EXAMINATION OF THE COMPONENTS OF THE FISCAL POLICY PAPER WHICH WAS LAID BEFORE THE HOUSES OF PARLIAMENT ON FEBRUARY 09, 2017 AND ERRATA TABLED ON FEBRUARY 21, 2017

INDEPENDENT AUDITOR'S REPORT

THE AUDITOR GENERAL OF JAMAICA

FINANCIAL YEAR 2017/18

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The Auditor General's Department is headed by the Auditor General, Pamela Monroe Ellis, who submits her reports to the Speaker of the House of Representatives in accordance with Section 122 of the Constitution of Jamaica and Sections 29 and 48B of the Financial and Administration and Audit Act.

This report was prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.

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Auditor General's Report
On the
Fiscal Policy Paper – FY2017/18

1. I have examined the components of the Fiscal Policy Paper (FPP) laid by the Minister of Finance and the Public Service before the Houses of Parliament on February 9, 2017 and Errata tabled on February 21, 2017. The report comprises, as stipulated by the Financial Administration and Audit (FAA) Act: the Fiscal Responsibility Statement, Macroeconomic Framework and Fiscal Management Strategy.

Responsibilities of the Minister of Finance

2. The Minister of Finance and the Public Service is responsible for the FPP, including the underlying conventions and assumptions on which the principles of prudent fiscal management are based.

3. Section 48B(2) of the FAA Act provides that:

   "Upon presentation of the annual Estimates of Revenue and Expenditure, the Minister shall lay before both Houses of Parliament –

   a) a Fiscal Policy Paper containing the information specified in the Third Schedule and setting out, in accordance with this section –
      i. a Fiscal Responsibility Statement;
      ii. a Macroeconomic Framework; and
      iii. a Fiscal Management Strategy"

4. Section 48B (3-5) provides that the Macroeconomic Framework presents an overview of the state of the economy and an assessment of the prospects for economic growth, including medium-term projections for the main macroeconomic variables. The Fiscal Responsibility Statement should specify the levels of fiscal balance and debt that are prudent in the opinion of the Minister; the proposed fiscal policy measures and a declaration that the Minister will adhere to the principles of prudent fiscal management. The Fiscal Management Strategy must provide an assessment of the current and projected finances of the Government; outline plans and policies for economic development and explain how such plans and policies conform to the Fiscal Responsibility Statement.

5. The FAA Act outlines fiscal targets for which the Minister of Finance and the Public Service should take appropriate measures to achieve. These fiscal targets, which were amended in the FAA (Amendment) Act 2014, are outlined in Section 48C as follows:

a) to attain a fiscal balance as a percentage of Gross Domestic Product, as at the end of the financial year ending March 31, 2018 and thereafter, that allows the requirement specified in paragraph (b) to be achieved, and to be maintained or improved thereafter, and the fiscal balance to be attained shall be computed in accordance with the Fifth Schedule;
b) to reduce the public debt to sixty per cent or less of Gross Domestic Product by the end of the financial year ending March 31, 2026, and maintain or improve the ratio thereafter;
c) to reduce the ratio of wages paid by the Government as a proportion of the Gross Domestic Product to 9 per cent or less by the end of the financial year ending March 31, 2019 and maintain or improve the ratio thereafter [FAA (Amendment) Act 2016];
d) to ensure that neither the Appropriation Act nor any Supplementary Estimates of Revenue and Expenditure for any financial year will cause any negative deviations from the fiscal balance to be attained pursuant to paragraph (a); and
e) to ensure that no deviation is recorded in the notional account until the fiscal accounts for the financial year in question have been finalised.

6. All fiscal targets listed above, will come into operation on April 1, 2017, as per the FAA (Amendment) Act 2015.

7. Section 48B (5(d) (ii) of the FAA Act requires the Minister to compare the outcome of the fiscal indicators with the targets established for the previous financial year and give reasons for any deviations.

Responsibilities of the Auditor General

8. My responsibility, as set out in Section 48B (6) of the FAA Act, is to examine the components of the Fiscal Policy Paper and provide a report to the Houses of Parliament indicating whether:-
    a) the conventions and assumptions underlying the preparation of the Fiscal Policy Paper comply with the principles of prudent fiscal management specified in Section 48D;
    b) the reasons given, pursuant to subsection (5) (d) (ii) are reasonable having regard to the circumstances;
    c) pursuant to my application of criteria prescribed pursuant to regulations made under Section 50 (1), there are public bodies that do not form part of the specified public sector, and identifying those bodies (if any) which in the preceding financial year formed part of the specified public sector;
    d) a public private partnership involves only minimal contingent liabilities accruing to the Government.

9. I conducted my examination in accordance with standards issued by the International Association of Supreme Audit Institutions and International Standard on Assurance Engagement (ISAE) 3000 – *Assurance Engagements Other than Audits or Reviews of Historical Information* issued by the International Auditing Standard Board. These standards require that I comply with ethical requirements and plan and perform the engagement to obtain sufficient and appropriate evidence to base my comments in line with the criteria that are established in Section 48D of the FAA Act.

Methodology

10. The examination included:
    - review of the provisions of the FAA Act and FAA Regulations;
    - review of the FPP FY2016/17, FPP FY2017/18 and Errata as well as the FPP FY2016/17 Interim Report 28th September 2016;
    - review of the Precautionary Stand-by Agreement with IMF (2016);
    - review of evidence and clarifications on the FPP provided by the Ministry of Finance and the Public Service (MoFPS);
    - obtain representations from the Ministry of Finance and the Public Service;
    - review of publications and reports from other sources; and
    - perform such other procedures considered necessary in the circumstances.

11. My comments are restricted to the requirement as stated in Section 48B (6) of the FAA Act. Accordingly, I did not comment on the merit of the Finance Minister's fiscal strategy.

Key Comments

12. The Ministry provided on February 17, 2017, Errata to the FPP FY2017/18, with material and pervasive changes to the report that was tabled in the Houses of Parliament on February 9, 2017.

13. The FPP FY2017/18 indicated that the Kingston Container Terminal (KCT) public private partnership achieved financial close during the first quarter of FY2016/17. Consequently, the concessionaire took over operations on July 1, 2016 and has commenced expansion works. Subsequent to my review of the FPP FY2016/17 Interim Report, the MoFPS provided, on November 10, 2016, information previously requested that was critical to my assessment that "a public private partnership involves only minimum contingent liabilities accruing to the government".

14. In carrying out my assessment of the KCT PPP, in keeping with the requirements of the FAA Act, I examined specific risk categories over the short to medium-term. Based on my

assessment using the IMF/World Bank PFRAM[1], nothing has come to my attention to suggest that the contingent liability of the KCT PPP arrangement will be more than minimal. Consequently, I do not foresee significant fiscal risk exposure of the Government of Jamaica over the medium-term[2].

15. The FPP FY2017/18 also identified three PPPs, which are in progress; namely, Norman Manley International Airport (NMIA), Jamaica Railway Corporation (JRC) and Schools Solar Energy. Further, the FPP FY2017/18 mentioned several PPPs, which are under consideration. Of note, concessionaires have not been determined for any of these projects.

16. The FPP FY2017/18 indicated a change in the taxation regime for the bauxite sector whereby the companies move toward the payment of profit tax or profit sharing and away from the payment of a levy. However, in conducting my assessment I sought to clarify the nature of the change in the tax regime. The Ministry subsequently informed me that there was no change in the taxation regime. In this regard, the Ministry's representation to me does not conflate with the narrative in the FPP FY2017/18.

17. The FPP FY2017/18 projected Wages & Salaries to increase to 9.8 per cent of GDP by March 31, 2018 from 9.6 per cent estimated for FY2016/17. The ratio of wages to GDP is projected to fall to 9 per cent in FY2018/19, which represents an adjustment to the legislative target, by way of amendment to section 48C (c) of the FAA Act in 2016. Of note the wages to GDP ratio only declined by one percentage point over the five fiscal years prior to FY2016/17. In an effort to achieve the 9.0 per cent wages to GDP target, the FPP FY2017/18 indicates that the Government of Jamaica (GOJ) will be developing a wage policy, (informed by a Compensation review) that will seek to guide the negotiation process for the public sector going forward. The GOJ will also seek to implement critical aspects of the public sector transformation initiatives, starting in FY2017/18, as part of the strategy to reduce the operating cost of the Government.

18. According to the FPP FY2017/18, the debt to GDP ratio is projected at 124.1 per cent at March 31, 2017. The debt ratio is projected to decline to 108.6 per cent by March 31, 2018, and subsequently to 89.5 per cent by March 31, 2020. The FPP FY2017/18 indicated that, "The policy measures are designed to deliver sustainable benefits to generate incremental surpluses over the medium-term, to facilitate the achievement of the Debt/GDP legislated ceiling of 60 per cent by FY2025/26". This debt trajectory is largely predicated on strong GDP growth over the medium-term, underpinned by significant growth in *Mining & Quarrying* and the volatile *Agriculture, Forestry & Fishing* sector. However, the FPP

[1] The PPP Risk Assessment Model (PFRAM) was developed by the IMF and the World Bank as an analytical tool to assess the potential fiscal costs and risks arising from the PPP projects.
[2] Details of the KCT PPP assessment are outlined in a separate report, which will be submitted to the Houses of Parliament.

FY2017/18 did not provide a risk analysis of the GDP growth as recommended in my assessment of the FPP FY2016/17.

Compliance with the Third Schedule of the FAA Act

19. My examination of the FPP FY2017/18 revealed that the contents are in keeping with the requirements of the Third Schedule of the FAA Act. The FPP FY2017/18 included the minimum content under the Fiscal Responsibility Statement and Macroeconomic Framework components. In addition, the Fiscal Management Strategy contains the minimum requirements in keeping with the Third Schedule of the FAA Act.

Recommendations

20. Given that the FPP FY2017/18 refers to the change in definition of total public debt, the Ministry should provide a historical reconciliation of the existing public debt stock with new public debt defined as the "consolidated debt of the Specified Public Sector (SPS) net of cross holdings of debt, except that of Bank of Jamaica". This would provide stakeholders with greater clarity of the composition of the public debt stock, going forward.

21. Given significant reliance on GDP growth to achieve the legislative targets, the Ministry should include in future FPPs, sensitivity analyses, which inform the programme path.

22. Based on the Ministry's confirmation that there was no change in the taxation regime, the Ministry should make the necessary correction to the Fiscal Policy Paper.

Pamela Monroe Ellis, FCCA, FCA, CISA
Auditor General

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Part A: Principles of Prudent Fiscal Management

Criterion A: Total (public) debt is to be reduced to, and thereafter maintained at, a prudent and sustainable level.

Related Target: To reduce the public debt to sixty (60) per cent or less of the Gross Domestic Product (GDP) by the financial year ended March 31, 2026 and, maintain or improve the ratio thereafter.

Total Debt

23. The FPP FY2017/18 estimates that the total stock of debt at end-March 2017 will be $2,180.4 billion or 124.1 per cent of GDP, exceeding the stock at end-March 2016 by $111.6 billion. The Ministry attributes this increase to the issuance of new benchmark investment notes on the domestic side and currency depreciation, which mainly impacted the external side of the debt portfolio.

24. Total Debt is projected to decline sharply by $133.9 billion or 6.1 per cent to $2,046.5 billion or 108.6 per cent of GDP by end-March 2018, relative to end-March 2017. The projected sharp decline reflects net amortization of domestic and external debt, as well as the new public debt definition, which consolidates debt of the Specified Public Sector (SPS) net of any cross-holdings except those of the Bank of Jamaica[3]. Accordingly, the stock at end March 2018 will comprise domestic debt of $840.6 billion, external debt of $1,155.9 billion and net public bodies' debt of $50.0 billion.

25. Thereafter, the stock of public debt is projected to increase by end-March 2019 to $2,054.6 billion in nominal terms although the debt to GDP ratio will fall to 100.7 per cent of GDP. The debt stock will subsequently fall to $1,979.0 billion or 89.5 per cent of GDP by end-March 2020 (**Table 1**). The projected fall in the debt to GDP ratio over three years - FY2017/18 to FY2019/20 is 19.1 percentage points which compares to the 9.3 percentage points decline over the five-year period ended FY2015/16.

Table 1: Debt/GDP (J$ million)

Fiscal Year	2014/15	2015/16	2016/17 Proj.	2017/18 Proj.	2018/19 Proj.	2019/20 Proj.
Total Debt	2,041,693.7	2,068,759.2	2,180,368.9	2,046,481.8	2,054,596.7	1,978,978.5
Debt/GDP Ratio (%)	129.9	122.3	124.1	108.6*	100.7	89.5

Source: FPP FY2017/18

* Start of new debt definition

[3] The Specified Public Sector consists of the Public Sector, excluding any public body certified by the Auditor General as primarily carrying out functions that are of a commercial nature.

Criterion B: Fiscal Risks are to be managed prudently with particular reference to their quality and level.

Related Target: The FAA Act did not specify a related target for the criterion.

Fiscal Risk

26. The management of fiscal risks is critical to managing the growth of the public debt and other economic variables. Fiscal risks indicated in the Fiscal Risk Statement of the FPP refer to 'the probability of deviations of fiscal outturns or other fiscal forecasts from expectations or budget'. The FPP notes sources of fiscal risks currently being monitored and managed by the MoFPS/GOJ. However, a quantification of the key fiscal risks was not provided for all key fiscal risks identified.

27. The MoFPS noted that most tax revenue items have a one-to-one relationship with GDP, which accords with my assessment. Further, that a tax buoyancy greater than one would mean that for a 1 per cent increase in nominal GDP, tax revenue would grow by more than one per cent, leading to a potential improvement in the fiscal balance. The MoFPS indicated in the FPP FY2017/18 that as a first step in sound fiscal management and in the MoFPS risk mitigation strategy, the range of potential projects noted in the growth agenda was not factored into real GDP forecasts presented in the Macroeconomic Framework.

Criterion C: Borrowings are to be geared toward investment activities that support productivity and economic growth.

Related Target: The FAA Act does not specify a related target for this criterion.

28. The Ministry of Finance has not established specific targets for this principle. However, the Ministry provided a definition for 'investment activities that support productivity and economic growth': "this means expenditure which seeks to enhance the country's economic capacity. Examples of this would relate to investments in physical infrastructure, transportation rehabilitation and education and health".

29. The Ministry has stated that, "The investment activities of the GOJ that support productivity and economic growth are usually contained in the Capital Budget." For FY2016/17, the FPP FY2017/18 indicates that for the period April to December 2016, Capital Programmes was below budget by $5.4 billion or 15.3 per cent. The Ministry estimates that for the full year FY2016/17 capital expenditure will exceed budget by $1.8 billion or 4.2 per cent. Further, calculations show that Capital Expenditure as a percentage of loan receipts is projected to increase to 67.2 per cent by end FY2020/21 relative to the estimate of 43.9 per cent for FY2016/17 (**Table 2).** The increase in the Capital to Loan Receipt ratio over the medium term

is primarily influenced by the significant reduction in projected loan receipts up to FY2019/20.

Table 2: Use of Central Government Borrowings (J$ million)

Fiscal Year	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Loan Receipts	168,705.9	298,600.5	101,917.1	159,612.0	92,907.8	84,925.3	126,131.0
Capital Expenditure	23,019.0	32,747.3	44,801.6	52,541.5	66,073.3	78,598.7	84,800.6
Capital/Loan Receipt Ratio %	13.6	11.0	43.9	32.9	71.1	92.6	67.2
Capital: Actual less Budget	-11,609.1	2,338.3	1,800.8				

Source: FPPs & FPP FY2017/18

Criterion D: Expenditure is to be managed in a manner that is consistent with the level of revenue generated so as to achieve the desired fiscal outcomes.

RELATED TARGETS: To reduce the ratio of wages paid by the Government as a proportion of the Gross Domestic Product to 9 per cent or less by the end of the financial year ending on March 31, 2019 [FAA Act, Section 48C (c)] and maintain or improve the ratio thereafter;

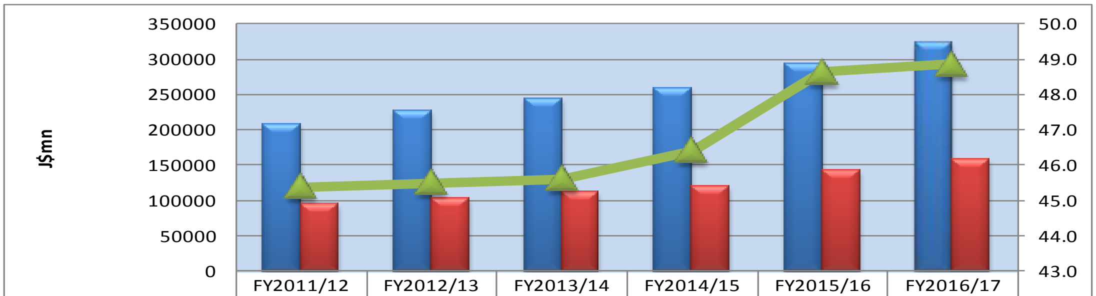
To ensure that neither the Appropriations Act nor any Supplementary Estimates of Revenue and Expenditure for any financial year will cause any negative deviation from the fiscal balance to be attained pursuant to paragraph (a) [FAA Act, Section 48C(1)(d)].

30. The performance of Tax Revenue, Wages & Salaries, Programme Expenditure, Interest Costs and Capital Expenditure relative to budget will inform actions undertaken regarding the above-mentioned criteria.

Tax Revenue

31. For April to December 2016, Tax Revenue amounted to $322.1 billion, exceeding the budgeted amount by $10.2 billion or 3.3 per cent. A disaggregation of Tax Revenue revealed that arrears collection was $14.1 billion whereas refunds totalled $11.6 billion. Income & Profits (Tax on Interest & PAYE) and Production & Consumption (SCT & Stamp Duty (local) revenue categories exceeded respective targets, while International Trade (Travel Tax & SCT (imports) fell below anticipation. SCT & GCT (VAT) accounted for 48.9 per cent of Tax Revenue compared to 48.6 for the similar period in FY2015/16 (**Figure 1**).

Figure 1: April - December GCT& SCT (VAT) (J$ million)



	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Tax Revenue	206289.4	224991.1	242653.2	258610.9	291652.3	322067.9
VAT (GCT&SCT)	93614.7	102356.8	110665.6	119990.3	141848.8	157370.1
VAT/TAX	45.4	45.5	45.6	46.4	48.6	48.9

32. Tax Revenue for FY2016/17 is estimated at $451.7 billion relative to budget of $446.8 billion **(Table 3).** Of note, the budgeted tax revenue was predicated on nominal GDP growth of 5.8 per cent, whereas nominal GDP growth for FY2016/17 is estimated at 3.9 per cent. Based on the established 'one to one' relationship between tax and GDP, the buoyant tax receipts for FY2016/17 might not be inconsistent with the notion of improved tax compliance.

Table 3: Tax Revenue Budgeted vs. Actual (J$ million)

Fiscal Year	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17 Proj.
Tax Revenue Budget	290,908.3	335,625.1	360,517.6	384,286.0	411,882.3	446,767.0
Tax Revenue Actual	289,882.2	319,764.9	343,836.1	370,877.5	411,854.0	451,712.8
Variance Actual/Budget	-426.1	-15,860.2	-16,681.5	-13,408.5	-28.3	4,945.8
Taxes Actual/GDP (%)	23.0	23.9	23.6	23.6	24.4	25.7

Source: FPPs & FPP FY2017/18

33. For FY2017/18, Tax Revenue is passively forecasted at $488.6 billion or 25.9 per cent of GDP and is predicated on nominal GDP growth of 7.2 per cent and enhanced tax compliance **(Table 4).** Tax revenue is projected to increase to $624.8 billion or 26.2 per cent of GDP by FY2020/21.

Table 4: Tax Revenue – medium-term projections (J$ million)

Fiscal Year	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Tax Revenue	**451,712.8**	**488,629.6**	**529,047.9**	**582,418.8**	**624,805.4**
Tax Revenue Projections GDP (%)	**25.7**	**25.9**	**25.9**	**26.3**	**26.2**

Source: FPP FY2017/18

Wages & Salaries

34. For April to December 2016, Wages & Salaries amounted to $122.9 billion relative to budget of $128.1 billion **(Table 5)**. Wages & Salaries accounted for 44.7 per cent of total non-debt Expenditure compared to the budgeted share of 45.7 per cent.

Table 5: April - December Wages & Salaries (J$ million)

Outturn: April to December	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2016/17 Budget
Wages & Salaries	106,135.1	112,787.3	119,786.7	120,879.1	126,627.4	122,929.7	128,130.4
Wages /Total Expenditure (%)	36	39.2	40.7	38.6	36.9	32.7	33.3
Wages /Non-Debt Expenditure (%)	51.8	56	56.2	54.9	50.1	44.7	45.7

Source: FPPs &FPP FY2017/18

35. For FY2016/17 Wages & Salaries is estimated at $168.6 billion or 9.6 per cent of GDP **(Table 6)**. This compares to budget of $170.2 billion or 9.8 per cent of GDP and the 5-year average of 10.5 per cent. Of note, the wages to GDP ratio declined by one percentage point over the five fiscal years prior to FY2016/17.

Table 6: Wages & Salaries - Budgeted vs. Actual (J$ million)

Fiscal Year	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17 Proj.
Wages & Salaries Budget	133,747.5	146,070.4	157,253.3	161,704.3	165,229.4	170,193.5
Wages & Salaries Actual	139,556.9	147,381.8	156,361.7	158,758.6	168,790.2	168,635.2
Variance Actual/Budget	5,809.4	1,311.4	-891.6	-2,945.7	3,560.8	1,558.3
Wages & Salaries/GDP (%)	11.0	11.0	10.7	10.0	10.0	9.6

Source: FPPs & FPP FY2017/18

36. Wages & Salaries is projected to increase to 9.5 per cent of GDP by March 31, 2018 from 9.6 per cent estimated for FY2016/17. However, the ratio of wages to GDP is projected to fall to 9 per cent in FY2018/19, which represents adjustment to the legislative target (**Table 7**).

Table 7: Wages & Salaries – medium-term projections (J$ million)

Fiscal Year	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Wages	168,635.2	179,525.8	184,517.1	200,016.5	215,817.8
Wages/GDP Ratio (%)	9.6	9.5	9.0	9.0	9.0

Source: FPP FY2017/18

Interest Cost

37. For April to December 2016, Interest cost was $100.3 billion relative to budget of $104.2 billion **(Table 8)**. For the period, Interest cost represented 26.7 per cent of Total Expenditure compared to budget of 27.1 per cent.

Table 8: April - December Interest Cost (J$ million)

Outturn: April - December	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Interest Cost	82,986.5	86,275.7	81,305.2	92,839.1	90,879.7	100,277.5
Interest/Tax (%)	40.2	38.3	33.5	35.9	31.2	31.1
Interest/Total Expenditure (%)	28.8	32.5	27.6	29.6	26.4	26.7

Source: FPPs & FPP FY2017/18

38. For FY2016/17, total interest cost is estimated at $139.0 billion or 7.9 per cent of GDP compared to budget of $138.5 billion **(Table 9)**. Domestic interest for the fiscal year is estimated at $62.6 billion while foreign interest is projected at $76.5 billion.

Table 9: Interest Cost - Budgeted vs. Actual (J$ million)

Fiscal Year	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17 Proj.
Interest Payment Budget	131,083.9	136,533.8	119,566.8	132,669.1	131,614.3	138,458.7
Interest Payment Actual	120,635.1	126,937.5	109,919.5	124,512.7	125,679.5	139,021.6
Variance Actual/Budget	-10,448.8	-9,596.3	-9,647.3	-8,156.4	-5,934.8	562.9
Interest Actual/GDP (%)	9.5	9.5	7.5	7.9	7.4	7.9

Source: FPPs &FPP FY2017/18

39. For FY2017/18, Interest cost is forecasted at $137.9 billion or 7.3 per cent of GDP. The FPP FY2017/18 indicates that Interest cost will decline to $127.3 billion by March 31, 2021 or 5.3 per cent of GDP **(Table 10).**

Table 10: Interest Cost – medium-term projections (J$ million)

Fiscal Year	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Interest Cost	139,021.6	137,852.9	128,767.1	130,250.9	127,266.3
Interest Cost Projections GDP (%)	7.9	7.3	6.3	5.9	5.3

Source: FPP FY2017/18

Programmes Expenditure

40. For April to December FY2016/17, Programmes expenditure was $113.1 billion or 41.1 per cent of total non-debt expenditure compared to budgeted share of 38.8 per cent (**Table 11)**.

Table 11: April-December Programmes (J$ million)

Outturn: April - December	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Programmes	62,837.9	66,038.0	69,160.93	81,189.2	100,076.9	113,107.3
Programmes/Total Expenditure (%)	21.8	22.9	27.6	25.9	29.1	30.1
Programmes/Non-Debt Expenditure (%)	30.6	32.9	32.5	36.8	39.5	41.1

Source: FPPs& FPP FY2017/18

41. Programmes expenditure for FY2016/17 is estimated at $143.5 billion or 8.2 per cent of GDP **(Table 12).** This compares to budget of $139.8 billion or 8.0 per cent of GDP and the 5-year average of 7.0 per cent. Programmes expenditure is estimated at 39.0 per cent of non-debt Expenditure for FY2016/17, marginally above the budgeted share of 38.4 per cent.

Table 12: Programmes Budgeted vs. Actual (J$ million)

Fiscal Year	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17 Proj.
Programmes Budget	87,215.1	92,160.7	93,664.2	110,281.1	135,735.3	139,772.4
Programmes Actual	89,699.4	87,201.4	91,971.7	112,696.7	133,502.4	143,467.9
Variance Actual/Budget	2,484.3	-4,959.3	-1,692.5	2,415.6	-2,232.9	3,695.5
Programmes Actual/GDP (%)	7.1	6.5	6.3	7.2	7.9	8.2

Source: FPPs &FPP FY2017/18

42. Programmes expenditure is projected to increase to $153.9 billion or 8.2 per cent of GDP by March 31, 2018, and increase in nominal terms to $180.0 billion, but decline as a percentage of GDP to 7.5 per cent of GDP by March 31, 2021 **(Table 13).**

Table 13: Programmes Expenditure – medium-term projections (J$ million)

Fiscal Year	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Programmes	143,467.9	153,871.3	159,646.1	171,456.5	180,029.3
Programmes Projections GDP (%)	8.2	8.2	7.8	7.8	7.5

Source: FPP FY2017/18

Capital Expenditure

43. For April to December 2016, Capital Expenditure was $29.9 billion or $5.4 billion lower than budget **(Table 14**). Capital Expenditure for the period represented 10.9 per cent of non-debt expenditure compared to budget of 12.6 per cent.

Table 14: April - December Capital Expenditure (J$ million)

Outturn: April - December	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Capital Expenditure	35,822.1	22,517.5	23,982.2	18,287.6	26,017.2	29,877.0
Capital Exp/Total Expenditure (%)	12.4	7.8	8.2	5.8	7.8	7.9
Capital Exp. /Non-debt Expenditure (%)	17.5	11.2	11.3	8.3	10.3	10.9

Source: FPPs & FPP FY2017/18

44. Capital Expenditure for FY2016/17 is estimated at $44.8 billion or 2.5 per cent of GDP (Table 15). This compares to budget of $43.0 billion or 1.8 per cent of GDP, and the five-year average GDP ratio of 2.6 per cent.

Table 15: Capital Expenditure Budgeted vs. Actual (J$ million)

Fiscal Year	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17 Proj.
Capital Expenditure Budget	60,415.4	39,493.0	44,721.8	34,628.2	30,409.0	43,000.8
Capital Expenditure Actual	53,230.9	37,758.0	36,988.9	23,019.1	32,747.3	44,801.6
Variance Actual/Budget	-7,184.5	-1,735.0	-7,732.9	-11,609.1	2,338.3	1,800.8
Capital Exp. Actual/GDP (%)	4.2	2.8	2.5	1.5	1.9	2.5

Source: FPP FY2017/18

45. For FY2017/18, Capital Expenditure is forecasted at $52.5 billion or 2.8 per cent of GDP. Capital Expenditure is projected to increase to $84.8 billion or 3.6 per cent of GDP by March 31, 2021 **(Table 16).**

Table 16: Capital Expenditure – medium-term projections (J$ million)

Fiscal Year	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Capital Expenditure	44,801.6	52,541.5	66,073.3	78,598.7	84,800.6
Capital Expenditure Projections GDP (%)	2.5	2.8	3.2	3.6	3.6

Source: FPP FY2017/18

Primary Balance

46. For the period April to December 2016, the primary surplus amounted to $76.8 billion, $22.8 billion or 42.2 per cent better than target **(Table 17).** The outturn for the April to December 2016 exceeded the average of $52.0 billion for an April to December period of the previous 5 years.

Table 17: April-December Primary Balance (J$ million)

Outturn: April-December	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Primary Balance	26,646.2	39,084.5	61,689.6	66,825.7	65,988.4	76,788.1

Source: FPPs & FPP FY2017/18

47. The Primary surplus for FY2016/17 is estimated at $126.6 billion or 7.2 per cent of GDP compared to target of 7.0 per cent of GDP and the average of 6.1 per cent for the five fiscal years prior to FY2016/17 (**Table 18)**. As indicated in FPP FY2016/17, the IMF recommended a primary surplus target to 7.0 per cent FY2016/17.

Table 18: Primary Balance: Budgeted vs. Actual (J$ million)

Fiscal Year	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17 Proj.
Primary Balance Target	69,264.2	83,558.3	111,521.2	121,275.0	126,727.4	122,126.0
Primary Balance Target(%GDP)	5.2	6	7.5	7.5	7.5	7.0
Primary Balance Actual	39,662.7	72,336.6	111,657.1	117,241.8	120,795.9	126,598.5
Primary Balance Actual/GDP (%)	3.1	5.4	7.7	7.5	7.1	7.2

Source: FPPs & FPP FY2017/18

48. For FY2017/18, the primary surplus is budgeted at $123.3 billion or 6.5 per cent of GDP. A primary surplus of $137.8 billion or 6.8 per cent of GDP is projected for FY2018/19, moving to a surplus of $161.4 billion or 6.8 per cent of GDP by FY2020/21 **(Table 19).**

Table 19: Primary balance – medium-term projections (J$ million)

Fiscal Year	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Primary Balance	126,598.5	123,304.3	137,790.5	149,470.3	161,366.9
Primary Balance Projections GDP%	7.2	6.5	6.8	6.8	6.8

Source: FPP FY2017/18

Fiscal Balance

49. For April – December 2016, the Fiscal Deficit was $23.5 billion, $26.7 billion better than budgeted but exceeded the average deficit of $34.8 billion for an April-December period of the past 5 years **(Table 20)**.

Table 20: April to December Fiscal Balance (J$ million)

Outturn: April-December	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Fiscal Balance	-56,340.3	-47,191.4	-19,615.6	-26,013.4	-24,831.9	-23,489.3

Source: FPPs & FPP FY2017/18

50. For FY2016/17, the fiscal deficit is estimated at $12.4 billion or 0.7 per cent of GDP compared to the budgeted deficit of $16.3 billion and the 5-year average deficit of $29.2 billion **(Table 21)**. For FY2017/18, the fiscal deficit is estimated at $14.5 billion or 0.8 per cent of GDP. Of note, the fiscal deficit averaged 2.2 per cent of GDP for the five previous fiscal years ending FY2015/16.

Table 21: Fiscal Balance: Budgeted vs. Actual (J$ million)

Fiscal Balance	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17 Proj.
Fiscal Balance Budget	-61,819.9	-52,975.5	-8,045.7	-11,394.3	-4,886.9	-16,332.8
Fiscal Balance Budget/GDP (%)	-4.6	-3.8	-0.5	-0.7	-0.3	
Fiscal Balance Actual	-80,972.4	-54,601.5	1,737.6	-7,270.9	-4,883.7	-12,423.1
Fiscal Balance Actual/GDP (%)	-6.4	-4.1	0.1	-0.5	-0.3	-0.7

Source: FPPs & FPP FY2017/18

51. The FPP FY2017/18 estimates that there will be a fiscal surplus of $9.0 billion or 0.4 per cent of GDP in FY2018/19, moving to $34.1 billion or 1.4 per cent of GDP by FY2020/21 **(Table 22)**. The FPP FY2017/18 indicated that the projected surpluses over the medium-term are aligned to the achievement of the legislated debt to GDP target.

Table 22: Fiscal Balance – medium-term projections (J$ million)

Fiscal Year	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Fiscal Balance	-12,423.1	-14,548.5	9,023.4	19,219.4	34,070.6
Fiscal Balance Projections GDP (%)	-0.7	-0.8	0.4	0.9	1.4

Source: FPP FY2017/18

Part B: Reasonableness of the Deviation of the Fiscal Indicators

52. Subsection (5)(d)(ii) of the FAA Act requires that the Minister compares the outcome of the fiscal indicators with the targets for the previous financial year, and give the reasons for any deviations.

53. Section 48B(6) of the FAA Act requires that the Auditor General indicates whether the reasons given pursuant to subsection (5)(d)(ii) are reasonable having regard to the circumstances.

54. I have reviewed the explanations provided in the FPP FY2017/18. In making a determination of reasonableness of the explanations provided by the Minister of Finance, the following were undertaken:
    a) a review of the Budget Assumptions;
    b) a review of risks that materialised for FY2016/17;
    c) analysis of supplementary information; and
    d) confirmation where possible, of the Minister's explanations with observed data for FY2016/17.

55. My comments on variances provided in **Table 23** are therefore confined to those elements for which adequate information was provided in the FPP FY2017/18 and by the MoFPS.

Table 23: Comments on the Explanation for the Fiscal Deviations for April-December 2016 relative to Budget (in millions of Jamaican dollars)

Item	Provisional April – Dec	Budget April - Dec	Diff	Diff %	GOJ's Explanation Stated in FPP FY2017/18	Audit Comments	Ministry's Response
Revenue & Grants	**352,039.9**	**334,464.6**	***17,575.3***	**5.3**			
Tax Revenue	322,067.9	311,821.6	*10,246.3*	3.3	Inland Revenue collections (which are comprised of Income & Profits and Production & Consumption) surpassed their budgetary estimates whilst International Trade recorded a shortfall.		
Income & Profits	***85,448.9***	***77,418.8***	***8,030.1***	***10.4***			
Tax on Interest	11,016.2	8,261.4	*2,754.8*	33.3		The MOFPS did not comment regarding the deviation for this particular tax type.	**This over performance was influenced by lower than programmed refunds for the period, higher interest (private sector) pay-outs and improved administrative efficiency.**
Tax on Dividend	1,078.6	723.7	*354.9*	49.0		The MOFPS did not comment regarding the deviation for this particular tax type.	**This over performance was influenced by higher dividend payments and improves administrative efficiency.**
PAYE	47,765.1	45,302.9	*2,462.2*	5.4	Based on 0.8 percentage point increase in employment between April and July 2016, which is equivalent to an additional 17,900 persons to the Employed Labour Force.	Labour force statistics presented by STATIN indicate that the employed labour force increased by 17,900 for the July 2016 Labour Force Survey, relative to that of the April 2016 survey. This is an indication of improved employment levels since the FY2016/17 budget was tabled therefore validating the explanation.	

Item	Provisional April – Dec	Budget April - Dec	Diff	Diff %	GOJ's Explanation Stated in FPP FY2017/18	Audit Comments	Ministry's Response
Other Companies	23,586.3	21,152.0	*2,434.3*	11.5	Compliance activities pursued by TAJ have resulted in an increase in corporate tax returns filed through end-December 2016.	An assessment of the underlying tax receipts (tax receipts ***plus*** refunds ***less*** arrears) from companies indicate that estimated collections were above budget by approximately $1.5 billion (62 per cent of deviation); a result which can be attributed to compliance.	
Production & Consumption	***133,792.2***	***133,420.0***	***372.2***	***0.3***			
Stamp Duty	9,739.4	8,455.2	*1,284.2*	15.2	Driven by improvement in market conditions; specifically the increased sale of high-end properties and the increased issuance of shares.	I consider this a reasonable explanation.	
SCT (local)	13,296.9	11,031.8	*2,265.1*	20.5	New measures increased the SCT rates.	This increased SCT rates should have been better accounted for in the budget formulation process.	**The better than budgeted performance was mainly due to increased production at the local refinery.**

	Provisional	Budget					
Item	April – Dec	April - Dec	Diff	Diff %	GOJ's Explanation Stated in FPP FY2017/18	Audit Comments	Ministry's Response
Environmental Levy (Domestic)	265.3	352.0	*-86.7*	-24.6	Due to the limited information about the tax type from the previous year.	Explanation adjudged to be reasonable, as the change of the implementation date from April 1, 2015 to June 1, 2015 would have resulted in payments commencing in October 2015. This may have impacted the accuracy of forecasting for this particular tax type.	
Minimum Business Tax	625.8	510.6	*115.2*	22.6	Aided by sustained compliance activities of the TAJ.	While no clear information was presented for this specific tax type, our estimates indicate that total underlying tax receipts has over performed relative to target, which is an indication of improved overall compliance. Therefore, this explanation can be assessed as reasonable.	
International Trade	***129,948.3***	***132,573.8***	***-2,625.5***	***-2.0***			
Customs Duty	27,026.1	25,954.0	*1,072.1*	4.1		The MOFPS did not comment regarding the deviation for this particular tax type.	**Improvements in compliance enhanced by the Automated System for Customs Data (ASYCUDA)**
SCT (Imports)	33,480.7	34,894.6	*-1,413.9*	-4.1		The MOFPS did not comment regarding the deviation for this particular tax type.	**The shortfall in SCT was mainly attributable to the lower than average monthly imports of finished products by PetroJam Ltd, due to higher domestic production.**
GCT (imports)	55,708.3	56,377.8	*-669.5*	-1.2		The MOFPS did not comment regarding the deviation for this particular tax type.	**This was due to the underperformance of primarily steel and cellular phones importation.**

	Provisional	Budget					
Item	**April – Dec**	**April - Dec**	**Diff**	**Diff %**	**GOJ's Explanation Stated in FPP FY2017/18**	**Audit Comments**	**Ministry's Response**
Travel Tax	9,988.2	11,519.6	*-1,531.4*	-13.3	Perceived to be due to a greater portion of travellers having purchased tickets prior to the effective date of the tax increase.	This factor should have been considered in the budget formulation process.	**Another factor impacting the performance of this Tax was the administrative delay in its implementation.**
Non-Tax Revenue	**22,854.2**	**17,575.1**	***5,279.1***	30.0	Financial distributions from public bodies were higher than programed.	According to the Statement A account, net transfers to Government by Self-financing public bodies were estimated to be below budget by $2.0 billion for FY2016/17. This is contrary to explanations provided by the GOJ.	**Apart from higher inflows from Public Bodies over the period, some Non-Tax flows came in ahead of budget such as the PetroCaribe interest payment in July for $1.1bn, which was originally programmed for February.**
Bauxite Levy	**1,830.9**	**1,980.9**	***-150.0***	-7.6	Due to downturn in crude bauxite production, reduced demand for bauxite from the US and delays in the re-opening of Alpart.	Explanation adjudged to be reasonable. Available crude bauxite data taken from the Bank Of Jamaica for April-September 2016 indicates that production levels were 22.9 per cent lower relative to the corresponding period of FY2015/16. This would negatively affect bauxite levy collections, which are based on production.	
Capital Revenue	**416.0**	**529.6**	***-113.6***	-21.5	Due to lower than anticipated royalties collection as a sizeable portion of the royalties are generated from the mining sector and as such the first quarter Mining and Quarrying industry; despite an upturn in the second quarter, affected collections.	Explanation for deviation not sufficient. We observe that the shortfall occurred within the first 2 quarters of the fiscal year (3rd quarter over performed). Given that during these same 2 quarters, output from the Mining and Quarrying Industry as presented in STATIN's GDP estimate was flat relative to similar period of previous year, therefore royalties should not fall off as a result.	**In addition to marginally lower flows from bauxite mining, there were no loan repayments received during the period and there is sometimes a delay with respect to the full information on receipts from other mining activities.**

	Provisional	Budget					
Item	**April – Dec**	**April - Dec**	**Diff**	**Diff %**	**GOJ's Explanation Stated in FPP FY2017/18**	**Audit Comments**	**Ministry's Response**
Grants	**4,870.9**	**2,557.5**	***2,313.4***	**90.5**	Primarily due to the earlier than programmed receipt of some grants and the significant over-performance is not expected to carry through to the end of the fiscal year.	It has been confirmed that a Chinese Grant for construction of the new Min of Foreign Affairs building was recorded in July as a lump sum relative to tranches across several months. In addition, a portion of a budgetary support grant provided by the EU from the previous fiscal year was received November 2016.	
Total Debt (As at end-December 2016)	**2,150,062.7**				Increase relative to end-March 2016 attributable to the issuance of new benchmark investment notes as well as depreciation of the Jamaica dollar vis a vis the US dollar.	Explanation confirmed. Our assessment confirmed that depreciation added $68.9 billion to the total debt stock ($65.5 billion - External and $3.4 billion - Domestic) while benchmark notes added 20.4 billion to the debt stock. The additions were tempered by reductions in other areas of the total debt stock.	
Domestic	834,320.0						
External	1,315,742.7						