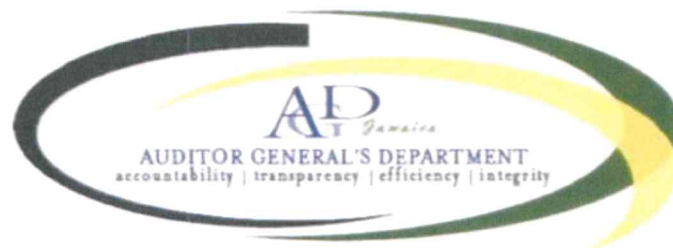


EXAMINATION OF THE COMPONENTS OF THE FISCAL POLICY PAPER, WHICH WAS LAID BEFORE THE HOUSES OF PARLIAMENT ON FEBRUARY 11, 2020

INDEPENDENT AUDITOR'S REPORT
AUDITOR GENERAL OF JAMAICA
FINANCIAL YEAR 2020/21



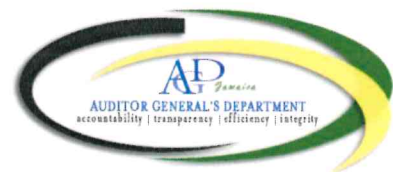
Vision Statement

"A better country through effective audit scrutiny"

The Auditor General is appointed by the Governor General and is required by the Constitution, Financial Administration and Audit Act, other sundry acts and letters of engagement, to conduct audits at least once per year of the accounts, financial transactions, operations and financial statements of central government ministries and departments, local government agencies, statutory bodies and government companies. The Auditor General is also required, under the FAA Act, to review the Fiscal Policy Paper, and other provisions of the Fiscal Responsibility Framework.

The 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 Section 29 of the Financial Administration and Audit Act.

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



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Auditor General's Comments

1. I have examined the components of the Fiscal Policy Paper (FPP) which was laid before the Houses of Parliament on February 11, 2020, in accordance with the Financial Administration and Audit (FAA) Act. The report met the requirements of the Third Schedule and included the minimum content under the Fiscal Responsibility Statement, Macroeconomic Framework and Fiscal Management Strategy.

My Responsibility

2. Section 48B (6) of the FAA Act requires the Auditor General to examine the components of the Fiscal Policy Paper (FPP) within two weeks after the FPP is laid before both Houses of Parliament and provide a report to the Houses 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;**

Conventions of prudent fiscal management require a realistic assessment of risks that could jeopardise the achievement of the fiscal targets. Risks must be identified, classified and evaluated, to enable the application of appropriate risk mitigating measures that do not compromise the broader policy objectives. Further, the enhanced fiscal rules, require inclusion in the FPP, of a Fiscal Risk Statement which evaluates contingent liabilities and other risks that may affect the fiscal accounts but are not budgeted, due to the uncertainty of an actual occurrence.

I therefore reviewed the FPP FY2020/21 to determine if risks that pose a threat to the achievement of the fiscal targets, were assessed to enable application of appropriate risk mitigating strategies. The FPP identified and evaluated major risks under the classifications: Macroeconomic Risks, Contingent Liabilities, Natural Disasters & Climate Change and 'Other' (wage settlements, monetary and government policy changes) as well as, identified risk mitigating strategies for the majority of these risks. Notwithstanding, the FPP did not provide sufficient evaluation and/or risk mitigation strategies for some of the identified risks, in particular inflation, nominal economic growth, natural disasters and contingent liabilities emanating from public bodies. Of note, the deviation of macroeconomic variables from the forecast used to prepare the budget for FY2020/21 and the medium term projections, remain a significant risk. In particular, deviations in nominal Gross Domestic Product (GDP) can pose serious threat to the fiscal accounts given its status as a "key macroeconomic indicator that inform revenue forecasting" and the importance to legislated fiscal targets for Debt to GDP and Wage to GDP ratios.

Wages and Salaries are estimated at 9.1 per cent of GDP for FY2019/20, which is outside of the legislated target of 9 per cent. The FPP FY2020/21 also suggested that lower than projected nominal GDP growth poses a significant risk to Jamaica's Wage to GDP target.

I also reviewed the actual outturns relative to original forecasts for nominal GDP, given that prudent fiscal management requires the budget to be based on reasonable revenue projections, underpinned

by realistic macroeconomic assumptions. I found that actual outturns for FY2016/17 to 2018/19 deviated marginally from target, while the forecasts for FY2019/20 and FY2020/21 in the FPP FY2020/21, were conservatively adjusted downwards relative to the FPP FY2019/20, consistent with lower projections for global economic growth. For FY2021/22 and FY2022/23, the macroeconomic indicators were adjusted to reflect improvement in most industries, while cognizant of the existence of notable risks.

Against this background, I am reasonably assured that the FPP FY2020/21 complied with the conventions and assumptions of prudent fiscal management and the enhanced fiscal rules, notwithstanding the additional risk to economic activities from current global health concerns.

b) the reasons given, pursuant to subsection (5)(d)(ii) are reasonable having regard to the circumstances;

The Fiscal Management Strategy (FMS) provided an assessment of the actual fiscal outturn for April to December 2019, relative to original budget, consistent with the requirement of FAA Act. I found the reasons given for the deviations in revenue to be reasonable, particularly for Tax and Non-Tax Revenue. In particular, the FPP indicated that for Other Companies and PAYE, Tax Revenue in the first nine months of FY2019/20, were bolstered by higher than budgeted collection of tax arrears (past-due tax obligations). I found this explanation for the positive deviation to be reasonable, given that the FPP's Macroeconomic Framework highlighted a contraction in goods producing sector in the first half of FY2019/20, which should have adversely impacted current tax receipts given that the generation of Tax Revenue is highly correlated with nominal GDP. The FPP also indicated that higher than budgeted SCT (local) collections were based on increased production activities at Petrojam Limited and that lower collections from SCT (Import) were due chiefly to a reduction in refined fuel imports. This explanation was also not unreasonable given the established inverse relationship between the level of domestic production and the importation of finished products, by the refinery.

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;

My obligation under Section 50 (1) of the FAA Act is to certify that a public body carries out functions that are of a commercial nature. The Act requires that the Minister, no later than August 31, in every third year, provide the Auditor General with a list of public bodies that the Minister wishes the Auditor General to consider for certification. However, on October 18, 2019, the Minister informed that based on a review by the Ministry of Finance and the Public Service, no public body met the condition for consideration at this time. In this regard, the Minister did not provide a list of public bodies for certification by the Auditor General in FY2019/20 and as such, there was no basis for me to certify any public body as carrying out functions of a commercial nature.

d) a public private partnership involves only minimal contingent liabilities.

The Fiscal Policy Paper FY2019/20 indicated that the financial close for Norman Manley International Airport Public Private Partnership (NMIA PPP) was expected in the third quarter of FY2019/20. Based on the achievement of financial close as planned, I assessed the NMIA PPP in accordance with requirements of the Financial Administration and Audit Act to determine whether ‘it involved only minimal contingent liabilities accruing to the Government’. In carrying out my assessment, I examined specific risk categories over the short to medium-term using the IMF/World Bank PFRAM¹. However, nothing has come to my attention to suggest that contingent liabilities of the NMIA PPP arrangement will be more than minimal². Hence, I do not foresee significant fiscal risk exposure of the Government of Jamaica (GOJ) over the medium-term.

My Recommendation

3. I recommend that future Fiscal Policy Papers disclose the source of net public sector debt, including a disaggregation of foreign currency and interest rate composition. This would provide greater transparency in relation to the reasons for the accumulation of public debt, as well as the related risks, given the change in classification since April 2017.



Pamela Monroe Ellis, FCCA, FCA
Auditor General

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 NMIA PPP Assessment is provided in a separate document.

Executive Summary

4. I reviewed the FPP FY2020/21 in accordance with the requirements stated in Section 48B (6) of the FAA Act. Therefore, I did not evaluate the merits of the Finance Minister's Fiscal Management Strategy. In conducting my assessment, I adhered to the 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 and Assurance Standards Board.

What I found

5. My review revealed that the contents of the FPP FY2020/21 conformed with the requirements of the Third Schedule of the FAA Act and included the minimum content under the Fiscal Responsibility Statement, Macroeconomic Framework and Fiscal Management Strategy.
 - i. The Fiscal Responsibility Statement noted that good fiscal management requires strict adherence to targets and an awareness of risks. Accordingly, I reviewed the Fiscal Risk Statement to assess compliance with prudent fiscal management and the enhanced fiscal rules. I noted that the Fiscal Risk Statement identified, categorised and evaluated the major risks and for the most part, identified risk mitigating strategies. Deviations in nominal GDP can pose serious threat to fiscal accounts given its status as a “key macroeconomic indicator that inform revenue forecasting” and the importance to legislated fiscal targets for Debt to GDP and Wage to GDP ratios. Three state-owned enterprises were also highlighted as representing contingent liability risks to the Government. In particular, the Government's commitment to the Jamaican Urban Transit Company (JUTC) was identified in terms of an increase in the FY2019/20 Second Supplementary Estimates to pay statutory deduction arrears and its commitment to replacing rolling stock and infrastructure as necessary. However, there was no elaboration of the factors informing the provision of transfers to the other two identified entities, the Students' Loan Bureau and Montego Bay Metro.

Wages and Salaries are estimated at 9.1 per cent of GDP for FY2019/20, which is outside of the legislated target of 9 per cent. This reflects higher estimated Wages and Salaries and a downward revision in nominal GDP to 5 per cent from the original budget of 6 per cent. The FPP FY2020/21 also suggested that lower than projected nominal GDP growth poses a significant risk to Jamaica's Wage to GDP target.

Ministry's Response: The percentage of groups that have settled with the GOJ stands at 98 per cent, approximately. The remaining group(s) will not have any material impact on the Wage/GDP ratio.

- ii. The Macroeconomic Framework highlighted the key macroeconomic projections underpinning the budget, notwithstanding the existence of notable risks. In the context of fiscal prudence, which requires the budget to be based on realistic macroeconomic assumptions, I reviewed the forecasts

for FY2020/21 to FY2023/24 in the FPP FY2020/21 relative to the FPP FY2019/20. I noted downward adjustments for the nominal GDP forecast, to 5.7 per cent from 7.6 per cent in the FPP FY2019/20, consistent with lower projections for global economic growth, while real GDP growth was lowered to 1.2 per cent from the previous forecast of 2.6 per cent. For FY2021/22, nominal GDP growth was increased to 7.1 per cent, relative to the forecast of 7.0 per cent in the FPP FY2019/20, while real GDP is forecasted to remain flat at 2.0 per cent, based on expected improvement in most industries, notwithstanding the existence of notable risks.






- iii. The Fiscal Management Strategy (FMS) indicated that actual Tax Revenue collected exceeded the budget for April to December 2019, whereas the Macroeconomic Framework highlighted a contraction in the goods producing sector in the first half of FY2019/20. Given the established correlation between the generation of Tax Revenue and economic activity, the expectation is that a contraction in nominal GDP would adversely impact current tax receipts. However, it was noted that for Other Companies and PAYE in particular, the stronger than budgeted performances were influenced by better than anticipated arrears (past-due) collections. Hence, it would not be unreasonable to infer that the adverse revenue impact of lower economic activity was more than offset by stronger than expected tax arrears collection. Further, the FMS indicated that higher than budgeted SCT (local) collections were based on increased production activities at Petrojam Limited and that lower collections from SCT (Import) were due chiefly to a reduction in refined fuel imports. The explanation provided was also not unreasonable given the established inverse relationship between the level of domestic production at Petrojam Limited and the importation of finished products.

The FPP FY2020/21 estimates that Capital Expenditure for the entire fiscal year will be \$72.1 billion (3.3 per cent of GDP), the same as budgeted in the FPP FY2019/20. However, the FPP FY2020/21 did not indicate how the target will be met. Given the relaxation of the primary surplus target to provide additional fiscal space for capital spending, if the challenges remain regarding the implementation of infrastructure development projects, the Capital Expenditure objective could be undermined.

Performance against Fiscal Framework

6. The Fiscal Responsibility Framework (FRF) was amended in 2014 to include the new Fiscal Rules, which sets a floor on the overall balance of the covered public sector³, to bring debt down to 60 per cent of GDP or below by FY2025/26. The FRF also includes an escape clause and automatic correction mechanism, whereby annual deviations are stored in a notional account. When the cumulative deviations in the notional account exceeds a threshold, annual adjustments are required to get back on track with the Fiscal Rule. The FPP estimates a fiscal surplus of \$14.9 billion for FY2020/21, which is \$8.5 billion less the previous forecast provided in the FPP FY2019/20, while the debt to GDP ratio for FY2020/21 is projected at 87.2 per cent, relative to the 85.2 per cent indicated in the previous FPP.

Fiscal Targets

FISCAL BALANCE	DEBT RATIO	WAGES RATIO	ORIGINAL BUDGET & SUPPLEMENTARY ESTIMATES	NOTIONAL ACCOUNT
 <p>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.</p>	 <p>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.</p>	 <p>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].</p>	 <p>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).</p>	 <p>To ensure that no deviation is recorded in the notional account until the fiscal accounts for the financial year in question have been finalised.</p>

Key:

On track



Target at risk



Keep in View



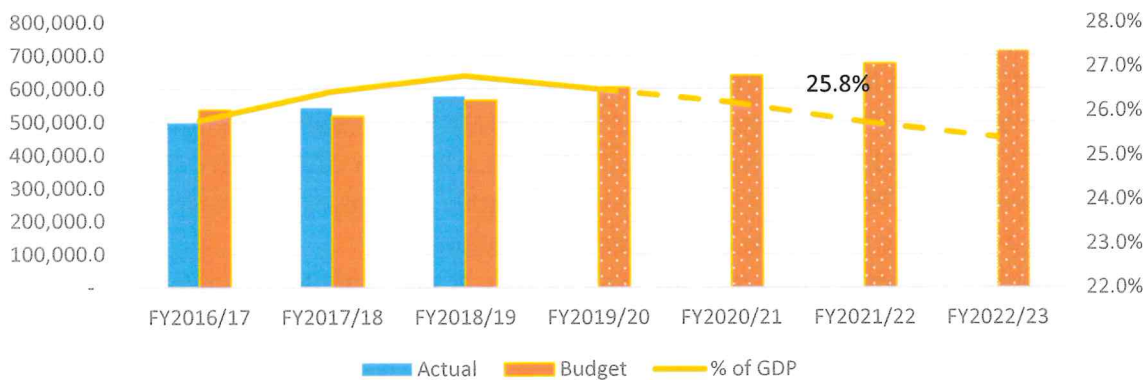
³ Central Government and other public entities included in the specified public sector as defined in the FAA Act.

The Fiscal Management Strategy

Revenue & Grants

- For the April to December period of FY2019/20, Revenue and Grants exceeded original budget by \$14.6 billion or 3.2 per cent reflected in Tax Revenue and Non-Tax Revenue, which were higher by \$10.9 billion (2.7 per cent) and \$4.9 billion (10.9 per cent), respectively. The stronger than expected collections in Tax Revenue for the nine-month period was accredited to the strong arrears collection, in a context where a contraction in the Goods Producing Industries would have tempered the generation of current tax obligations. For FY2019/20, Revenue and Grants is estimated to exceed the original budget, largely reflecting stronger than expected Tax Revenue, estimated to be 26.8 per cent of GDP.

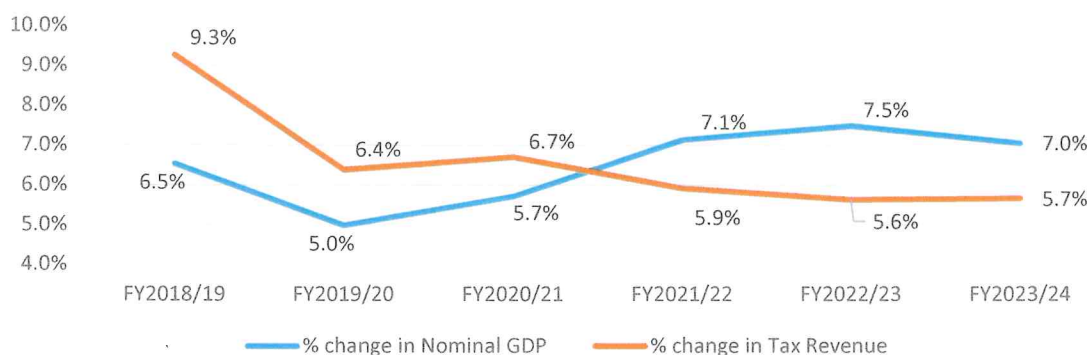
Figure 1: Tax Revenue (J\$ Million)



Source: MoFPS

- For FY2020/21, Revenue and Grants is projected at 29.6 per cent of GDP, relative to 29.9 per cent estimated for FY2019/20 and reflects a marginal 0.1 percentage point reduction in the Tax Revenue to GDP ratio. The projected reduction in the tax ratio also extends over the medium-term to FY2023/24, resulting in an average ratio of 25.8 per cent of GDP (Figure 1). Whereas a faster growth was observed for Tax Revenue relative to growth in nominal GDP over the past 10 years, the current forecasts for the medium-term depict a reversal of the trend, as Tax Revenue is projected to grow on average by 5.7 per cent, compared to average growth of 7.2 per cent for nominal GDP (Figure 2). Given the projected decline in global growth, this approach can be deemed conservative, consistent with the principles of prudent fiscal management.

Figure 2: Change in Tax Revenue relative to change in Nominal GDP FY2018/19 to FY2023/24



Source: AuGD Analysis

Bauxite Levy

- The Fiscal Management Strategy estimated Bauxite Levy receipts to be \$130.9 million for FY2019/20, increasing to \$146.5 million in FY2023/24, reflecting only legacy payments by the owners of Noranda Bauxite Ltd. However, based on current arrangements, WINDALCO was expected to resume Bauxite Levy payments in April 2018, while Noranda and JISCo Alpart are to resume levy payments in FY2021/22. However, the FPP FY2020/21 did not indicate whether projections over the medium-term is predicated on a resumption of Bauxite Levy payments by the entities.

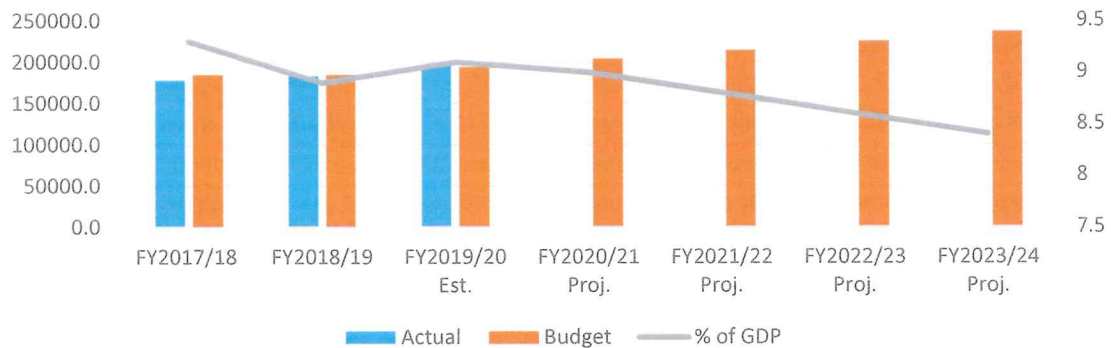
Ministry's Response: The assumption over the medium-term is that only the Noranda arrears for Bauxite levy will be collected.

Wages & Salaries

- For the April to December period of FY2019/20, Wages and Salaries exceeded the original budget by \$2.3 billion (1.6 per cent) and is estimated to exceed the full year budget by \$2.2 billion. Accordingly, Wages and Salaries are estimated at 9.1 per cent of GDP for FY2019/20, which is outside of the legislated target of 9 per cent. This reflects higher estimated Wages and Salaries and a downward revision in nominal GDP to 5 per cent from the original budget of 6 per cent. The FPP FY2020/21 also suggested that lower than projected nominal GDP growth poses a significant risk to Jamaica's Wage to GDP target (**Figure 3**). Whereas the FPP FY2019/20 indicated that Government had settled claims for 98 per cent of public sector workers for the contract period 2017/2021; there was no indication of the current status of the remaining 2 per cent.

Ministry's Response: The percentage of groups that have settled with the GOJ stands at 98 per cent, approximately. The remaining group(s) will not have any material impact on the Wage/GDP ratio.

Figure 3: Wages and Salaries (J\$ Million)

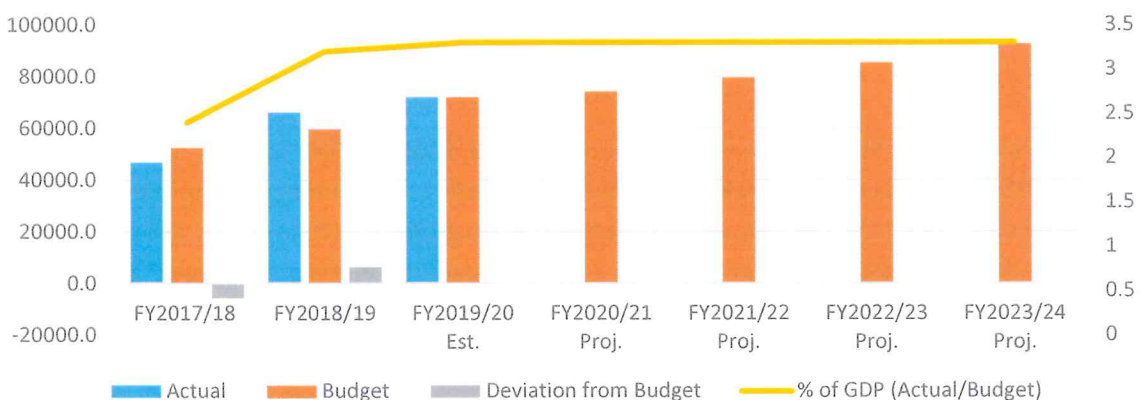


Source: MoFPS

Capital Expenditure

11. Capital expenditure for April to December 2019 was \$10.2 billion, 20.3 per cent less than originally budgeted, given the late start-up of some of the major infrastructure projects, due mainly to delays in procurement and slow mobilisation. Notwithstanding, the FPP FY2020/21 indicates that Capital Expenditure for the entire fiscal year will be \$72.1 billion (3.3 per cent of GDP), the same as budgeted in the FPP 2019/20, with the 3.3 per cent of GDP ratio maintained into medium-term (Figure 4). However, the FPP FY2020/21 did not indicate how the target will be met. Given the relaxation of the primary surplus target to provide additional fiscal space for capital spending, if the challenges remain regarding the implementation of infrastructure development projects, the Capital Expenditure objective could be undermined.

Figure 4: Capital Expenditure (J\$ Million)

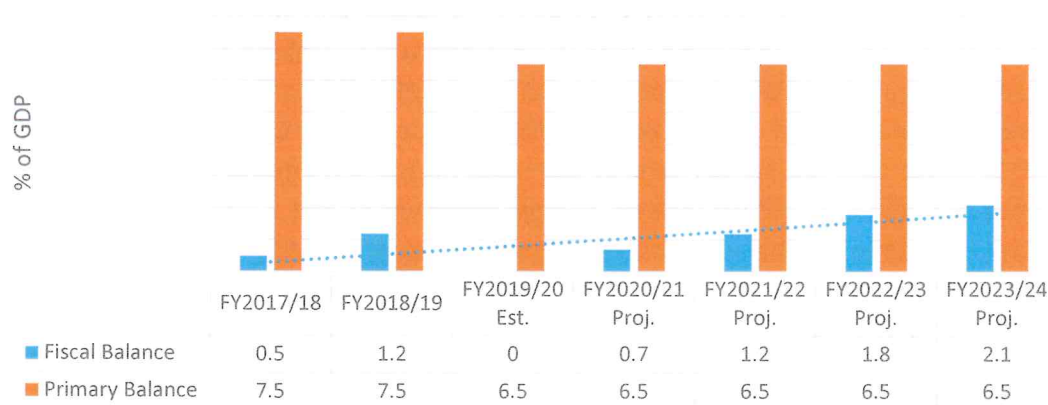


Source: MoFPS

Fiscal and Primary Balance

12. The FPP FY2020/21 estimates a fiscal surplus of \$236.8 million, which compares to the budgeted surplus of \$14.8 billion or 0.7 per cent of GDP for FY2019/20 outlined in the FPP FY2019/20. The FPP budgeted a fiscal surplus of \$14.9 billion or 0.7 per cent of GDP for FY2020/21, a downward revision from the \$23.3 billion (1.0 per cent of GDP) fiscal surplus forecasted in the FPP FY2019/20. Additionally, a primary surplus of 6.5 per cent of GDP is budgeted for FY2020/21, which is maintained over the medium-term to support achievement of the medium-term fiscal programme, aimed at reducing the Debt to GDP ratio to 60 per cent or lower by end-FY2025/26 (Figure 5). In a context where the budget for FY2020/21 is designed to achieve the targets entrenched in the Fiscal Rules, continuous identification and monitoring of fiscal risks will be paramount to the attainment of the Fiscal and Primary balance targets for FY2020/21 and the medium-term, as well as the achievement the Debt target.

Figure 5: Fiscal and Primary Balance



Source: MoFPS

Public Debt

13. The Fiscal Management Strategy estimates the ratio of Public Debt to GDP to be 91.5 per cent at the end of FY2019/20. Although marginally above the public debt target outlined in the previous FPP, it represents a continuation of the downward trajectory observed since FY2013/14. Of note, the pace of reduction in the public debt ratio is projected to accelerate over the medium-term to 67.8 per cent by end-FY2023/24 (Table 1 and Figure 6). This path accords with the legislated target for a Public Debt to GDP ratio of 60 per cent by FY2025/26, which is “the overarching objective” of GOJ’s fiscal framework.

Table 1: Debt/GDP (J\$ Million)

Fiscal Year	2023/24 proj.	2022/23 proj.	2021/22 proj.	2020/21 proj.	2019/20 est.
Total Debt	1,904,122.70	1,951,819.00	1,988,734.40	1,986,550.60	1,973,043.00
Debt to GDP Ratio %	67.8	74.4	81.5	87.2	91.5

Source: MoFPS

14. The medium-term forecast for the Public Debt to GDP ratio is underpinned by net repayment of debt, as well as, nominal GDP growth. However, there are several risks related to both the public debt stock and nominal GDP growth that have the potential to derail the downward trajectory of the debt to GDP ratio. The public debt stock itself remains extremely vulnerable to foreign exchange risks in a context where depreciation of the local currency can keep the Jamaica Dollar value of external debt elevated, thereby slowing the downward movement in the public debt ratio. The FMS states Government intention to “continue to focus mainly on domestic financing, in order to realign the debt portfolio in favour of local currency and, consequently, reduce foreign currency risk”⁴. According to the Medium-Term Debt Strategy (MTDS), the foreign currency share of total public debt is estimated at 61 per cent for end-March 2020, below the target of 65 per cent. However, I note that this analysis does not take into account the foreign currency composition of net public bodies’ debt, a component of total public debt, which increased significantly with the reintegration of the PetroCaribe Development Fund (PCDF) transactions in FY2019/20.
15. It is important to note that the projected fall in the Public Debt to GDP ratio for FY2020/21 and FY2021/22 is largely predicated on forecasted nominal GDP growth, as the public debt stock is targeted to rise in both periods. While the Fiscal Risk Statement acknowledged the adverse implication of negative deviations in the nominal growth rate relative to forecast, this impact was not quantified nor were mitigating strategies identified. Additionally, risks to the public debt stock include those emanating from underperforming public bodies that may require increased debt financing or Government support.

Figure 6: Debt/GDP



Source: MoFPS

⁴ In this regard, the MTDS for FY2020/21-FY2023/24, which includes the Annual Borrowing Plan and Issuance Calendar, will continue to operationalize a strategy of borrowing mainly in the domestic market at fixed rates across the yield curve.

Fiscal Risk Assessment

16. The Fiscal Risk Statement identifies the sources of GOJ's exposure to fiscal risks, while attempting to quantify and provide analysis on the mitigating measures already taken or under exploration. These risks were categorised as macroeconomic risks, contingent liabilities, natural disasters and climate change risks along with other risks⁵. While no new risks were identified, there remains scope for further improvement in the evaluation and/or risk mitigation strategies for some of the identified risks, in particular inflation, nominal GDP growth, natural disasters and contingent liabilities emanating from public bodies.
17. According to the FPP FY2020/21, the World Bank identified an estimated financing gap of US\$173.0 million for emergency losses in the event of such disasters. Whereas the Fiscal Risk Statement indicated that GOJ has partnered with the World Bank to develop a catastrophe bond which "should go a far way to address the existing gap", there was no timeline for such an instrument or indication whether proceeds would be sufficient to fully close the financing gap. Notwithstanding, GOJ states that it is "actively seeking additional instruments to ensure that adequate financing is available for disaster response."
18. The Fiscal Risk Statement quantified the fallout in tax revenues from a 1 per cent adverse shock to nominal GDP; however, mitigating measures were not discussed. It is important to note that the FY2020/21 budget and medium-term forecast represent a conservative Tax Revenue projection in a context where the Tax Revenue is forecasted to grow at a slower rate than that of nominal GDP despite an estimated average tax buoyancy of 1.2 for the last 10 years⁶. In this regard, growth in tax revenues over the medium-term is on average 1.4 percentage points below nominal GDP growth. A conservative approach to Tax Revenue projection provides a buffer in the event of an underperformance in nominal growth relative to target given that average deviation in the nominal growth for the past 5 years was only 0.5 percentage points.
19. The Fiscal Risk Statement identified public bodies that require consistent budgetary support for which GOJ have made accommodations for transfers to these entities including the JUTC, Students' Loan Bureau and Montego Bay Metro. However, the source of risk remains, as transfers to such entities may be required in amounts higher than budget, particularly in the case of JUTC where transfers for FY2018/19 and FY2019/20 were \$2.5 billion and \$1.6 billion above budget.

Public Private Partnership

20. The FPP FY2020/21 indicated that the Norman Manley International Airport (NMIA) Public Private Partnership (PPP) achieved financial close during the third quarter of FY2019/20. As such, the

⁵ Macroeconomic risks constitute deviations

⁶ Tax buoyancy refers to the relations

concessionaire PAC Kingston Airports Limited took over operations of the airport in October 2019. The concessionaire as set out in the agreement will finance and complete the planned modernization and expansion of the NMIA at an estimated capital cost of US\$110 million, with a 25-year concession agreement in place. The primary objective of Auditor General’s assessment was to ascertain whether “a public private partnership involves only minimal contingent liabilities accruing to the government”.

21. In carrying out the assessment of the NMIA PPP, in keeping with the requirements of the FAA Act, specific risk categories were examined over the short to medium-term. Based on this assessment using the IMF/World Bank PFRAM⁷, the contingent liability risk to the GOJ of the NMIA PPP arrangement was assessed to be minimal. Consequently, I do not foresee significant fiscal risk exposure of the GOJ over the medium-term⁸.
22. The FPP FY2020/21 also identified three additional PPPs, namely, Rio Cobre Water Treatment Plant, the Jamaica Ship Registry and the Schools Solar Energy Project. The FPP further stated that for the Schools Solar Energy Project, which is a Government Pays PPP, negotiations will be concluded during FY2019/20 to facilitate commencement of the project during FY2020/21. However, there was no indication of the nature of the remaining PPPs in order to identify contingent risks to Government.

Self-Financing Public Bodies (SFPBs)

23. The FPP estimated an overall balance for SFPBs of \$1.1 billion for FY2019/20, reflecting an operating surplus of \$91.3 billion, countered by a deficit of \$46.4 billion in the capital account and net transfer to Government of \$45.4 billion.
24. Brief references were made to other public bodies, National Water Commission (NWC), Wigton Windfarm Limited and Petrojam, although the activities of SFPBs can present risks to the fiscal and debt trajectory. In particular, there was no indication of the total number of Public Bodies or the specific contribution to the overall deficit of \$16.7 billion for FY2020/21; in particular, those entities that receive transfers from Government, such as CAP and JUTC and are likely to exceed budgeted transfers.

⁷ 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.

⁸ Details of the NMIA PPP assessment are outlined in a separate report, which will be submitted to the Houses of Parliament.

Reasonableness of the Deviation of the Fiscal Indicators

25. 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. Further, 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.
26. I reviewed the explanations provided for the period April to December 2019 as provided in the FPP FY2020/21. In making a determination of reasonableness of the explanations provided by the Minister of Finance, the following were undertaken:
- a) a review of the Macroeconomic Framework provided in the Interim Report in context of Budget Assumptions indicated in the FPP FY2019/20 February 2019;
 - b) a review of risks in the FY2020/21 Fiscal Policy Paper and Debt Management Strategy to determine if any has materialized or were excluded from initial projections analysis of supplementary information;
 - c) a review of emerging risks discussed in the Interim FPP FY2019/20 Report; and
 - d) confirmation where possible, of the Minister's explanations with observed data for FY2019/20 (April to December 2019).
27. My comments on variances provided in **Table 2** relate only to material issues pertaining to information provided in the FPP FY2020/21 and by the MoFPS. I note that the explanations provided by the Ministry for deviation of fiscal indicators were reasonable in most instances.
28. However, the FPP FY2020/21, did not elaborate on the reasons for the significant deviations from the original budget in respect of 'Other Inflows' and 'Other Outflows' and there was no explanation for the significant shortfall (37.2 per cent) or the significant excess (608.7 per cent) for Other Inflows relative to budget respectively.

**Table 2: Comments on the Explanation for the Fiscal Deviations for April - December 2019 relative to Original Budget
(in millions of Jamaica Dollars)**

Item	Provisional		Original Budget		Diff %		GOJ's Explanation Stated in FPP FY2020/21		Audit Comments	Ministry's Response
	April - Dec	Revenue	April - Dec	Revenue	Versus Original	Versus Suppl.	Comparing provisional and Original Budget	Explanation		
Revenue & Grants	469,149.6	454,549.1	403,831.7	14,600.5	3.2%					
Tax Revenue	414,749.6	403,831.7	10,917.9	10,917.9	2.7%					
Income & Profits	102,021.0	98,132.0	3,889.0	3,889.0	4.0%					
Other Companies	38,072.8	34,411.7	3,661.0	3,661.0	10.6%		Largely attributable to higher than budgeted receipts of arrears in FY2019/20. Arrears for Other Companies were 85.5% better than budgeted.	Explanation provided in FPP was reasonable		Budgeted: 3,087,592,700.03 Actual: 5,738,131,791
Tax on Dividend	1,555.6	1,410.0	145.6	145.6	10.3%		The rise in the average dividend yield per share, coupled with a 7.5% increase in the frequency of dividend pay-outs over the period led to the higher inflows.	Explanation provided in FPP was reasonable.		
Production & Consumption	147,468.8	139,457.7	8,011.1	8,011.1	5.7%		SCT (Local), GCT (Local), Telephone Call Tax, Betting, Gaming and Lotteries and Stamp Duty (Local) were the main contributors to the positive outturn.			
Stamp Duty	4,025.1	3,603.0	422.1	422.1	11.7%		Not explained.			
GCT (Local)	81,313.5	79,019.2	2,294.3	2,294.3	2.9%		Robust compliance effort and greater sales of taxable goods and services contributed to the strong performance.			
Other Licenses	1,182.1	842.4	339.7	339.7	40.3%		This was due largely to increased inflows from Spectrum Management Authority.	MofPS did not make a comparison to budget.		

Item	Provisional		Original Budget		Diff %		GOJ's Explanation Stated in FPP FY2020/21	Audit Comments	Ministry's Response
	April – Dec	April – Dec	April - Dec	April - Dec	Versus Original	Versus Suppl.			
<i>SCT (local)</i>	22,406.1	19,549.6	2,856.5	14.6%	Comparing provisional and Original Budget The higher receipts can in part be attributed to a 36.4% increase in production activities at Petrojam over the last fiscal year.	MoFPS did not make a comparison to budget.			
<i>Betting, Gaming and Lottery</i>	4,669.7	3,935.7	734.0	18.7%	A major operator in the industry reported an increase in revenue growth in most segments, including Lotteries, Sport Betting and Horseracing.	Explanation provided in FPP was reasonable.			
<i>Telephone Call Tax</i>	2,759.6	1,652.8	1,106.8	67.0%	Attributable to increase in taxable call minutes, which were 12.6% higher than the corresponding period.	MoFPS did not make a comparison to budget.			
<i>Contractors Levy</i>	1,600.5	2,096.9	-496.3	-23.7%	The decrease arose from the contraction in the Construction industry related to the winding down of key infrastructural development projects and the completion of major projects within the energy sector.	Explanation provided in FPP was reasonable.			
International Trade	165,259.8	166,242.0	-982.2	-0.6%					
<i>Customs Duty</i>	34,532.3	34,107.6	424.7	1.2%					
<i>Stamp Duty</i>	2,163.3	1,834.1	329.3	18.0%	Stamp Duty of \$2,163.4mn was ahead of budget by 18.0%. Higher trade volumes and the resultant increase in total Cost, Insurance and Freight (CIF) outweighed the expected reduction from the Stamp Duty reform. Notably, the volume of duty-paid motor vehicles	Explanation provided in FPP was reasonable			

Item	Provisional	Original Budget	Diff %	Diff %	GOJ's Explanation Stated in FPP FY2020/21	Audit Comments	Ministry's Response
	April - Dec	April - Dec	Versus Original	Versus Suppl.			
<i>SCT (imports)</i>	38,771.1	40,375.9	-1,604.8	-4.0%	Comparing provisional and Original Budget increased by 15.0% year over year while CIF for the tariff code other tiles doubled compared to the April-December 2018 period on account of increased consumer demand and major renovation and building projects undertaken by two large hotel properties.	Explanation provided in FPP was reasonable.	
<i>GCT (imports)</i>	70,638.9	71,326.8	-687.9	-1.0%	Due chiefly to a reduction in refined fuel imports.		
Non-Tax Revenue	49,680.0	44,778.9	4,901.1	10.9%	The over performance largely reflects unprogrammed distribution from the Petroleum Corporation of Jamaica following the Wigton divestment.	Explanation provided in FPP was reasonable.	
Capital Revenue	826.3	1,408.3	-582.1	-41.3%	Not explained.		
Grants	3,893.8	4,530.1	-636.4	-14.0%	Slower than anticipated execution of some capital projects affecting receipts over the period.	Explanation provided in FPP was reasonable.	
Capital Expenditure	40,213.6	50,428.6	-10,214.9	-20.3%	Expenditures have been impacted by the delayed start-up of some of the major infrastructure projects. Key challenges include delays in procurement and slow mobilisation.	Explanation provided in FPP was reasonable.	

Item	Provisional		Original Budget		Diff %		GOJ's Explanation Stated in FPP FY2020/21		Audit Comments	Ministry's Response
	April - Dec	April - Dec	April - Dec	April - Dec	Versus Original	Versus Suppl.	Comparing provisional and Original Budget			
Other Inflows (incl PCDF)	82,864.3	11,692.9	71,171.4	608.7%			Not explained			The integration of PCDF has resulted in larger than anticipated inflows.
Other Outflows (incl BOJ Recapitalization)	16,530.9	26,328.4	-9,797.5	-37.2%			Not explained			BOJ recapitalization via instruments continues with the expectation that recapitalization will be completed by end-FY 2019/20.
Total Debt (As at end - December 2019)	1,999,491.1						At end-December 2019, the nominal stock of total public debt was \$1,999,491.1mn, \$61,477.6mn or 3.2% more than at end-March 2019.	Explanation provided in FPP was reasonable.		
Central Govt Domestic	743,902.1						Overall, the change reflected an increase in net public bodies' debt with partially offsetting reductions in Central Government (CG) domestic and external debt, over the period.			
Central Govt External	1,165,294.3									
Net Public Bodies	90,294.7									

REGISTRAR GENERAL'S DEPARTMENT
Notes to the Financial Statements
FOR THE YEAR ENDED MARCH 31, 2019

5. Property, plant and equipment

	Plant & Machinery	Office Equipment	Leasehold Improvement	Furniture and Fixtures	Computers	Motor Vehicle	Total
	\$	\$	\$	\$	\$	\$	\$
At Cost/Valuation							
1-Apr-18	75,995	75,984,355	25,169,789	44,181,043	46,474,649	18,199,675	210,085,506
Additions	2,728,514	3,519,974	-	451,132	3,153,437	-	9,853,057
Reclassification	-	(4,980,663)	-	(771,586)	5,752,249	-	-
Disposals	-	(6,829,354)	-	(296,055)	(1,532,230)	-	(8,657,639)
	2,804,509	67,694,312	25,169,789	43,564,534	53,848,105	18,199,675	211,280,924
Depreciation							
1-Apr-18	26,586	58,241,176	21,554,957	35,943,690	40,995,819	12,952,626	169,714,854
Depreciation charges	74,483	5,117,219	653,497	1,217,475	4,690,300	3,216,574	14,969,548
Disposal	-	(4,943,425)	-	(660,778)	(2,537,484)	-	(8,141,687)
	101,069	58,414,970	22,208,454	36,500,387	43,148,635	16,169,200	176,542,715
Net Book Value							
March 31, 2019	2,703,440	9,279,342	2,961,335	7,064,147	10,699,470	2,030,475	34,738,209
Net Book Value							
March 31, 2018	49,409	17,743,178	3,614,832	8,237,352	5,478,832	5,247,049	40,370,653

Fixed Asset acquisitions amounted to \$10,882,432. However, this amount includes donated assets valued at \$2,648,414 and purchases totaling \$8,234,018.

6. Intangible assets

	Computer Software
	\$
At Cost/Valuation	
April 1,2018	52,730,923
Additions	86,990
	52,817,913
Depreciation	
1-Apr-18	50,009,510
Amortization costs	865,218
	50,874,728
Net Book Value March 31, 2019	1,943,185
Net Book Value March 31, 2018	2,721,413

