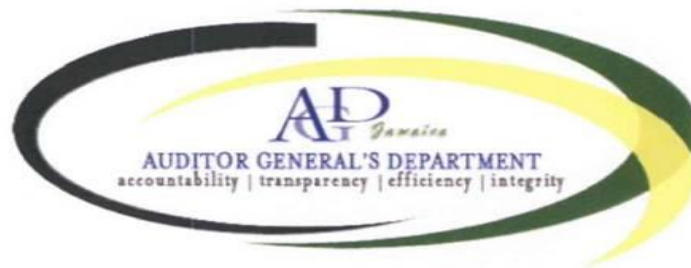


**EXAMINATION OF THE COMPONENTS OF
THE FISCAL POLICY PAPER FY2020/21
INTERIM REPORT, WHICH WAS LAID
BEFORE THE HOUSES OF PARLIAMENT ON
OCTOBER 6, 2020**

**INDEPENDENT AUDITOR'S REPORT
THE 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.



Auditor General of Jamaica
Auditor General's Department
40 Knutsford Boulevard, Kingston 5
Jamaica, W.I.
www.auditorgeneral.gov.jm

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Table of Contents

Auditor General’s Comments 5

My Responsibility..... 5

My Recommendation 7

Executive Summary..... 8

The Suspension of the Fiscal Rules..... 8

What I found 8

The Fiscal Management Strategy 10

 Primary and Fiscal Balance 10

 Tax Revenue 11

 Capital Expenditure 12

 Wages & Salaries 13

 Programmes 15

 Public Debt..... 15

 Fiscal Risk Assessment..... 16

 State Owned Enterprises 17

 Public Private Partnerships..... 18

Reasonableness of the Deviation of the Fiscal Indicators 19

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Auditor General's Comments

1. I have examined the components of the Fiscal Policy Paper (FPP) FY2020/21 Interim Report, laid before the Houses of Parliament on October 6, 2020 in accordance with Financial Administration and Audit (FAA) Act. The Report met the requirements under the Third Schedule and included the minimum content under the Fiscal Responsibility Statement (FRS), Macroeconomic Framework and Fiscal Management Strategy (FMS).

My Responsibility

2. Section 48B (6) of the FAA Act requires the Auditor General 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:**
 - i. I reviewed the FPP FY2020/21 Interim Report in the context of the FAA Act that was amended in May 2020 to enable a suspension of the fiscal rules for FY2020/21, given that the required fiscal balance to achieve the debt/GDP timeline could not be met due to the adverse impact of the COVID-19 pandemic on economic activity. Conventions of prudent fiscal management require a realistic assessment of risks that could jeopardise the achievement of the fiscal targets, to enable appropriate risk mitigating measures to preserve the broader policy objectives. Hence, given the continuing global COVID-19 pandemic and implications for Jamaica's fiscal outlook and the medium-term, I sought to identify whether the macroeconomic assumptions were realistic, such that the First Supplementary and medium-term estimates would be based on reasonable revenue projections.
 - ii. The FPP 2020/21 Interim Report indicated that for FY2020/21, nominal and real GDP are projected to contract by 2.8 per cent and 7.9 per cent, respectively, relative to growth of 5.7 per cent and 1.2 per cent projected in the February FY2020/21 FPP. For FY2021/22, nominal and real GDP growth are projected at 8.7 per cent and 4.2 per cent, respectively as the economy is expected to recover from the large contraction in the current fiscal year. Notwithstanding, the Interim FPP highlighted that subsequent to the lifting of travel restrictions, Jamaica has been experiencing increases in the number of positive COVID-19 cases and that if the situation worsened there could be further tightening of restrictions which could adversely impact economic activities. Given this worsening scenario and the reported new wave of COVID-19 infections worldwide that could further delay global economic recovery, prudent fiscal management would dictate a more conservative approach to the forecast for FY2021/22. In this context, the fiscal indicators should have been adjusted downwards to incorporate the impact of the worsening COVID-19 pandemic instead of the Ministry maintaining its optimistic forecast and treating the worsening COVID-19 pandemic as a potential explanation for the deviation to FY2021/22 fiscal outturn. At the same time, whereas the forecasts in the February 2020/21 FPP were supported by references to the World Bank Global Economic

Prospects, there was no similar corroboration in FY2020/21 Interim FPP to support the basis for Ministry's optimistic growth forecast.

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

- i. I reviewed the Central Government outturn for FY2019/20 and for April to July 2020, relative to the respective budgets, in accordance with the FAA Act. The Interim FPP highlighted that for FY2019/20, revenue overperformed relative to the Original Budget and Third Supplementary estimates, based on record low unemployment and improving economic performance. While the explanations were reasonable where revenue performance is compared to the previous year, based on the significantly lower nominal GDP growth of 3.8 per cent for FY2019/20 vis-à-vis the projected 6.0 per cent and the established relationship between tax revenue and GDP, the overperformance relative to Budget necessitates further explanation, having regard to the circumstances. For example, information regarding the amount of tax arrears collected (net) in FY2019/20 relative to Budget, could have provided some clarity regarding taxes generated from current economic activity vis-à-vis collections related to prior year obligations.
- ii. The Interim FPP compared the outturn for April to July 2020 to the First Supplementary Estimates, which represented a revision of the Budget that was tabled in the February FY2020/21 FPP, to incorporate the impact of COVID-19. For the period April to July 2020, I found that except for Grants, the explanations provided for the deviations in revenue primarily represented a disaggregation of the components, relative to the revised estimates. For example, the underperformance of taxes from international trade activities was ascribed to lower receipts from customs duty, stamp duty and environmental levy, which are merely the tax components and not causation. On the other hand, I expected the Interim report to make some reference to underlying factors such as import performance for the April to July 2020 period, having highlighted a 17.4 per cent decrease in the value of Goods and Service imports for FY2019/20. Similarly, for Income & Profits and Production & Consumption, there was no indication of the interest rate environment or economic output, respectively, relative to Budget that would have influenced tax receipts. Provision of such information would have enabled a better determination of factors influencing the deviations from target. Hence, I could not confirm the reasonableness of the explanations for the deviations, 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:

My obligation under Section 48B(6)(c) of the FAA Act, pursuant to Regulations made under section 50(1) of the 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. The first submission would have been in 2016; however, no public bodies met the required criteria set out in the regulations. Similarly, no public bodies met the required criteria in 2019, and therefore the Minister did not provide a list at the scheduled submission in August 2019. Accordingly, there was no requirement for the Auditor General to carry out an assessment during FY2020/21.

d) a public private partnership involves only minimal contingent liabilities

- i. The FAA Act requires the Auditor General to assess whether ‘a public private partnership (PPP) involves only minimal contingent liabilities accruing to the Government’. The October FPP FY2020/21 Interim Report did not identify any planned PPP arrangements for my assessment for minimal contingent liability based on my responsibilities under the FAA Act. The Interim FPP however, indicated that three of the existing PPPs had indicated their intention to invoke the force majeure clauses provided for in their concession agreements.
- ii. In my assessment of the Norman Manley International Airport PPP using the IMF/World Bank PPP Fiscal Risk Assessment Model (PFRAM), which was also mentioned in my review of the February FY2020/21 FPP, I noted that the Concession Agreement allowed force majeure risks to be shared between the Concessionaire and Airports Authority of Jamaica (AAJ), as either party has the right to invoke the force majeure clause. I also highlighted that the occurrence of force majeure events did not relieve the Concessionaire’s obligation to pay concession fees but if such an event continued without remedy beyond six months, inhibiting the Concessionaire’s performance of service, either party could initiate termination of the Agreement. Under such a circumstance, the Concessionaire would be entitled to relief from performance of service as well as, the right to compensation by the Owner under Schedule 10 of the Agreement. Although I considered the likelihood of such events materializing to be low, I assessed the fiscal impact to the Government to be medium, in the context where the level of termination payment by AAJ to the Concessionaire is mitigated by insurance proceeds, which accrue to the Concessionaire; however, Government would still have to contend with potentially lower revenues.

My Recommendation

3. As indicated in my previous reviews, the Ministry should consider reporting on the performance of tax arrears collected relative to the Budget as this could provide greater transparency in terms of explaining revenue performance.



Pamela Monroe Ellis, FCCA, FCA
Auditor General

Executive Summary

4. My review of the FPP Interim report was based on the requirements stated in Section 48B (6) of the FAA Act and 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.
5. The FY2020/21 Interim FPP provided a comparison of the FY2019/20 outturn relative to the Budget outlined in the February FPP FY2019/20, in compliance with the FAA Act as well as, a comparison of the outturn for April to July 2020/21 with the First Supplementary Estimates.

The Suspension of the Fiscal Rules

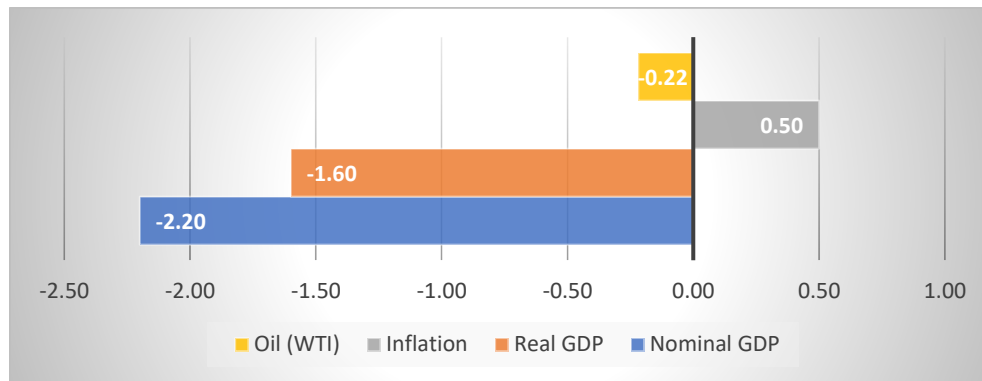
6. Following the tabling of the Budget in February 2020, Jamaica had its first reported coronavirus case in March 2020 which caused the GOJ to close the borders and implement other restrictive measures. Given the expected adverse economic impact, the GOJ tabled an amendment to the FAA Act in May 2020 to extend the legislated Debt target from March 2026 to March 2028 and passed a resolution in Parliament for the suspension of fiscal rules. This led to an early revision of the fiscal targets in the First Supplementary Estimates, on account of expected significant revenue shortfall and reprioritisation of expenditure. Against this background, the negative implications of the ongoing pandemic for revenue and spending, as well as the general economic uncertainty, underscores the importance of a conservative approach to the fiscal projections, consistent with prudent fiscal management.

What I found

Performance - FY2019/20 and April -July FY2020/21

7. I compared the outturns for key macroeconomic indicators that underpinned revenues for FY2019/20 and found significant deviations for nominal and real GDP relative to target, while the outturns for inflation and oil prices were largely in line with expectations.

Figure 1: Variance from Target FY2019/20



Source: AuGD's Analysis

8. The Interim FPP highlighted that low unemployment and improved economic activity contributed to an overperformance by revenues in FY2019/20. However, given the significantly lower than projected nominal GDP growth and the established approximate one-to-one relationship between tax revenues and nominal GDP, I expected some explanation of the disjuncture in terms of the overperformance in FY2019/20 relative to Budget. In this regard, information regarding the amount of tax arrears collected (net) in FY2019/20 relative to Budget, could have provided some clarity regarding taxes generated from current economic activity vis-à-vis that related to prior year receipts, in the context of the overperformance by revenues.
9. I found that the explanations provided for the deviations in revenue from Budget for April-July 2020, were primarily a disaggregation of the components of revenue and did not identify the underlying factors determining revenues. For example, the Interim FPP examined the components of tax receipts from international trade activities, highlighting lower receipts from customs duty, stamp duty and environmental levy, but did not make any reference to the performance of the underlying drivers such as imports or exchange rate, relative to target. Having reported a 17.4 per cent decrease in the value of Goods and Service imports for FY2019/20 relative to the previous year, indication of the outturn for imports relative to target for April to July 2020 would have provided greater clarity regarding the factors influencing the performance of the related taxes. Similarly, for Income & Profits and Production & Consumption, there was no indication of the interest rate environment or economic output, respectively, relative to expectations. Provision of such information would have assisted in identifying causation and enabled assessment of the reasonableness of the explanations provided for the deviations, having regard to the circumstances.
10. The Interim FPP indicated that the report served as an update to elements of the Fiscal Risk Statement published in the February 2020 FPP. However, while the report presented an update on the performance of risks for the period April to August 2020, it did not provide a detailed outlook for these risks to the end of the fiscal year or beyond. Hence, we were unable to undertake a proper

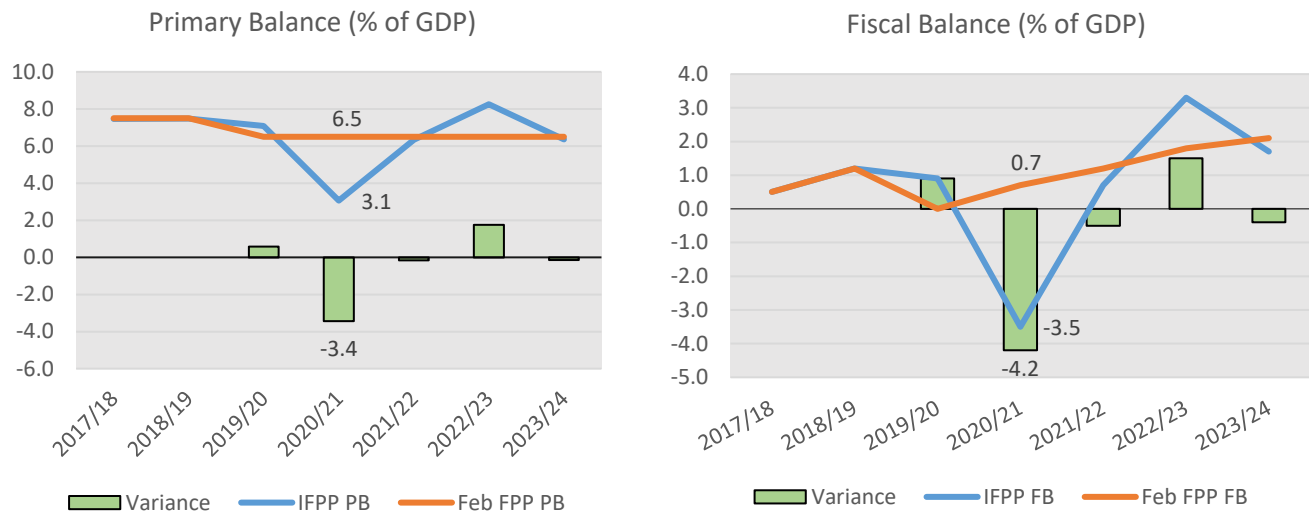
assessment of the risk implications for the debt trajectory, taking into consideration the suspension of the fiscal rules for FY2019/20.

The Fiscal Management Strategy

Primary and Fiscal Balance

- The Primary Balance outturn for FY2019/20 was 7.1 per cent of GDP, when compared to the Budget of 7.0 per cent, which afforded GOJ additional fiscal space for undertaking infrastructural projects for the period. The Primary Surplus for FY2020/21 was projected to be 6.5 per cent of GDP as highlighted in the February FPP 2020. However, the continued deterioration in the global economic environment and the increased risks emanating from the new wave of COVID-19 infections, led to a revised Primary Balance target of 3.1 per cent of GDP in the First Supplementary Budget. The Interim FPP further stated that, subsequent to the approval of the First Supplementary Budget and the lifting of travel restrictions, Jamaica has been experiencing increases in the number of positive COVID-19 cases and if the situation worsened, this could adversely impact economic activities. Prudent fiscal management would dictate that the fiscal indicators should have been adjusted downwards to incorporate the impact of the worsening COVID-19 pandemic instead of treating it as a potential explanation for the deviation to FY2021/22 fiscal outturn.

Figure 2: Primary and Fiscal Balance (% of GDP) – Original vs Revised



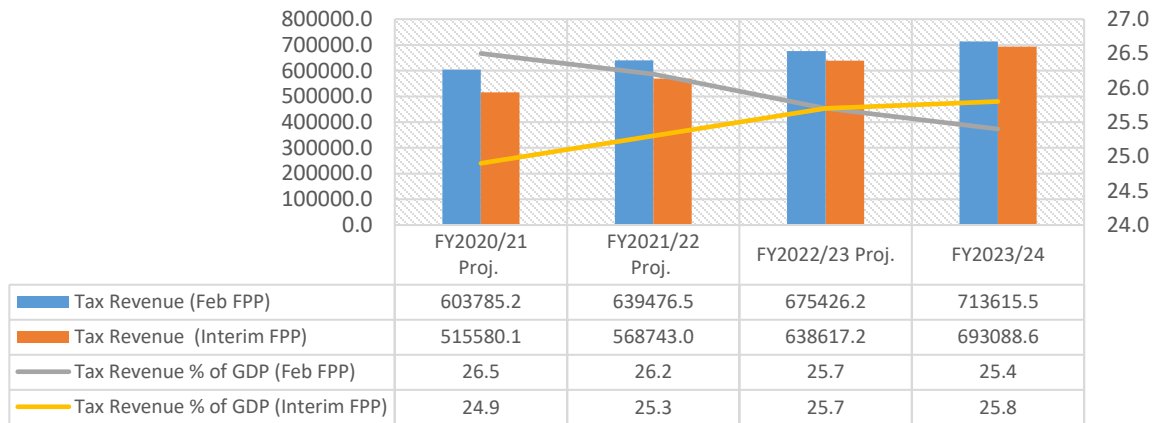
Source: MoFPS

- For the FY2020/21 period, the fiscal balance target was revised down to negative 3.5 per cent of GDP in the Interim FPP, from a positive 0.7 per cent indicated in the February FPP (Figure 2). Similar to the Primary Balance, the adverse risks to the macroeconomic indicators from a worsening pandemic could necessitate further revisions to the Budget.

Tax Revenue

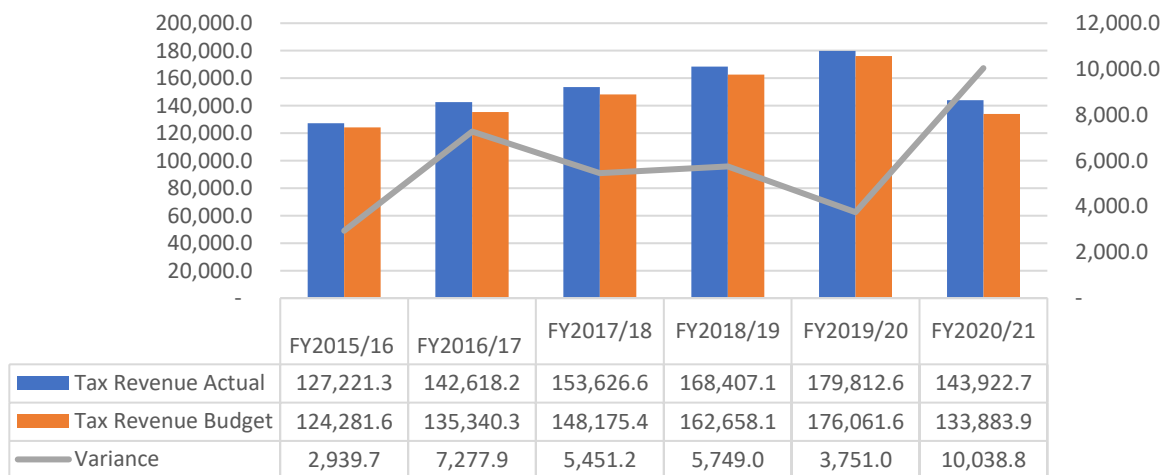
13. The Interim FPP provided a revised target for Tax Revenue for FY2020/21 at 24.9 per cent of GDP, lower than the outturn for FY2019/20 and below the projection of 26.5 per cent reflected in the FPP February 2020 Report. The projection for Tax Revenue for FY2020/21 was also revised downward to \$515.6 billion relative to Original Budget of \$603.8 billion (**Figure 3**). This was predicated on a revised nominal GDP growth projection of 3.8 per cent compared to 6.0 per cent in the February FPP. The new wave of COVID-19 worldwide has negative implications for GOJ revenue for FY2020/21 and FY2021/22, particularly those emanating from international trade activities, including tourism. By extension, any further fallout in revenue could either require a downward adjustment to the expenditure target or result in a worsening of fiscal deficit.

Figure 3: Tax Revenue (% of GDP)



Source: MoFPS

Figure 4: April to July Tax Revenue (J\$ million)



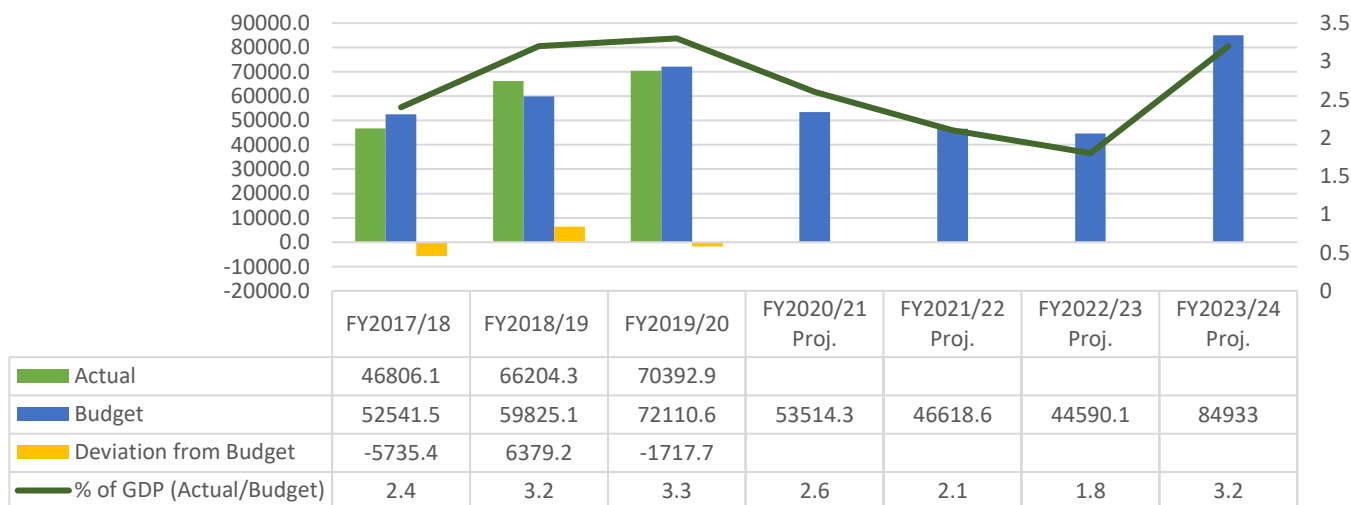
Source: MoFPS

14. The Interim FPP did not provide an explanation for the overperformance of Tax Revenue for the April to July period. Instead of identifying causation, the Report only indicated the deviations of the components of the Tax Revenue from the Revised Budget. Provision of information regarding the performance of the underlying drivers for Tax Revenue such as economic output, interest rates, exchange rate and other macroeconomic variables would have provided us with a basis for determining the reasonableness of the deviation from target for the April to July period.

Capital Expenditure

15. The outturn for Capital Expenditure for FY2019/20 was \$70.4 billion, \$1.7 billion or 2.4 per cent below the Original Budget despite the additional fiscal space facilitated by a reduction in the Primary Balance target to 6.5 per cent for the financial year (**Figure 5**). The Interim FPP projects Capital Expenditure of \$53.5 billion for FY2020/21, a reduction of \$20.7 billion (27.9 per cent) versus the \$74.2 billion projected in the February 2020 FPP. The Interim FPP states that Capital Expenditure would have been affected by the reallocation of resources to programmes earmarked to manage the pandemic. For the medium-term, the Interim FPP projected that Capital Expenditure will continue to decline up to FY2022/23, with some recovery in FY2023/24. However, if the economic environment further deteriorates based on a worsening COVID-19 pandemic requiring further reallocation of resources to recurrent programmes, the benefits to capital expenditure from the additional fiscal space provided through the reduction of the legislated primary balance to 7.0 per cent, could be further eroded.

Figure 5: Capital Expenditure (J\$ million)



Source: MOFPS

16. Capital Expenditure for April to July 2020 was \$15.5 billion, \$1.7 billion (12 per cent) above the First Supplementary Budget, but below the Original Budget by \$7.8 billion or 33 per cent. However, the

Interim FPP did not provide an explanation for the additional expenditure. For April to July 2020, Capital Expenditure as a percentage of total expenditure at 7.3 per cent was the lowest since the similar period in FY2017/18 but above the average of 7 per cent for the same period of the last five years (Table 1).

Table 1: Capital Expenditure April to July (J\$ million)

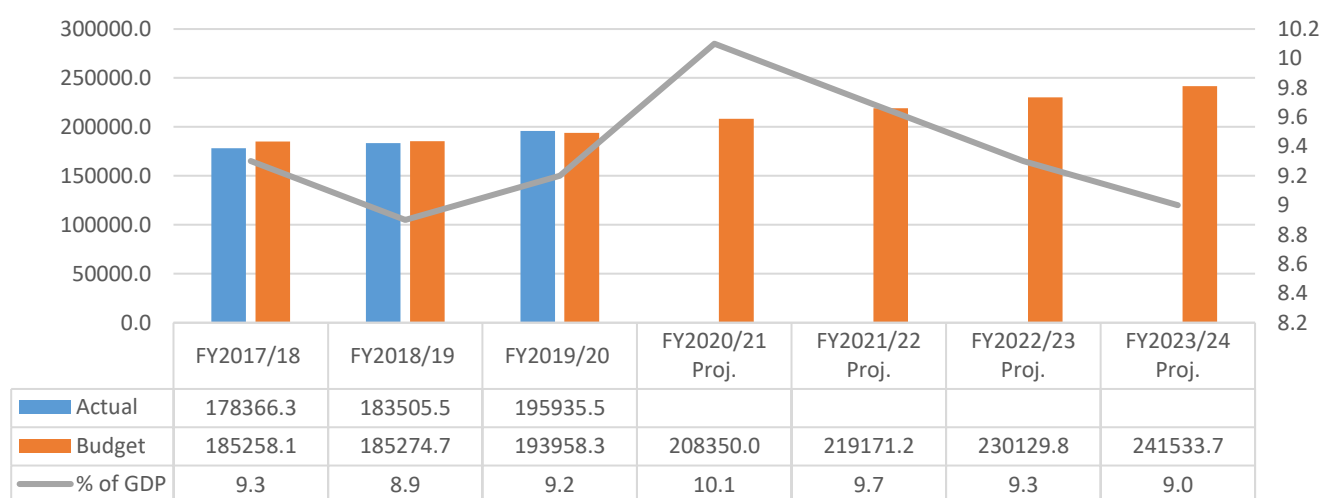
Outturn April to July	Original Budget FY2020/21	FY2020/21	FY2019/20	FY2018/19	FY2017/18	FY2016/17	FY2015/16
Capital Expend.	23,284.1	15,525.7	15,602.2	17,390.2	9,301.1	10,434.9	9,516.2
Capital Expend./ Total Expend. (%)	10.7	7.3	8.0	9.2	5.4	6.2	6.2

Source: AuGD analysis of MOFPS data

Wages & Salaries

17. Wages and Salaries for FY2019/20 was \$2.0 billion (1.0 per cent) above the Original Budget or 9.2 per cent of GDP. Further, the Interim FPP FY2020/21 projects Wages & Salaries to increase to \$208.3 billion or 10.1 per cent of GDP, outside of the legislated target of 9.0 per cent. The ratio remains above target until the FY2023/24 (Figure 6). However, the Interim FPP did not explicitly address any risk related to this line item in the Fiscal Risk Statement.

Figure 6: Wages & Salaries (J\$ million)



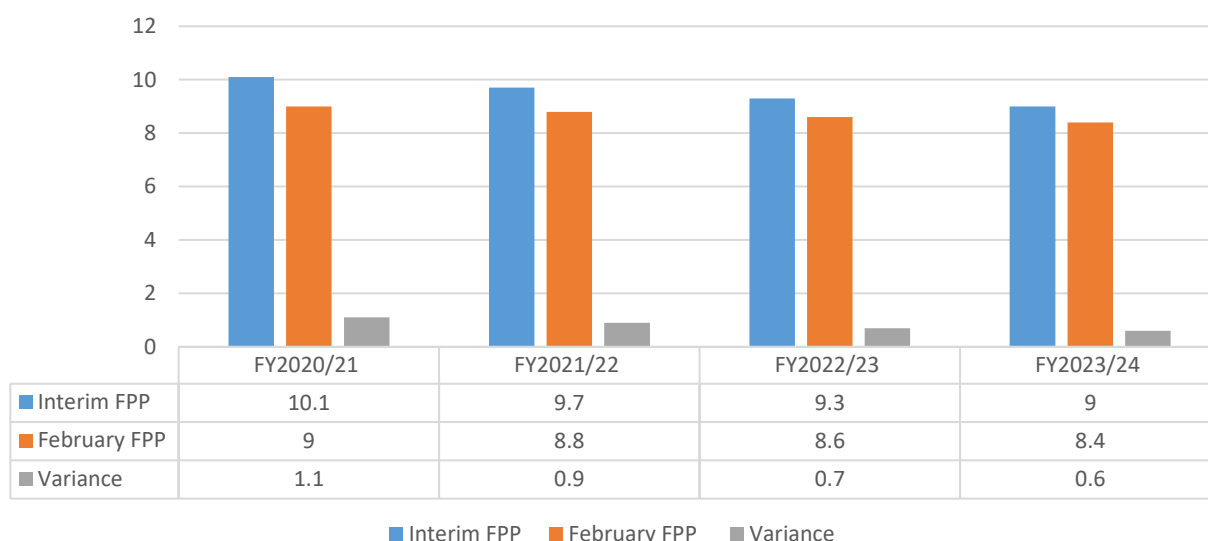
Source: MOFPS

18. We noted from the February FPP that the Ministry stated that the current wage contract comes to a close in FY2020/21 and that the GOJ is mindful that arrangements need to be made for the period

to follow, in order to avoid any settlements contrary to budgeted wage allocations. The February 2020 FPP had projected achievement and maintenance of the legislated target for the medium-term; however, the projections contained within the Interim FPP illustrates sharp variances as it relates to this percentage, underlining the significant fiscal revisions since the start of the COVID 19 pandemic (**Figure 7**). Further, the expected downward movement in nominal GDP especially in the context of an economic contraction as a result of COVID 19 will increase fiscal risk exposure to the wage bill.

Ministry’s response: The next round of negotiations has not yet started. The process will begin when the first claim is received from a trade union which is anticipated around December 2020. Note however that this round will be significantly driven by the outcomes of the comprehensive compensation system review underway. The MoFPS is expecting to return to Cabinet with the final report in December. With respect to the medium-term, in the absence of any detailed information as it relates to the compensation review, the medium-term wage profile has built in adjustments consistent with the projected inflation rates.

Figure 7: Wages to GDP % (February FPP vs Interim FPP)



Source: MOFPS

- Wages & Salaries for the April to July 2020 period was \$69.0 billion accounting for 32.4 per cent of total expenditure compared to the Original Budget of 31.4 per cent but was below the average of 33.4 per cent for the April to July period of the past five years (**Table 2**). Wages & Salaries, for only the second time since FY2015/16, accounted for the second largest share of expenditure for the April to July period, underscoring to some extent, the GOJ’s targeted realignment of this expenditure item and shifting priorities brought on by the COVID 19 pandemic. As it relates to the percentage of non-debt expenditure, the April to July outturn of 40 per cent was the lowest over the six-year period but was above the budgeted percentage of 38.3 per cent.

Table 2: Wages and Salaries April to July (J\$ million)

Outturn April to July	Original Budget FY2020/21	FY2020/21	FY2019/20	FY2018/19	FY2017/18	FY2016/17	FY2015/16
Wages and Salaries	68,422.8	69,005.1	66,163.9	61,274.2	58,354.1	54,295.5	53,087.8
Wages and Salaries/Total Expenditure (%)	31.4	32.4	34.0	32.5	33.9	32.4	34.5
Wages and Salaries/Non Debt-Expenditure (%)	38.3	40.0	43.3	41.6	46.5	46.3	48.8

Source: AuGD analysis of MOFPS data

Programmes

20. Recurrent Programme Expenditure for April to July 2020 was \$83.3 billion, \$917.1 million (1.1 per cent) above the First Supplemental Budget and \$1.8 billion (2.3 per cent) above the Original Budget. The Ministry noted that additional expenditure related to the fight against COVID-19 contributed to the higher spending in this category through the various initiatives. We noted that Programmes commanded the largest share of expenditure for the April to July 2020 period with 39.2 per cent outstripping Wages and Salaries and Budget (**Table 3**). The \$83.3 billion was also the highest outturn over the six-year period since FY2015/16 and showed an increase of 27.8 per cent over the \$65.2 billion recorded for the corresponding period in FY2019/20.

Table 3: Programmes April to July (J\$ million)

Outturn April to July	Original Budget FY2020/21	FY2020/21	FY2019/20	FY2018/19	FY2017/18	FY2016/17	FY2015/16
Programmes	81,474.7	83,317.8	65,208.6	62,610.0	54,302.7	48,607.5	46,195.2
Programmes/Total Expend (%)	37.4	39.2	33.5	33.2	31.5	29.0	30.0

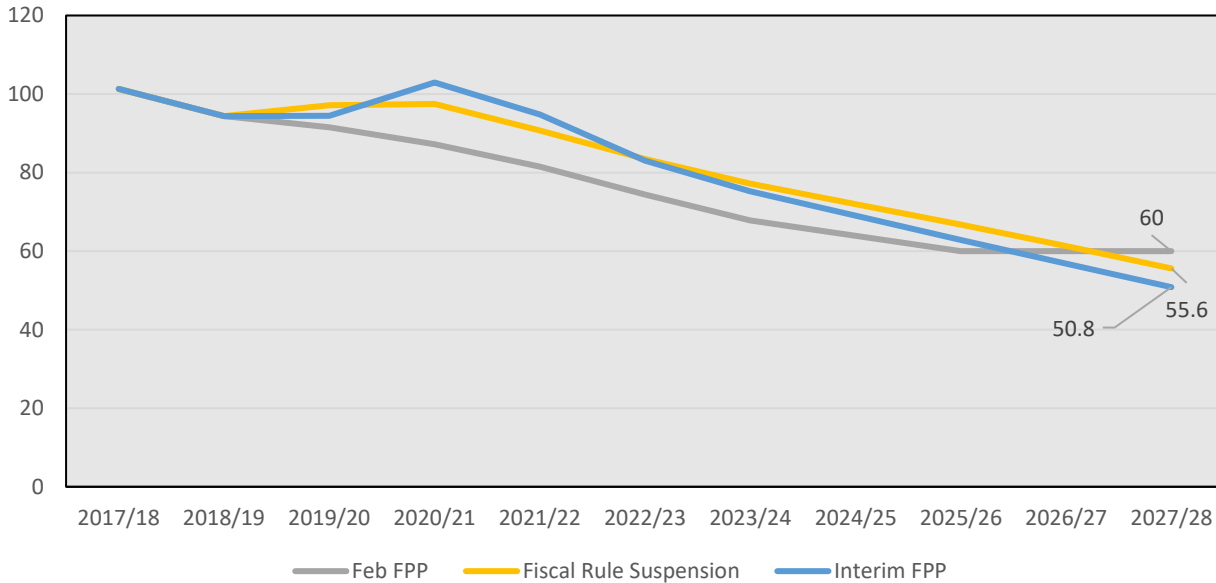
Source: AuGD analysis of MOFPS data

Public Debt

21. The Interim FPP did not provide a trajectory for the Debt, notwithstanding reference to a worsening economic condition subsequent to the projections provided in the February FPP. We expected the Interim FPP to indicate the risk to the debt trajectory arising from a potential worsening of the economic conditions if the GOJ must implement further restrictive measures to contain the spread of COVID-19, which has increased since the relaxation of travel and other restrictions. A review of

the medium-term projections for the Debt to GDP provided at our request, indicated the downward trajectory towards the amended legislative target of 60 per cent by FY2027/28 (Figure 8). However, if the fiscal deficit worsens based on further revenue shortfall and additional support for loss-making public bodies, say, the achievement of the 60 per cent target by FY2027/28 could be in jeopardy.

Figure 8: Medium Debt Target (% of GDP)



Source: MoFPS

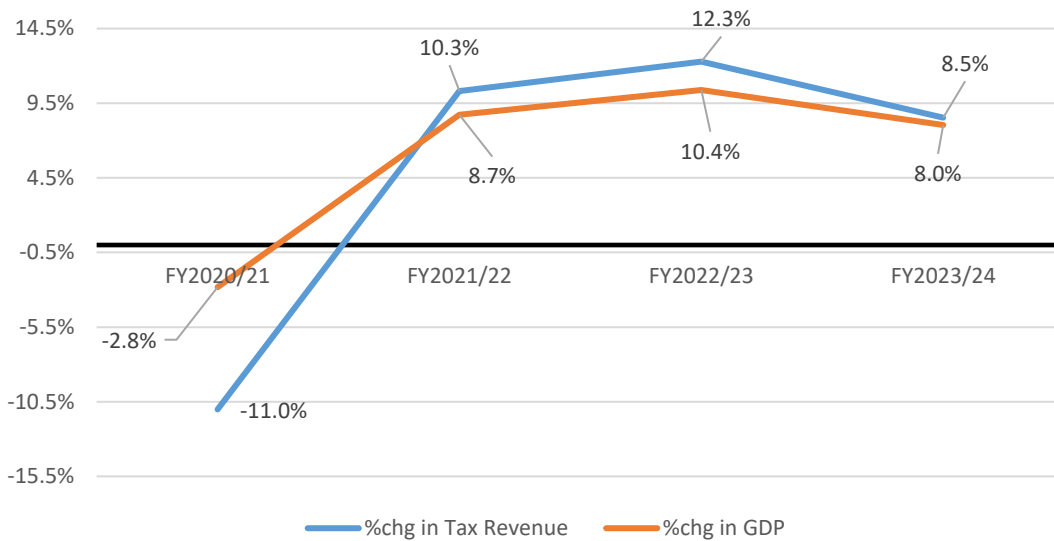
Fiscal Risk Assessment

22. The assessment of fiscal risks contributes towards sound fiscal management and supports macroeconomic stability. The Fiscal Risk Statement in the Interim FPP presented an update to the risk sources identified in the February 2020 FPP. However, the Interim FPP did not provide a shock scenario to properly quantify the risks identified and its contribution toward the loss of revenue in the context of the global health pandemic. The Fiscal Risk Statement acknowledged the negative impact of lower than budgeted growth, fall in oil prices and the fluctuating exchange rate on the Central Government Operations. However, no mitigating strategies were identified that could curtail further losses in revenue amid the ongoing pandemic.
23. The Fiscal Risk Statement highlighted that with the fall in US-dollar inflow, resulting from the closure of the ports, the Jamaica Dollar depreciated by 10.8 per cent. This depreciation negatively impacted debt service cost and the debt stock. As a result of the slowdown in tourist arrivals, revenues (i.e. international trade taxes) did not benefit from the movement in the exchange rate. The Fiscal Risk Statement did not quantify the impact on revenue. The report discussed the weakened oil price, which also negatively impacted the revenue collection. Oil prices averaged US\$33.94/bbl. from April

to August 2020 relative to the US\$54.48/bbl projected for the fiscal year. The report indicated that the fixed component on petroleum provided a partial buffer to oil price volatility.

24. The link between economic growth and revenue collection was also highlighted in the Fiscal Risk Statement. In the February FPP, economic growth is considered “a high-impact fiscal risk” and the buoyancy between nominal GDP and Tax Revenue was calculated to be an average of 1.2. That is, a 1 per cent increase in GDP would result in 1.2 per cent collection in Tax Revenue. Looking at the current medium-term profile, we found the current Tax Revenue projection consistent with an average buoyancy of 1.2. We note that the revenue targets for FY2020/21 and the medium-term were lowered when compared to the February 2020 forecast (**Figure 9**).

Figure 9: Comparison of the change in Nominal GDP and Tax Revenue



Source: AuGD analysis of MOFPS data

State Owned Enterprises

25. The Interim FPP identified Public Bodies, including Government Funded Entities as well as Self-Financing Public Bodies (SFPBS), as a source of fiscal risks, which is heightened in the face of the COVID-19 pandemic. However, the Interim FPP did not elaborate on the risk that materialized in FY2019/20 relating to public bodies in a context where such risks had resulted in increasing budgetary support to Government Funded Entities. For example, in my previous FPP reviews, I highlighted the contingent liability presented by Jamaica Urban Transit Company Limited (JUTC). This was confirmed in my Performance Audit of the JUTC tabled in July 2020, which highlighted the risk to the Government budget based on continual financial losses.

26. Whereas some SFPBs were able to remain self-funded by drawing down on their cash reserves, the Interim FPP noted that others received budgetary support from GOJ. These include: National Water Commission (NWC); Urban development Corporation (UDC); Port Security Corps; and Bureau of Standards Jamaica. The Interim FPP did not indicate the extent of budgetary support provided to these entities, which would likely have an adverse impact on the fiscal space for FY2020/21.

Public Private Partnerships

27. The Interim FPP states that for the five¹ user pays concession agreements that have been implemented, the operations of the related assets have been impacted negatively by the COVID-19 Pandemic. The Ministry further states that three (3) of the existing concessionaires have indicated their intention to invoke the force majeure clause that is provided for in the concession agreements. As such the invoking of the force majeure² clauses may result in the GOJ granting relief to the concessionaire for obligations under the contract and may also result in compensation events for the Government leading to possible impact on the fiscal accounts for the medium-term. The NMIA PPP was the last completed PPP assessment, which achieved Financial closure on October 2, 2019 and for which the operations of the Airport were handed over to the concessionaire, PAC Kingston Airport Limited later that month.

Ministry's Response: Regarding contingent liability exposure we are unable to indicate such given that the parties are still in discussions in accordance with the Concession Agreements.

28. In our assessment of this PPP in February, I had stated that the likelihood of a force majeure event materializing was low with the fiscal impact to the Government deemed to be medium, in the context where the level of termination payment by AAJ to the Concessionaire is mitigated by insurance proceeds, which accrue to the Concessionaire.
29. The Interim FPP highlighted that negotiations for the construction and operation of the Rio Cobre Water Treatment Plant in Content, St. Catherine have been concluded. However, there was no indication of the nature of the Rio Cobre PPP, which is critical in order to identify the contingent risks to Government. The FPP FY2020/21 had identified the Jamaica Ship Registry as another PPP to be undertaken during the financial year; however, there was no mention of this PPP in the Interim report.

¹ The Sangster International Airport, Norman Manley International Airport, Kingston Container Terminal, North South Highway and the East West Highway 2000.

² Unforeseeable circumstances that prevent a party from fulfilling a contract.

Reasonableness of the Deviation of the Fiscal Indicators

30. 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.
31. In this section, I have reviewed the explanations provided for the period April to July 2020 as provided in the Interim 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 FY2020/21 February 2019 as well as the Revised Budget tabled in May 2020.
 - b. A review of emerging risks discussed in the Interim Report.
 - c. confirmation where possible, of the Minister's explanations with observed data for FY2020/21 (April to July 2020).
32. My comments on variances provided in **Table 4** relate only to material issues pertaining to information provided in the Interim FPP FY2020/21 and by the MoFPS.
33. As observed, although the interim FPP made comparison with some of the outturns of the fiscal indicators to the revised First Supplementary Budget, except for Grants, it did not provide explanation for the deviation in the fiscal indicators for the April to July 2020 period. For example, the Report indicated that the underperformance of taxes from international trade activities was reflected in lower receipts from customs duty, stamp duty and environmental levy, however no reasons were provided. I expected some reference to underlying factors such as import performance relative to Budget, having noted that Interim FPP indicated a 17.4 per cent decrease in the value of Goods and Service imports for FY2019/20 but gave no indication of the performance of the exchange rate vis-à-vis expectations. Similarly, for *Income & Profits* and *Production & Consumption*, there was no indication of the interest rate environment or economic output, respectively, relative to Budget. Provision of such information would have enabled a better determination of factors impacting the deviations from Budget. Hence, I could not confirm the reasonableness of the explanations for the deviations, having regard to the circumstances.

Table 4: Comments on the Explanation for the Fiscal Deviations for April-July 2020 relative to (Revised) Budget

Key Tax Types	Provisional	Revised Budget	Deviation from Revised Budget	Deviation from Revised Budget (%)	GOJ's Explanation Stated in FPP FY2020/21 Interim	Audit Comments	Ministry's Response
Tax Revenue	143,922.7	133,883.9	10,038.8	7.5%	Due to Above performance of Income and Profit as well as Production and Consumption.		
Income & Profits	41643.5	35,711.8	5,931.7	16.6%			
<i>Other Companies</i>	13,238.4	10,928.3	2,310.1	21.1%	No explanation provided		
<i>PAYE</i>	21,388.4	19,129.9	2,258.4	11.8%	No explanation provided		
<i>Tax on Interest</i>	5,251.8	4,316.7	935.1	21.7%	No explanation provided		
Production & Consumption	54,057.7	48,618.1	5,439.6	11.2%			
<i>GCT (local)</i>	28,273.3	29,945.1	(1,671.8)	-5.6%	No explanation provided		
<i>SCT (Local)</i>	8,292.1	4,889.2	3,403.0	69.6%	No explanation provided		
<i>Other Licenses</i>	945.1	249.4	695.7	279.0%	No explanation provided		
<i>Betting, Gaming and Lottery</i>	1,891.1	1,565.6	325.5	20.8%	No explanation provided		

Key Tax Types	Provisional	Revised Budget	Deviation from Revised Budget	Deviation from Revised Budget (%)	GOJ's Explanation Stated in FPP FY2020/21 Interim	Audit Comments	Ministry's Response
<i>Telephone Call Tax</i>	1,212.7	878.0	334.7	38.1%	No explanation provided		
<i>Stamp Duty (Local)</i>	1,450.4	1,284.8	165.6	12.9%	No explanation provided		
International Trade	48,221.5	49,554.0	(1,332.5)	-2.7%			
<i>GCT (imports)</i>	21,821.5	21,738.3	83.2	0.4%	No explanation provided		
<i>SCT (Imports)</i>	12,431.9	12,254.0	177.8	1.5%	No explanation provided		
<i>Customs Duty</i>	11,071.4	12,692.5	(1,621.1)	-12.8%	No explanation provided		
<i>Stamp Duty</i>	508.3	809.3	(301.0)	-37.2%	No explanation provided		
<i>Travel Tax</i>	1,431.5	1,058.5	373.0	35.2%	No explanation provided		
Non-Tax Revenue	17,004.9	16,610.9	394.0	2.4%	No explanation provided		
Capital Revenue	10.6	0.0	10.6	-	No explanation provided		
Grants	806.9	1,641.3	(834.4)	-50.8%	Associated with slower than budgeted implementation of grant related projects on account of the COVID-19 pandemic.	Acceptable.	