation to the extent possible of:
 - (a.) the range of reports necessary/desirable for budget disclosure in the Cook Islands; and
 - (b.) reports that reconcile the various formats for the presentation of budget estimates (namely, reports on economic, accounting, etc., basis).

4. Summary of Main Issues and Achievements

Main Issues	Main Achievements
Assist the authorities to commence operationalising certain aspects of the medium-term budgeting project	The majority of the baseline estimates submitted by the ministries were reviewed to ensure consistency with the instructions and guidelines previously issued. Procedures for, and to assist with ensuring the validation of, the consolidation of the medium-term multi-year baseline estimates of the ministries and agencies were developed. A consolidation was undertaken of the current version of the medium-term baseline estimates. A preliminary assessment was undertaken of the status of the current baseline estimates.

5. Achievement of TA Activity Tasks

Task Description	Task Assessment
1. Review the baseline estimates of the ministries and agencies	<p>With the exception of the ministries and agencies that had not finalized their estimates before the mission concluded, all the ministry baseline estimates were reviewed to ensure they complied with the instructions and guidelines for their preparation, specifically that the baseline estimates did not anticipate:</p> <ul style="list-style-type: none"> (a.) new policy decisions of the Government; or (b.) future price increases. <p>While updated revenue forecasts to underpin the baseline expenditure/expense estimates were developed, it is considered that in view of the projected global recession the growth and other parameters underpinning those forecasts seem overly optimistic</p>
2. Develop procedures for consolidating the baseline estimates of ministries and agencies.	<p>A template was developed to consolidate and the ministry baseline estimates and analyse the outcome of that consolidation on an economic, rather than an accounting, basis.</p> <p>At the same time, reconciliation procedures were developed to ensure that the economic presentation of the estimates was fully comprehensive of all the estimates submitted by the ministries.</p>
3. Assist the authorities to consolidate and analyse the baseline estimates prepared by the ministries.	<p>Consolidation of the current baseline estimates was completed and subsequently updated to reflect revisions to those estimates as at 5 March 2009.</p> <p>Instructions/training given to the authorities on how to continue to update the consolidation worksheet as the underpinning baseline estimates are updated.</p>
4. Assist the authorities to assess at the aggregate level the fiscal status of the baseline estimates.	<p>Preliminary assessment made of the fiscal implications of the current baseline estimates undertaken.</p> <p>Informal advice given of concerns about the risks to fiscal sustainability of over-optimistic revenue assumptions and estimates.</p>

Because of timetable slippage by ministries and agencies, particularly the failure to finalise all the ministry baseline estimates before the mission was concluded, one of the intended benefits of the February 2009 mission, namely to assist the authorities to brief Cabinet during the mission of the longer term budgetary implications of existing policy, could not be achieved. In order to achieve that objective, as the ministry baseline estimates are finalised, the authorities will have to independently update the consolidation of the baseline estimates and brief the Cabinet on the state of play¹. If the project is to remain on track and the maximum benefit is derived from external assistance, it will be critical that the future deadlines for the preparation of the medium-term budget estimates are strictly adhered to.

In the interests of maintaining the momentum for the project, it is proposed that the next mission to the Cook Islands take place from early July 2009 and tentative flight and accommodation bookings are being organized to that effect.

¹ In recognition of the risks associated with what can only be described as the 'developing skills base in MFEM', the authorities were advised that, if the estimates were sent to the advisor as they were finalised, the advisor would expeditiously replicate the consolidation update being undertaken by MFEM staff and share the updated output with them. To date no updated estimates have been provided.