

**EXAMINATION OF THE COMPONENTS OF THE FISCAL POLICY PAPER  
WHICH WAS LAID BEFORE THE HOUSES OF PARLIAMENT  
ON APRIL 18, 2013**

**INDEPENDENT AUDITOR'S REPORT  
THE AUDITOR GENERAL OF JAMAICA  
FINANCIAL YEAR 2013/14**



**Auditor General of Jamaica**

**Auditor General's Department  
8 Waterloo Road, Kingston 10  
Jamaica, W.I.**

**June 2013**

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**Auditor General's Opinion  
On the  
Fiscal Policy Paper – 2013/14**

1. I have examined the components of the Fiscal Policy Paper (FPP) laid by the Minister of Finance before the Houses of Parliament on April 18, 2013. The FPP comprises, as stipulated by the Financial Administration and Audit (FAA) Act: the Fiscal Responsibility Statement, Macro-Economic Framework and Fiscal Management Strategy. My opinions are detailed at paragraphs 14 - 16 of the report.

**Responsibilities of the Minister of Finance**

2. The Minister of Finance is responsible for the FPP, including the underlying conventions and assumptions on which the principles of prudent fiscal management are based. Section 48B(2) of the Financial Administration and Audit (FAA) Act provides that:

*“Upon presentation of the annual Estimates of Revenue and Expenditure, the Minister shall lay before both Houses of Parliament, a Fiscal Policy Paper containing the information indicated in the Third Schedule and setting out, in accordance with this section–*

- a) *Macroeconomic Framework;*
- b) *A Fiscal Responsibility Statement; and*
- c) *A Fiscal Management Strategy”*

3. Section 48B (3-5) provides that the Macroeconomic Framework is to present 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.
4. As outlined in section 48D of the FAA Act (amended in 2011), the Minister shall act in conformity with the following fiscal management principles –
  - a. the total debt is to be reduced to, and thereafter maintained at, a prudent and sustainable level;
  - b. fiscal risks are to be managed prudently with particular reference to their quality and level;

- c. borrowings are to be geared toward investment activities that support productivity and economic growth; and
  - 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.
5. Section 48C of the FAA Act explicitly outlines fiscal targets for which the Minister of Finance should take appropriate measures to achieve by the fiscal year ending March 31, 2016. These include:
  - a) Reducing the fiscal balance to nil;
  - b) Reducing the total debt to 100 per cent or less of the gross domestic product;
  - c) Reducing the ratio of wages paid by the Government as a proportion of the gross domestic product to 9 per cent or less;
  - d) Maintaining or improving the targets, set forth in paragraph 5 (a-c), beyond March 31, 2016.

### **Responsibilities of the Auditor General**

6. 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; and
  - b) the reasons given, pursuant to subsection (5)(d)(ii) are reasonable having regard to the circumstances.
7. 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 Financial Information* issued by the International Auditing Standard Board. These standards require that I comply with ethical requirements and plan and perform the audit to obtain sufficient and appropriate evidence to base my opinion in line with the criteria, which are established in section 48D of the FAA Act.

### **Methodology**

8. The examination included:
  - review of the provisions of the FAA Act and FAA (Fiscal Responsibility Framework) Regulation, 2012;
  - review of the Fiscal Policy Paper for financial years (FYs) 2013/14 and 2012/2013;

- review of evidence and clarifications on the FPP from the Ministry of Finance;
  - review of publications from external sources;
  - obtaining representations<sup>1</sup> from the Ministry of Finance;
  - consulting with technical experts in keeping with International Standards on Assurance Engagements (ISAE) 3000; and
  - performing such other procedures considered necessary in the circumstances.
9. I did not comment on the merit of the Finance Minister’s fiscal strategy. My comment is restricted to the requirement as stated in section 48B(6) of the FAA Act.

### **Basis of Qualified Opinion**

10. The FPP does not comply with the fiscal management principle stated in section 48D (a) of the FAA Act. Section 48D (a) requires that *“total debt is to be reduced to, and thereafter maintained at, a prudent and sustainable level.”* The Act defines ‘Sustainable level’ as *“that level of a fiscal indicator which does not compromise the required fiscal space necessary to meet socio-economic objectives”*<sup>2</sup>. The Minister has indicated that a prudent debt level is 60 per cent of GDP<sup>3</sup>. Section 48C (b) requires that the Minister should take action *“to reduce the total debt to one hundred per cent or less of the gross domestic product by the end of the financial year ending on March 31, 2016.”* As stated in the Fiscal Responsibility Statement (part 1, page 6) of the 2013/14 FPP, the debt/GDP ratio is projected to trend towards 112.1 per cent by FY 2015/16, which is outside the legislated target of 100 per cent. (See page 9 of the attached report).
11. The Minister of Finance did not disclose sufficient information in the FPP to allow me to determine whether the conventions and assumptions underlying the preparation of the Fiscal Policy Paper comply with fiscal management principle B specified in section 48D. Principle B requires that *“Fiscal risks are to be managed prudently with particular reference to their quality and level.”* The MoF though disclosing the sources of fiscal risk did not quantify the impact the realisation of the risks may have on their targets. The Ministry has indicated that the timing and uncertainty associated with these risks impede its ability to quantify same. However, the absence of this critical information provides me with no basis on which to provide reasonable opinion that this principle has been complied with in the FPP. (See page 10 of the attached report).

<sup>1</sup> Written confirmation of information provided

<sup>2</sup> Section 48A, FAA (Amendment) Act, 2011

<sup>3</sup> Pg. 2, Par. 5 - Fiscal Responsibility Statement, FY 2011/12

12. Subsection (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 reason for any deviations. 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.
13. The lack of pertinent information from the Ministry prevented my assessment of the reasonableness of the variances between established targets and the outcome of the fiscal indicators. The MoF did not submit to me, as promised, an addendum that should have provided the necessary information. My review of the 2013/14 FPP revealed that, although some fiscal risks were mentioned therein, they were not quantified or reflected in the projections. Consequently, it was not clear to me as to what extent the deviations, such as underperformance of revenue, were due to forecast errors, deviations from assumptions, or unforeseen events/shocks (See pages 16 to 22).

#### **Opinion**

14. I consider the effect of the matter mentioned in paragraph 10 above, to be a material departure from fiscal management principle stated in section 48D (a) and the target set out in section 48C of the FAA Act.
15. On the basis of the limitation indicated at paragraph 13 above, I do not form an opinion on the explanation provided by the Minister for the variances between established targets and the outcome of the fiscal indicators.
16. With the exception for the effects of the matters described in the basis of opinion paragraphs outlined above, nothing has come to my attention that causes me to believe that the FPP tabled by the Minister of Finance on April 18, 2013 has not complied with the section 48D (c) and (d) of the FAA Act.



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Pamela Monroe Ellis, FCCA, FCA, CISA  
Auditor General

## **Part A: Principles of Prudent Fiscal Management**

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

**Related Target: To reduce the total debt to 100 per cent or less of GDP by the end of the financial year ending on March 31, 2016.**

**Long term objective: Reducing debt/GDP ratio and maintaining it at no more than 60 per cent of GDP.**

17. 'Sustainable level' is defined as *"that level of a fiscal indicator that does not compromise the required fiscal space necessary to meet socio-economic objectives"*<sup>4</sup>. As it relates to 'prudent', the Ministry has indicated that a prudent debt level is 60 per cent of GDP<sup>5</sup>. However, it was further stated by the Ministry that even if the debt does not reach this level, where the Government indicates a clear commitment and takes decisive and responsible action to move the debt on a path and in the direction toward that level, such actions of the Government can be considered prudent<sup>6</sup>.

### *Total Public Debt*

18. The FPP projects the Central Government borrowing requirement for FY 2013/14 to be \$103,279.6mn, which represents an expected reduction of 29.8 per cent (\$43,813.4mn), in gross receipts over the previous fiscal year. This amount is required to finance amortization of \$105,680.4mn, and expected fiscal deficit of \$8,045.8mn.

19. The stock of Public Debt is budgeted to increase to J\$1,889,711.9mn in FY 2013/14, which represents an increase of 4.3 per cent (\$77,077.0mn), when compared to the outturn for the previous fiscal year. The projected total debt comprises; domestic debt of \$989,270.4mn and external debt of \$900,441.5mn.

**Table 1: Debt/GDP Projections from FY 2011/12 FPP**

<b>Fiscal Year</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Total Debt (J\$M)	1,434,756	1,570,368	1,679,332	1,724,257	1,736,632	1,765,700	1,807,944
Nominal GDP	1,109,633	1,223,982	1,334,922	1,451,395	1,575,891	1,720,955	1,875,460
Debt/GDP Ratio (%)	129.3	128.3	125.8	118.8	110.2	102.6	96.4

<sup>4</sup> Section 48A, FAA (Amendment) Act, 2011

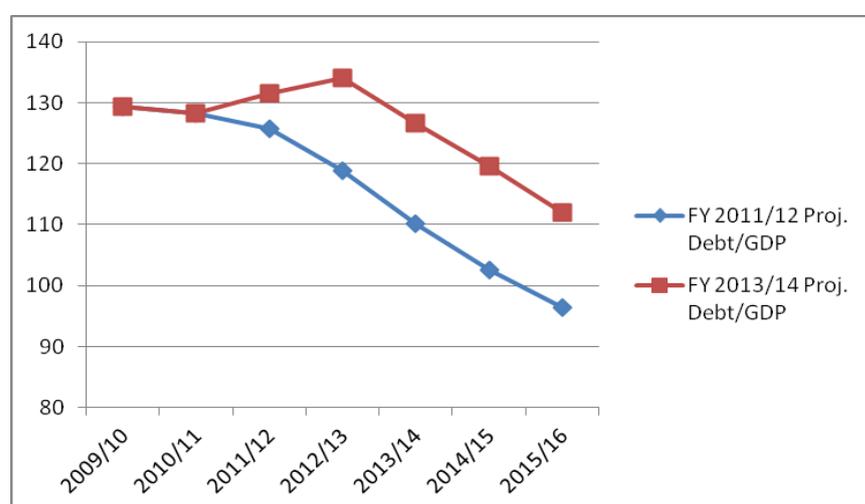
<sup>5</sup> Pg. 2, Par. 5 - Fiscal Responsibility Statement, FY 2011/12

<sup>6</sup> MoF response to AGD requisition, dated May 30, 2011

**Table 2: Debt/GDP Projections from FY 2013/14 FPP**

Fiscal Year	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Total Debt (J\$M)	1,434,756	1,570,368	1,662,269.9	1,812,634.9	1,889,711.9	1,984,048.6	2,067,217.7
Nominal GDP	1,109,633	1,223,982	1,263,310.0	1,352,000.0	1,492,000.0	1,659,000.0	1,845,000.0
Debt/GDP Ratio (%)	129.3	128.3	131.5	134.1	126.7	119.6	112.0

**Figure 1: FPP 2011/12 vs. FPP 2013/14 Debt/GDP Projections**



**Comments**

20. Figure 1 shows the Debt/GDP projections for the period FY 2009/10 to 2015/16 as per 2011/12 FPP compared with the projections as per FPP 2013/14. In the inaugural 2011/12 FPP, the Debt/GDP ratio was projected to decrease from 129.3 per cent in FY 2009/10 to 96.4 per cent in FY 2015/16, to be within the legislated target. Since then, instead of falling, the outturn for the debt figure has increased more than the 2011/12 FPP projection, moving from 129.3 per cent in 2009/10 to 134.1 per cent in 2012/13.

21. Consequently, the revised projection in the 2013/14 FPP shows the debt/GDP ratio to decrease to 126.7 per cent in FY 2013/14, compared to the 134.1 per cent outturn in FY 2012/13. The debt/GDP ratio is projected to trend towards 112.1 per cent by FY 2015/16, which is outside the legislated target of 100 per cent. The 2013/14 FPP however conceded that the legislated target is unlikely to be met; accordingly, it notes that the GOJ will consider an amendment to the FAA Act to adjust the fiscal year for attainment of 100 per cent debt/GDP ratio.

The projection moved from 96.4 per cent for 2015/16, and within two years there was a significant upward adjustment of 15.7 per cent to 112.1 per cent.

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

**Related Target: The Act did not specify a related target for this criterion.**

22. Definitions for ‘quality’ and ‘level’ as provided by the Ministry of Finance relating to fiscal risks are: (i) Quality is the probability or likelihood of occurrence of a fiscal risk; and (ii) Level is the quantum or magnitude of a fiscal risk.

*Fiscal Risk*

23. The management of fiscal risks is critical to managing the growth of the public debt and other economic variables. Examples of fiscal risks include: contingent liabilities, natural disasters, interest rate risk, as well as the risk to elements of expenditure and revenue over the medium term. The FPP identifies the key sources of fiscal risks. [See Box 1, Part 3, Page 40]. However, because of the uncertainties in the timing and amount for fiscal risks, GOJ may not, or inadequately, provide for them in the budget. If the risks do materialise, they could significantly reduce revenue and/or increase expenditure, and possibly result in increased debt levels.

24. I recommended in my 2012/13 FPP report, that “The Ministry of Finance should take the necessary steps to ensure that future FPPs quantify the effect of the fiscal risks and introduce a robust system of risk management public sector wide”. However, the effect of the fiscal risks has still not been fully quantified or comprehensively explained in the 2013/14 FPP.

25. For example, the 2013/14 FPP indicates that the withholding tax arrears reduction strategy is ongoing. “The GOJ intends to eliminate the stock of outstanding withholding tax refunds (over 90 days) over the next five years.” [Part 3, Page 41]. There was an allocation of \$1300mn monthly in the 2012/13 FPP and \$900mn monthly in the 2013/14 FPP for withholding tax arrears. However, the FPP did not disclose the total amount of withholding tax in arrears. It is also difficult to determine whether the \$900mn (and considering any new obligations) is adequate to achieve a reduction in arrears over the stipulated five year period.

26. The Ministry has subsequently provided the Auditor General with the relevant information pertaining to the withholding tax arrears. However, the MoF has considered this information to be market sensitive at this time and accordingly, the actual levels of the refund arrears were not included in the FPP.

27. In another example, the allocation to the contingency provision for natural disaster risk mitigation was J\$1500mn in FY 2011/12; and J\$2900mn in FY 2012/13. However, the 2013/14 FPP did not indicate what the allocation to the contingency provision for disaster risk mitigation should be for the period if any. Further, there was no information in the FPP on the out flows from the provision for the previous financial year, and the accumulated balance. This disclosure should indicate the adequacy of any related provisions.

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

**Related Target: The Act did not specify a related target for this criterion.**

28. The Ministry 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 further states that *“The investments activities of the GOJ that support productivity and economic growth are usually contained in the Capital Budget.”* Our analysis shows that in the medium term fiscal forecasts, gross borrowing is projected to be less than the overall capital payments (capital spending plus amortization) from FY 2013/14 – FY 2016/17. Further, our analysis of the use of central government borrowing revealed that, with the exception of 2012/13, recurrent expenditures are increasingly covered by recurrent revenue and not borrowings. (See Table 3 below.)

**Table 3: Use of Central Government Borrowing**

Fiscal Year	2009/10 (J\$ million)	2010/11 (J\$ million)	2011/12 (J\$ million)	2012/13 (J\$ million)	2013/14 (J\$ million)	2014/15 (J\$ million)	2015/16 (J\$ million)
Loan Receipts	299,599.6	212,968.9	163,520.5	147,093.0	103,279.6	81,759.6	224,816.5
Less Amortization	169,514.0	102,157.5	128,373.2	88,329.8	105,680.4	74,941.5	224,839.6
Capital	34,414.3	55,594.1	53,230.9	37,757.9	44,701.8	55,705.3	61,848.8
Balance to fund Recurrent Expenditure	95,671.3	55,217.3	-18,083.6	21,005.3	-47,102.6	-48,887.2	-61,871.9

Source: Ministry of Finance

**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 fiscal balance to nil by the end of the financial year ending on March 31, 2016 [FAA Act, Section 48C (a)]**

**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, 2016 [FAA Act, Section 48C (c)]**

30. The main factors that impact on this principle, vis-à-vis the identified targets, include; Tax Revenue, Wages & Salaries, Interest Costs, Programme Expenditure, and Capital Expenditure.

*Tax Revenue*

31. For FY 2013/14, tax revenue of \$360,517.6mn, which accounts for approximately 88.5 per cent of total revenue, is budgeted to grow by 12.7 per cent (\$40,752.7mn) over collections in FY 2012/13. This year’s (2013/14) FPP explained that “stepped up compliance activity by TAJ and Jamaica Customs are expected to bolster tax revenue flows by about 0.8% of GDP. A return to positive economic growth and upward movements in other variables will also serve to buoy tax revenue flows.” However, **Table 4** shows that the tax revenue targets have only been achieved once (2007/08) in the last six years.

**Table 4: Tax Revenue – Budgeted vs. Actual**

Fiscal Year	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Tax Revenue Budget J\$M	217,630.2	265,071.6	291,674.5	287,211.3	308,215.3	335,625.1	360,517.6
Tax Revenue Actual J\$M	219,517.6	246,216.6	265,860.2	279,874.2	289,882.2	319,764.9	-
Variance J\$M	1,887.40	-18,855.00	-25,814.30	-7,337.10	-18,333.10	-15,860.20	-
Variance %	0.87%	-7.11%	-8.85%	-2.55%	-5.95%	-4.73%	-

*Wages & Salaries*

32. The 2013/14 FPP projects that the wages and salaries will be \$157,253.3mn in FY 2013/14, which represents a 6.7 per cent increase over FY 2012/13. Wages and salaries is expected to be 10.5 per cent of GDP, compared to 10.9% of GDP in FY 2012/13. The FPP projects that this will be 9.6 per cent and 9.0 per cent of GDP in FY 2014/15 and 2015/16 respectively, which is within the legislative target. The provision in the FY 2013/14 Budget is predicated on:

- GOJ and the unions signing agreements primarily to have no increase in wage rates for the period 2012 to 2015, and a one-off payment of \$25,000.00 per annum to all employees in Central Government, Local Government, and Public Bodies estimated at \$2,781.2mn (0.2 per cent of GDP) per annum.
- GOJ is taking steps to control the size of the Public Sector through the elimination of some posts and an attrition programme.

#### *Interest Cost*

33. The FPP projected interest cost of \$126,937.7mn for FY 2013/14, which represents a decline of 5.8 per cent compared with the figure for the previous year. Interest cost as a percentage of GDP, is estimated to be 8.0 per cent in FY 2013/14 compared to 9.4 per cent in FY 2012/13, largely due to the National Debt Exchange (NDX) which reduced the effective interest rates on GOJ debt.

#### *Recurrent Programmes Expenditure*

34. The recurrent programmes expenditure is budgeted to be \$93,684.2mn, a 7.4 per cent increase over the outturn for the previous fiscal year. However, this will represent a reduction in programmes expenditure in real terms of 2.8 per cent based on the projected inflation of 10.2 per cent. Recurrent programmes expenditure is projected to be 6.3 per cent of GDP in FY 2012/13, and over the medium term.

#### *Capital Expenditure*

35. The capital expenditure projection for FY 2013/14 is \$44,701.8mn, which is 18.4 per cent greater than the provisional expenditure in FY 2012/13. This represents an increase from the 2.8 per cent of GDP outturn in FY 2012/13 to an expected increase of 3.0 per cent of GDP in FY 2013/14. This is a reversal of a declining trend in capital expenditure in recent years. The 2013/14 FPP explained that the projected increase in capital spending is to support the growth agenda and social protection objectives, and consequently, to introduce a five-year Public Sector Investment Programme (PSIP) commencing in FY 2013/14.

#### *Primary Balance*

36. The 2013/14 FPP explained that the deviation from the fiscal targets in FY 2012/13 has caused the GOJ to increase the primary surplus target to 7.5 per cent of GDP for FY 2013/14 and over the medium term. The 7.5 per cent represents an upward revision over the 6 per cent which was projected in the 2012/13 FPP, which was subsequently revised downward to 5.2 per cent. The 2013/14 FPP indicates that the primary surplus outturn for FY 2012/13 was 5.3 per cent of GDP. (See **Table 5** below.)

**Table 5: Medium Term Trend for Primary Surplus**

Primary Balance as per:	2011/2012 Provision	2012/2013 Provision	2013/2014 Projection	2014/2015 Projection	2015/2016 Projection
2011/12 FPP (% of GDP)	5.2 <sup>#</sup>	4.4 <sup>#</sup>	5.1	5.4	5.7
2012/13 FPP (% of GDP)	3.1	6.0 <sup>#</sup>	6.2	6.6	6.9
2013/14 FPP (% of GDP)	3.1	5.3	7.5	7.5	8.0

Source: FPP

<sup>#</sup> budgeted percentage.

#### *Fiscal Balance*

37. For 2013/14, the FPP projects that the fiscal deficit will improve to -0.5 per cent of GDP (\$8,045.8mn), relative to the outturn of -4.0 per cent of GDP (\$54,610.4mn) for FY 2012/13. However, the fiscal deficit outturn widened slightly by 0.2 per cent (\$1,634.9mn) in FY 2012/13, when compared to the related projection of 3.8 per cent.

38. The FPP projects that there will be a fiscal balance for the financial year ending on March 31, 2016, which is in line with the legislated target. However, the achievement of this target will be largely dependent on the achievement of the primary surplus targets, which is projected to be 8.0 per cent in FY 2015/16.

## **Part B: Reasonableness of Deviation of Fiscal Indicators**

39. Subsection (5)(d)(ii) of the FAA Act requires that the Minister to compare the outcome of the fiscal indicators with the targets for the previous financial year and give reason for any deviations.
40. 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.
41. In making a determination regarding the reasonableness of the justification provided by the Minister, I applied the following criteria:
- whether initial projections considered fiscal risks; and
  - my ability to confirm the Minister's explanation with observed data.
42. My review of the 2013/14 FPP revealed that, though some fiscal risks were mentioned therein, they were not quantified or reflected in the projections. Consequently, it was not clear to what extent deviations, such as underperformance of revenue, were due to forecast errors, deviations from assumptions, or unforeseen events/shocks. In my report on the 2011/12 and 2012/13 FPPs, I recommended that fiscal risks should be identified and reflected accordingly in the FPP.
43. I did not comment on the variances detailed on pages 16 - 22 for the following reasons:
- the 2012/13 FPP failed to factor the fiscal risks in the projections, consequently, the reasonableness of some variances were harder to assess; and
  - the lack of information in the FPP and from the MoF.

**Table 6: Audit Comments on the Explanations for Fiscal Deviations for FY 2012-13**

	Prov	Budget					
Item	Apr - Mar	Apr - Mar	Diff	Diff %	GOJ's Explanation as Stated in FY2013-14 FPP	Audit Comments	Ministry's Response
<b>Revenue &amp; Grants</b>	<b>344,668.5</b>	<b>361,282.5</b>	<b>-16,614.0</b>	<b>-4.6%</b>			
Tax Revenue	319,764.9	335,625.1	-15,860.2	-4.7%	The shortfall was influenced by lower collections from most items. The significant shortfall arose largely as a result of:	No comment based on Paragraph 13	
					<ul style="list-style-type: none"> <li>significantly lower than budgeted collections from the administrative/ compliance component of the overall tax programme;</li> </ul>	No comment based on Paragraph 13	
					<ul style="list-style-type: none"> <li>slower than programmed growth in imports;</li> </ul>	No comment based on Paragraph 13	
					<ul style="list-style-type: none"> <li>weaker economic growth which adversely impacted the revenue base;</li> </ul>	No comment based on Paragraph 13	
					<ul style="list-style-type: none"> <li>lower than programmed inflation;</li> </ul>	No comment based on Paragraph 13	
					<ul style="list-style-type: none"> <li>underperformance of some of the new measures implemented in 2012;</li> <li>non-implementation of some of the new measures announced in 2012.</li> </ul> [Part 3 Page 8]	No comment based on Paragraph 13	

Income and Profit	115877.1	123249.3	-7,372.2	-6.0%	<ul style="list-style-type: none"> <li>The underperformance of PAYE emanated from less than programmed inflows from compliance activity and higher unemployment.</li> </ul>	No comment based on Paragraph 13	
					<ul style="list-style-type: none"> <li>Corporate taxes performed well below expectations...largely as a result of lower than targeted flows from administrative efforts and weaker than anticipated base revenue growth arising from the contraction in the economy.</li> </ul>	No comment based on Paragraph 13	
					<ul style="list-style-type: none"> <li>With respect to Tax on Dividend, there was a \$499.9mn (42.9%) increase over budget, due mainly to companies declaring more dividends than anticipated. [Part 3 Page 9]</li> </ul>	No comment based on Paragraph 13	
Production and Consumption							
SCT	12,457.3	9,992.1	2,465.2	24.7%	The higher inflows from SCT were largely due to increased production of petroleum products, which contributed about 55.0% to the above budget performance. [Part 3 Page 9]	No comment based on Paragraph 13	
Education Tax	15,038.7	15,542.6	-503.9	-3.2%	The Education Tax, which fell short of budget by \$503.9mn, was impacted by the same factors that resulted in lower PAYE collections (lower than anticipated employment and compliance). [Part 3 Page 9]	No comment based on Paragraph 13	
GCT (Local)	50,897.1	53,042.1	-2,145.0	-4.0%	<ul style="list-style-type: none"> <li>GCT was expected to benefit from stepped-up</li> </ul>	No comment based on Paragraph 13	

					compliance/audit action on large establishments in select industries. However collections from those activities fell below expectations.		
					<ul style="list-style-type: none"> <li>• Collections were also affected by lower than budgeted economic growth and inflation.</li> </ul>	No comment based on Paragraph 13	
					<ul style="list-style-type: none"> <li>• It is important to note that with March 31, 2013 falling on a weekend and the following day being a public holiday, the due date for GCT payment was extended to April 2, 2013. This therefore contributed to the GCT shortfall for FY 2012/13. [Part 3 Page 9]</li> </ul>	No comment based on Paragraph 13	
International Trade	105,305.7	113,433.4	-8,127.7	-7.2%	<ul style="list-style-type: none"> <li>• Collections were largely affected by a sharper than budgeted reduction in imports and slower than expected depreciation in the value of the Jamaican dollar during the first half of the fiscal year.</li> </ul>	No comment based on Paragraph 13	
					<ul style="list-style-type: none"> <li>• SCT collections...fell below budget mainly as a result of lower than projected importation of refined petroleum products. The shortfall was however compensated for with increased refining/production of petroleum products.</li> </ul>	No comment based on Paragraph 13	
					<ul style="list-style-type: none"> <li>• Collections from Travel Tax</li> </ul>	No comment based on Paragraph	

					amounted to \$5,396.6mn, a shortfall of \$763.4mn. Contributing most significantly to this shortfall is the Air Passenger Levy introduced in September 2012. [Part 3 Page 10]	13	
Environmental Levy	2,122.1	2,387.7	-265.6	-11.1%	Shortfall due mainly to the same factors that impacted the other International Trade taxes. [Part 3 Page 10]	No comment based on Paragraph 13	
Non-Tax Revenue	18,783.6	18,555.2	228.4	1.2%	<ul style="list-style-type: none"> <li>This improved performance occurred despite the Customs User Fee (CUF) which contributed approximately 41.0% to total non-tax revenue collections, falling \$556.0mn (6.7%) below budget ...the CUF was impacted by the same factors that impacted International Trade taxes.</li> </ul>	No comment based on Paragraph 13	
					<ul style="list-style-type: none"> <li>Inflows from other departmental and miscellaneous revenues, particularly from the Ministry of National Security and its departments, were mainly responsible for the over-performance on Non-tax Revenue. [[Part 3 Page10]</li> </ul>	No comment based on Paragraph 13	
Bauxite Levy	1,163.7	1,681.3	-517.6	-30.8%	The shortfall relative to budget was due, in part, to the waiver of levy payments for a bauxite/alumina plant for the second half of the fiscal year and	No comment based on Paragraph 13	

					lower levels of production than programmed. Lower than anticipated aluminium prices on the London Metal Exchange (LME) also contributed to the reduction in Bauxite Levy inflows. [Part 3, Page 10]		
Capital Revenue	1,015.8	1,008.9	6.9	0.7%			
Grants	3,940.5	4,412.0	-471.5	-10.7%	This shortfall reflected slower than planned execution of capital spending. [Part 3 Page 11]	No comment based on Paragraph 13	
<b>Expenditure</b>	<b>399,278.9</b>	<b>414,258.0</b>	<b>-14,979.1</b>	<b>-3.6%</b>			
Recurrent Expenditure	361,521.0	374,765.0	-13,244.0	-3.5%			
Programmes	87,201.5	92,160.7	-4,959.2	-5.4%	The execution of the budget for Recurrent Programmes in FY 2012/13 demonstrates the Government's ongoing efforts at fiscal consolidation resulting in lower housekeeping expenses. [Part 3 Page 11]	No comment based on Paragraph 13	
Wages & Salaries	147,381.8	146,070.4	1,311.4	0.9%	Expenditure on Wages and Salaries totalled \$147,381.8mn, which was broadly in line with budget, increasing by just 0.9%. [Part 3 Page 11]	No comment based on Paragraph 13	
Interest	126,937.7	136,533.8	-9,596.1	-7.0%	The fall in interest costs reflected a \$2,351.8mn reduction in domestic payments with external payments being \$7,244.4mn lower than budgeted. [Part 3 Page 12]	No comment based on Paragraph 13	
Domestic	87,729.1	90,080.9	-2,351.8	-2.6%	The fall in domestic payments was	No comment based on Paragraph	

					partly attributed to lower than projected amounts raised from the issue of GOJ securities in the domestic market. [Part 3 Page 12]	13	
External	39,208.6	46,453.0	-7,244.4	-15.6%	The lower external interest costs resulted mainly from a reduced amount spent against a contingency provision for liability management and the more favourable than anticipated exchange rates during the first half of the year. [Part 3 Page 12]	No comment based on Paragraph 13	
Capital Expenditure	37,757.9	39,493.0	-1,735.1	-4.4%	This reflected restraint in Government spending against the backdrop of lower than budgeted revenue, as well as a slower pace of project implementation.	No comment based on Paragraph 13	
					Issues identified as being responsible for the slower than programmed implementation of these projects include: <ul style="list-style-type: none"> <li>• Delays in meeting conditions precedent to first disbursement of donor funds;</li> <li>• Non compliance with donor agency's disbursement criteria;</li> <li>• Poorly designed projects;</li> <li>• Weak executing capacities in some MDAs; and</li> <li>• Low levels of beneficiary compliance with conditions for grant disbursement (PATH).</li> </ul> [Part 3 Page 12]	No comment based on Paragraph 13	

<b>Fiscal Balance (Surplus+/ Deficit-)</b>	<b>-54,610.4</b>	<b>-52,975.5</b>	<b>-1,634.9</b>	<b>3.1%</b>			
<b>Loan Receipts</b>	<b>147,093.0</b>	<b>251,145.8</b>	<b>-104,052.8</b>	<b>-41.4%</b>	The lower than anticipated external loan receipts resulted from the non-receipt of programmed policy loans from multilateral institutions related in part to the delay in obtaining an agreement with the IMF on an Extended Fund Facility (EFF) for Jamaica. [Part 3 Page 13]	No comment based on Paragraph 13	
Domestic	134,070.2	141,806.9	-7,736.7	-5.5%			
External	13,022.8	109,338.9	-96,316.1	-88.1%			
Project Loans	13,022.8	13,113.8	-91.0	-0.7%			
Other	0.0	96,225.1	-96,225.1	-100.0%			
<b>Amortization</b>	<b>88,329.8</b>	<b>198,170.2</b>	<b>-109,840.4</b>	<b>-55.4%</b>	This reflected lower outlay for both domestic and external payments. Domestic and external amortization payments were less than budget by \$87,518.1mn and \$22,322.3mn, respectively. The FY 2012/13 budget included a provision in external amortization for a liability management programme, however, this was not executed and was therefore a main contributor to the lower outturn. With respect to domestic amortization, the reduction relative to budget was primarily due to the execution of the NDX in February 2013. [Part 3 Page 13]	No comment based on Paragraph 13	
Domestic	37,094.8	124,612.9	-83,519.3	-67.0%			
External	51,235.0	73,557.4	-22,322.4	-30.3%			
<b>Primary Balance (Surplus+/Deficit-)</b>	<b>72,327.3</b>	<b>83,558.3</b>	<b>-11,231.0</b>	<b>-13.4%</b>			

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## Recommendations

44. The FPP highlights the effect of the Fiscal Responsibility Framework (FRF) on strengthening of the FAA (FRF) Regulations 2012 to allow for public servants who breach Fiscal Responsibility rules to be sanctioned. In the event that there is a breach, an Annex itemizing such breaches and sanctions should be provided in the FPP or a statement to indicate that no such breaches occurred.
45. The Ministry should take the necessary steps to ensure that future FPPs incorporate the performance of the key fiscal risks. This will indicate what fiscal risks have materialized during the previous financial year, and the associated cost.
46. MoF has stated its concern regarding public disclosure of market sensitive assumptions. In that regard, I propose that the Ministry either incorporates the fiscal risks in the projections or provide the Auditor General's Department with an addendum to the FPP. This should provide the following information: (i) scenario analysis based on the perceived fiscal risks, and, (ii) quantification of the growth and cost savings measures. This will aid in the assessment of the variances between the fiscal targets and the outturns, as well as the explanations provided by the Ministry. This recommendation was made in my previous report on the FPP, but was not acted upon.
47. Arrears reduction should be projected over the medium term in a table disaggregating the various types of arrears and the amount paid during the period and that which will be paid in the medium term. The table should also show the net flow so it is clear how much arrears for each component is being built up as old arrears are being paid down.
48. An assessment of the impact of tax administrative/compliance measures over the medium term period should be considered and included in the FPP in light of the consistent revenue shortfall.

### Ministry's Response

***A brief explanation will be provided on the methodology in future FPPs.***

49. The Minister should explain in future FPPs the reasons why stepped-up compliance actions did not lead to the expected revenue increases that were initially targeted; and to clarify the measures that will be undertaken in order to overcome the difficulties in achieving the revenue targets.

### Ministry's Response

***The MOFP has no objection to this recommendation.***