EXAMINATION OF THE COMPONENTS OF THE FISCAL POLICY PAPER WHICH WAS LAID BEFORE THE HOUSES OF PARLIAMENT ON APRIL 14 2016

INDEPENDENT AUDITOR'S REPORT

THE AUDITOR GENERAL OF JAMAICA

FINANCIAL YEAR 2016/17

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

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

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

www.auditorgeneral.gov.jm

Table of Contents

This page is intentionally left blank

Auditor General's Report
On the
Fiscal Policy Paper – FY2016/17

1. I have examined the components of the Fiscal Policy Paper (FPP) laid by the Minister of Finance and Public Service before the Houses of Parliament on April 14, 2016. The report comprises, as stipulated by the Financial Administration and Audit (FAA) Act: the Fiscal Responsibility Statement, Macroeconomic Framework and Fiscal Management Strategy.

Responsibilities of the Minister of Finance

2. The Minister of Finance and Public Service 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 FAA Act provides that:

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

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

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

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

   a) to attain a fiscal balance as a percentage of Gross Domestic Product, as at the end of the financial year ending March 31, 2018 and thereafter, that allows the requirement specified in paragraph (b) to be achieved, and to be maintained or improved thereafter, and the fiscal balance to be attained shall be computed in accordance with the Fifth Schedule;

b) to reduce the public debt to sixty per cent or less of Gross Domestic Product by the end of the financial year ending March 31, 2026, and maintain or improve the ratio thereafter;

c) to reduce the ratio of wages paid by the Government as a proportion of the Gross Domestic Product to 9 per cent or less by the end of the financial year ending March 31, 2016 and maintain or improve the ratio thereafter;

d) to ensure that neither the Appropriation Act nor any Supplementary Estimates of Revenue and Expenditure for any financial year will cause any negative deviations from the fiscal balance to be attained pursuant to paragraph (a); and

e) to ensure that no deviation is recorded in the notional account until the fiscal accounts for the financial year in question have been finalised.

5. All fiscal targets listed above with the exception of (c) which relates to wages, have been deferred to April 1, 2017, as per the FAA (Amendment) Act 2015. Consequently the Minister does not have any legislative obligation to achieve the other fiscal targets between April 1, 2014 and March 31, 2017.

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

7. The FAA Act requires, “A declaration of responsibility, signed by the Minister, attesting to the reliability and completeness of the information in the Fiscal Policy Paper and its compliance with fiscal responsibility principles.”

Responsibilities of the Auditor General

8. My responsibility, as set out in Section 48B (6) of the FAA Act, is to examine the components of the Fiscal Policy Paper and provide a report to the Houses of Parliament indicating whether:-

a) the conventions and assumptions underlying the preparation of the Fiscal Policy Paper comply with the principles of prudent fiscal management specified in Section 48D;

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

c) pursuant to my application of criteria prescribed pursuant to regulations made under Section 50 (1), there are public bodies that do not form part of the specified public sector, and identifying those bodies (if any) which in the preceding financial year formed part of the specified public sector;

d) a public private partnership involves only minimal contingent liabilities accruing to the Government.

9. The FAA (Amendment) Act 2015 provides for the deferral of subsection 48 (6) (c) until April 1, 2017. This fiscal target requires the Auditor General to certify Public Bodies which are deemed of a commercial nature, and therefore would not be included in the specified public sector.

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

Methodology

11. The examination included:
- review of the provisions of the FAA Act;
- review of the Fiscal Policy Paper for FY2015/16 and FY2016/17 as well as the FPP FY2015/16 Interim Report 29th September 2015;
- review of evidence and clarifications on the FPP provided by the Ministry of Finance and Public Service;
- obtain representations from the Ministry of Finance and Public Service (MOFPS);
- review of publications and reports from external sources;
- perform such other procedures considered necessary in the circumstances.

12. **My examination of the FPP revealed material inconsistencies, which were brought to the attention of the MOFPS. The Ministry was advised that while there may be other inconsistencies, we anticipate that these will also be captured in their review process. Of note, it is the responsibility of the MOFPS to ensure that all information contained in the FPP is reliable. The Ministry has committed to making the necessary amendments, and that a corrected FPP will be tabled.**

13. **The inconsistencies identified do not impact the other opinions I have formed in my review of the FPP tabled on April 14, 2016.**

MOFPS Comments: The inconsistencies have been noted and the requisite adjustments done to the FPP. The corrected version will be posted on the MOFPS website. In conformity with the usual presentation of budgetary documents, these amendments will

be tabled in Parliament by the Minister on April 26, 2016 or at the meeting of the Standing Finance Committee of Parliament on May 3, 2016.

14. In my review of the FY2015/16 FPP, I noted that some fiscal risks though mentioned therein were not quantified or reflected in the projections. Given the Ministry's concern about public disclosure of market sensitive information, I recommended that 'the Ministry provide the Auditor General's Department with an addendum to the FPP with (i) sensitivity analysis based the perceived risks and (ii) quantification of growth and cost savings measures. Subsequent to my request, there has been improvement in the delivery of supplementary information from the Ministry which has supported my assessment of the FPP FY2015/16 Interim Report (September 29, 2015) and FPP FY2016/17. Further, I note some analyses of the fiscal risks that materialised in FY2015/16 and expectations for the medium-term. While the impact of risks that materialised was not quantified in all instances, information provided for the previous fiscal year and medium term enabled greater insight than in previous Reports.

15. My comments are restricted to the requirement as stated in Section 48B (6) of the FAA Act. Accordingly, I did not comment on the merit of the Finance Minister's fiscal strategy. The FAA Act requires that the Estimates of Revenue and Expenditure, as well as the FPP, are tabled in February to allow for the approval of the budget by both Houses of Parliament by March 31, 2016. Based on modification to the timelines following dissolution of Parliament on February 5, 2016 for the holding of General Elections, the Estimates and FPP were tabled on April 14, 2016 and as such, my report was tabled within two weeks thereafter.

Basis for Comments

16. The FPP indicated a revised Chart of Accounts (COA), which requires some adjustments of the components currently captured as Wages and Salaries. It was indicated that these adjustments are to be consistent with the IMF's Government Finance Statistics guidelines and will change the value captured as Wages and Salaries, as well as the associated wage/GDP ratio. It was stated that the Ministry has already commenced the legislative process to adjust the timeline for the 9 per cent of GDP wage ceiling.

17. The FPP FY2016/17 identified three Public Private Partnerships (PPPs) under consideration, namely Norman Manley International Airport (NMIA), Kingston Container Terminal (KCT) and Jamaica Railway Corporation (JRC). However, the FPP noted that only the KCT concession is currently being executed, with financing for the project to be finalized by April 2016. The concessionaires for the other two have not been determined.

Comments

18. On the basis of the limitations arising from the deferral of the fiscal targets outlined above in paragraph 4 (a), (b), (d), and (e), I have not provided a comment on whether the FPP FY2016/17 complies with the fiscal management principles stated in section 48D (a-c) of the FAA Act.

19. I consider the estimated wage to GDP ratio of 10.3 per cent for FY2015/16 a departure from the fiscal management principle stated in Section 48D and the fiscal target set out in 48C (c) of the FAA Act.

20. Given that the legislated timeline for the achievement of 9 per cent target for wage/GDP ceiling has not been adjusted, the GOJ remains in breach of the legislated target at this time.

21. On the basis that the financing arrangement for KCT has not been completed as indicated in paragraph 13 above, I reserve my comment on whether the proposed public private partnership arrangements involve only minimal contingent liabilities accruing to the Government.

Compliance with the Third Schedule of the FAA Act

22. My examination of the FPP FY2016/17 revealed that the contents are in keeping with the requirements of the Third Schedule of the FAA Act. The FPP FY2016/17 included the minimum content under the Fiscal Responsibility Statement and Macroeconomic Framework components. In addition, the Fiscal Management Strategy contains the minimum requirements in keeping with the Third Schedule of the FAA Act.

Recommendations

23. As previously indicated in my review of the FPP FY2015/26 Interim Report (September 2015), I am recommending that, going forward, the FPP carries both the Extended Fund Facility (EFF) and the GOJ representation of the debt statistics for the current and medium-term to facilitate greater transparency of the debt dynamics.

    MOFPS Comments: No objection to the recommendation. The FY 2017/18 FPP however will carry the debt stock for the Specified Public Sector, as required by the Fiscal Rules.

24. I recommend that actual tax refunds for the immediate past fiscal year be included in the FPP to enable a better assessment of actual tax performance for the year. In addition,

inclusion in the FPP of actual tax refunds as a proportion of the outstanding stock would enable greater transparency in a context where unpaid refunds represent a liability of the Government. Further, provision in the FPP of actual tax receipts, net of tax arrears collected (prior year tax receipts), would enable a better understanding of the 'one-to-one' relationship with GDP growth.

MOFPS Comments: A reasonable recommendation that the MOFPS will consider.

25. Given that prices for Petrojam petroleum products on the domestic market are based on the US Gulf Coast prices, my recommendation remains as per my review of the FPP FY2015/16 Interim Report (September 2015), that projections for the US Gulf Coast prices are included in the FPP along with projections for the West Texas Intermediate (WTI).

Pamela Monroe Ellis, FCCA, FCA, CISA
Auditor General

Part A: Principles of Prudent Fiscal Management

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

Related Target: To reduce the public debt to sixty (60) per cent or less of the Gross Domestic Product (GDP) by the financial year ended March 31, 2026 and, maintain or improve the ratio thereafter. The applicability of the redefined debt to GDP target has been delayed to take effect from April 1, 2017.

Total Debt

26. Based on Table 1A of the FPP FY2016/17, Total Debt is estimated to be $2,068,759.5 million or 126.8 per cent of GDP at end-March 2016, exceeding the stock at end-March 2015 by $27,065.8 million.

27. Total Debt is projected to increase by $118,619.4 million or 5.7 per cent to $2,187,378.9 million or 126.7 per cent of GDP by end-March 2017, relative to end-March 2016. The projected stock of debt for FY2016/17 is comprised of domestic debt of $839,910.6 million and external debt of $1,347,468.2 million.

28. Total debt/GDP, based on the GOJ definition, is projected to fall to 106.9 per cent by FY2019/20. (**Table 1**).

Table 1: Debt/GDP Projections

Fiscal Year	2013/14 (J$ million)	2014/15 (J$ million)	2015/16 (J$ million)	2016/17 (J$ million)	2017/18 (J$ million)	2018/19 (J$ million)	2019/20 (J$ million)
Total Debt	1,946,005.0	2,041,693.7	2,068,759.5	2,187,378.9	2,244,064.1	2,293,764.0	2,336,042.0
Debt/GDP Ratio %	133.0	130.6	126.8	126.7	120.0	113.2	106.9

Source: FPP FY2016/17 (Table 1A)

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

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

Fiscal Risk

29. The management of fiscal risks is critical to managing the growth of the public debt and other economic variables. Fiscal risks indicated in the Fiscal Risk Statement of the FPP refer to ‘the probability of deviations of fiscal outturns or other fiscal forecasts from expectations or budget’. The FPP identifies sources of fiscal risks currently being monitored and managed

by the MOFPS/GOJ in Box VII(A), Appendix VII, Page 2 of the FPP. A quantification of the key fiscal risks was not provided. However, for GDP the MOFPS noted that most tax revenue items have a one-to-one relationship with GDP, that is, if forecasted nominal GDP growth varies by 1 percentage point, it is expected that most tax revenue items will also change by 1 percentage point in the same direction of the change in nominal GDP. The MOFPS also indicated in the FPP that as a first step in sound fiscal management and in the MOFPS risk mitigation strategy, the range of potential projects noted in the Growth Agenda was not factored into real GDP forecasts presented in the Macroeconomic Framework. The link established between tax revenue and GDP accords with the AuGD's own assessments.

MOFPS Comments: The MOFPS quantified a key fiscal risk, that of lower than expected nominal GDP growth on Tax Revenue. In addition the MOFPS provided quantitative information to indicate the adverse impact that, lower than projected nominal GDP growth has had on the Wage/GDP ratio. However a broader quantification of the key fiscal risks remains a work-in-progress and more quantitative information to this end will be provided in future FPPs.

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

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

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

31. The Ministry further states that "The investment activities of the GOJ that support productivity and economic growth are usually contained in the Capital Budget." Prior to FY2015/16, capital spending was consistently less than budgeted. For FY2015/16 however, Table 3D in the FPP FY2016/17 indicates that capital programmes exceeded budget by $2,338.3 million or 7.7 per cent facilitated by the relaxation of the primary surplus target to 7.25 per cent from 7.5 per cent. Table 3I in the FPP FY2016/17 indicated that for the medium-term, capital expenditure is projected to increase from 2.0 per cent of GDP in FY2015/16 to 3.0 per cent in FY2019/20. Further, calculations show that capital expenditure as a percentage of loan receipts is projected to increase to 49.3 per cent in FY2019/20 relative to 11.0 per cent in FY2015/16 (**Table 2**).

Table 2: Use of Central Governmen*t Borrowings*

Fiscal Year	2013/14 (J$ million)	2014/15 (J$ million)	2015/16 (J$ million)	2016/17 (J$ million)	2017/18 (J$ million)	2018/19 (J$ million)	2019/20 (J$ million)
Loan Receipts	93,527.5	168,705.9	298,600.5	89,384.4	213,315.8	118,827.5	131,606.4
Capital	36,988.8	23,019.0	32,747.3	43,000.8	47,389.8	54,236.9	64,890.3
Capital/Loan Receipt Ratio %	39.5	13.6	11.0	48.1	22.2	45.6	49.3
Capital: Actual less Budget	-7,733.0	-11,609.1	2,338.3				

Source: FPP FY2014/15; FY2015/16; FY2016/17 (Table 3I & 3J)

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

RELATED TARGETS: To reduce the ratio of wages paid by the Government as a proportion of the Gross Domestic Product to 9 per cent or less by the end of the financial year ending on March 31, 2016 [FAA Act, Section 48C (c)] and maintain or improve the ratio thereafter;

To ensure that neither the Appropriations Act nor any Supplementary Estimates of Revenue and Expenditure for any financial year will cause any negative deviation from the fiscal balance to be attained pursuant to paragraph (a) [FAA Act, Section 48C(1)(d)]. This target has been delayed to April 1, 2017.

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

Tax Revenue

33. Tax Revenue for FY2015/16 was estimated to be $411,854.0 million, virtually in line with budget. In the FY2015/16 FPP, tax growth was predicated on nominal GDP growth of 7.3 per cent as well as movements in other macroeconomic variables coupled with measures. According to Table 2H; Medium Term Macroeconomic Profile presented in the FPP FY2016/17, estimated nominal GDP growth was 4.3 per cent for FY2015/16 (**Table 3**).

Table 3: Tax Revenue Budgeted vs. Actual

Fiscal Year	2011/12 (J$ million)	2012/13 (J$ million)	2013/14 (J$ million)	2014/15 (J$ million)	2015/16 (J$ million)
Tax Revenue Budget	308,215.3	335,625.1	360,517.6	384,286.0	411,882.6
Tax Revenue Actual	289,882.2	319,764.9	343,836.1	370,877.5	411,854.0
Variance	-18,333.1	-15,860.2	-16,681.5	-13,408.5	-28.6
Variance %	-5.95	-4.73	-4.63	-3.49	-0.00

Source: FPP FY2012/13; FY2013/14; FY2014/15; FY2015/16; FY2016/17

34. For FY2016/17, Tax Revenue is budgeted at $445,488.9 million or 25.8 per cent of GDP underpinned by nominal GDP growth of 5.8 per cent, movements in the macroeconomic variables as well as enhanced compliance activities by the TAJ and JCA. Over the medium term tax revenue is projected to increase steadily in nominal terms but decline as a percentage of GDP to 25.6 per cent and 25.7 per cent, respectively in FY2018/19 and FY2019/20, relative to the 25.8 per cent of GDP for FY2016/17 (**Table 4**).

Table 4: Tax revenue medium term projections

Fiscal Year	2015/16 (J$ million)	2016/17 (J$ million)	2017/18 (J$ million)	2018/19 (J$ million)	2019/20 (J$ million)
Tax Revenue Projection	411,854.0	445,488.9	487,515.3	519,023.6	561,456.6
Tax Revenue Projections GDP %	25.2	25.8	26.1	25.6	25.7

Source: FPP FY2016/17 (Table 3I & 3J)

Wages & Salaries

35. The FPP indicated a revised Chart of Accounts (COA), which requires some adjustments of the components currently captured as Wages and Salaries. It was indicated that these adjustments are to be consistent with the IMF's Government Finance Statistics guidelines and will change the value captured as Wages and Salaries, as well as the associated wages/GDP ratio. The FPP stated that the Ministry has already commenced the legislative process to adjust the timeline for the 9 per cent of GDP wage ceiling. The FPP did not indicate a specific timeline for the new legislative target for the GDP wage ceiling. To date, the GOJ remains in breach of the legislated 9 per cent of GDP target for Wages and Salaries.

36. Table 3D in FPP FY2016/17 indicates estimated Wages and Salaries of $168,787.4 million or 10.3 per cent of GDP for FY2015/16, $3,558.0 million above budget. Wages and Salaries accounted for 50.4 per cent of non-debt Expenditure compared to the budgeted share of 49.9 per cent (**Table 5**).

37. For FY2016/17, the FPP indicates Compensation of $181,141.9 million or 10.5 per cent of GDP comprising Wages and Salaries of $170,193.5 million (9.9 per cent) and Employers' Contribution of $10,949.1 million (0.6 per cent). According to the FPP, Employers' contribution comprises GOJ's contribution towards statutory deductions and health insurance for employees. The Report further states that employers' contribution for health insurance was previously included in Recurrent Programmes, but no data was provided in that regard for FY2015/16 or previous years to enable a comparative analysis with the provision for FY2016/17 and the medium term.

MOFPS Comments: The figure included for health insurance in 2016/17 is the same as for 2015/16, as the MOFPS assumed that the employment level will remain. The MOFPS intends to compile the figures for GOJ Contributions for previous years to establish a sufficient long series to facilitate comparative analysis but this task will require a lot more time to undertake.

38. Table 3I in FPP FY2016/17 reveals a decline in the ratio of Wages and Salaries to GDP over the medium term to 9.0 per cent at FY2019/20. The FPP indicates that the GOJ is in the process of developing a wage policy. This will guide the negotiation going forward as well as implementing critical aspects of the public sector transformation initiative as part of its strategy to reduce the cost of operating government including the wage bill. As such, I am unable to comment on the medium term wage trajectory relative to the target in the Fiscal Responsibility Framework (FRF).

Table 5: Wages & Salaries

Fiscal Year	2013/14 (J$ million)	2014/15 (J$ million)	2015/16 (J$ million)	2016/17 (J$ million)	2017/18 (J$ million)	2018/19 (J$ million)	2019/20 (J$ million)
Wages	156,361.7	158,758.6	168,787.4	170,193.5	179,415.3	188,227.5	197,761.2
Wages/GDP Ratio %	10.7	10.2	10.3	9.9	9.6	9.3	9.0

Source: FPP FY2016/17 (Table 3I & 3J)

Interest Cost

39. For FY2015/16 total interest cost is estimated at $125,679.6 million or 7.7 per cent of GDP reflecting domestic interest of $71,391.3 million and external interest of $54,288.3 million. Relative to budget, interest expenditure was $5,934.8 million lower, reflected in both domestic and external costs. For FY2015/16, interest expenditure accounted for 27.3 per cent of total expenditure.

40. Based on Table 3J of the FPP FY2016/17, interest expenditure for FY2016/17 is budgeted at $138,458.7 million or 8.0 per cent of GDP and 27.5 per cent of total Expenditure. The Interest/Tax ratio is budgeted at 31.1 per cent for FY2016/17, relative to the estimate of

30.5 per cent for FY2015/16 and is projected to fall to 20.3 per cent by FY2019/20. The interest to GDP ratio is projected to fall over the medium term to 5.2 per cent by FY2019/20.

Recurrent Programme Expenditure

41. Recurrent Programmes Expenditure for FY2015/16 is estimated at $133,505.2 million or 8.2 per cent of GDP, relative to budget of $135,735.3 million or 8.0 per cent of GDP. Recurrent Programmes Expenditure accounted for 39.8 per cent of non-debt Expenditure for FY2015/16 compared to the budgeted share of 41.0 per cent.

42. For FY2016/17, Recurrent Programmes expenditure is budgeted at $139,772.4 million or 8.1 per cent of GDP, and 38.4 per cent of non-debt expenditure. Recurrent Programmes is projected to fall to 7.6 per cent of GDP and 37.8 per cent of non-debt expenditure in FY2019/20.

Primary Balance

43. The primary surplus for FY2015/16 is estimated at $120,795.9 million or 7.4 per cent of GDP relative to budget of $126,727.7 million or 7.5 per cent of GDP. The lower than budgeted primary surplus for FY2015/16 was in accordance with the relaxation of the target by the IMF to 7.25 per cent of GDP during the fiscal year (**Table 6**).

Table 6: Primary Balance: Budgeted vs. Actual

Fiscal year	2011/2012 (J$ million)	2012/2013 (J$ million)	2013/2014 (J$ million)	2014/2015 (J$ million)	2015/2016 (J$ million)
Primary Balance Target	69,264.3	83,558.3	111,521.2	121,275.0	126,727.7
Primary Balance Target GDP %	5.2	6.0	7.5	7.5	7.5
Primary Balance Actual	39,662.7	72,336.6	111,657.1	117,241.8	120,795.9
Primary Balance Actual GDP %	3.1	5.4	7.6	7.5	7.4

Source: FPP FY2012/13; FY2013/14; FY2014/15; FY2015/16; FY2016/17 (Table 3I & 3J)

44. The primary balance target for FY2016/17 is $120,847.9 million or 7.0 per cent of GDP. Table 3I in the FY2016/17 FPP indicated a relatively flat primary surplus ratio of 7.0 per cent of GDP over the medium term, but an increase in nominal values to $153,333.6 million by FY2019/20.

Fiscal Balance

45. For FY2015/16 the fiscal deficit is estimated at $4,883.7 million or 0.3 per cent of GDP virtually in line with the budgeted deficit. For FY2016/17 the budget indicates a deficit of $17,610.8 million or 1.0 per cent. A fiscal surplus of $2,162.5 million or 0.1 per cent of GDP is budgeted for FY2017/18, improving to $39,136.8 million or 1.8 per cent of GDP by FY2019/20 (**Table 7**).

Table 7: Fiscal Balance: Budgeted vs. Actual

Fiscal year	2011/2012 (J$ million)	2012/2013 (J$ million)	2013/2014 (J$ million)	2014/2015 (J$ million)	2015/2016 (J$ million)
Fiscal Balance Target	-61,819.9	-52,975.5	-8,045.7	-11,394.1	-4,886.7
Fiscal Balance Target GDP %	-4.6	-3.8	-0.5	-0.7	-0.3
Fiscal Balance Actual	-80,972.4	-54,601.5	1,737.6	-7,270.8	-4,883.7
Fiscal Balance Actual GDP %	-6.4	-4.1	0.1	-0.5	-0.3

Source: FPP FY2012/13; FY2013/14; FY 2014/15; FY2015/16; FY2016/17

Part B: Reasonableness of the Deviation of the Fiscal Indicators

46. 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.

47. 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.

48. I have reviewed the explanations provided in the FPP FY2016/17. In making a determination of reasonableness of the explanations provided by the Minister of Finance, the following were undertaken:
    a) A review of the Budget Assumptions;
    b) A review of risks that materialised for FY2015/16;
    c) Analysis of supplementary information; and
    d) Confirmation where possible, of the Minister's explanations with observed data for FY2015/16.

49. My comments on variances provided in **Table 8** are therefore confined to those elements for which adequate information was provided in the FPP FY2016/17 and by the MOFPS.

Table 8: Comments on the Explanations for the Fiscal Deviations for FY2015-16 ($J million)

	Provisional	Budget					
Item	**April - March**	**April – March**	**Diff**	**Diff %**	**GOJ's Explanation Stated in FPP FY2016/17**	**Audit Comments**	**Ministry's Response**
Revenue & Grants	**455,835.8**	**458,101.4**	**-2,265.6**	**-0.5**			
Tax Revenue	411,854.0	411,882.6	*-28.6*	0.0	The performance was attributable to the success of various reform initiatives, including administrative efforts by TAJ and JCA to boost collections. The performance of Tax Revenue in FY2015/16 occurred in the context of lower than projected inflation, larger than budgeted declines in imports and less than anticipated economic growth.	Supplementary information from the MOFPS for FY2015/16 indicated that tax arrears collected was greater than budget but less than collections for FY2014/15.	
Income & Profits	**130,759.7**	**129,866.6**	**893.1**	**0.7**	The chief contributor to the performance of this category was Tax on Interest.		
Tax on Interest	10,947.7	8,835.7	*2,112.0*	23.9	This performance was largely due to lower than anticipated refunds.	Payment of refunds for withholding tax on interest was $5,159.6mn below targeted payout for FY2015/16, contributing to the positive deviation.	
Tax on Dividend	1,014.5	1,802.3	-787.8	-43.7		No explanation was provided in the FPP for the deviation.	**The MOFPS and TAJ are undertaking further assessment to determine and confirm the factors**

	Provisional	Budget					
Item	**April - March**	**April – March**	**Diff**	**Diff %**	**GOJ's Explanation Stated in FPP FY2016/17**	**Audit Comments**	**Ministry's Response**
							behind the fallout and reduction below previous year, including the possible effect of the 2014 Fiscal Incentive Regime. The AGD will be subsequently advised of the outcome of this assessment.
Other Individuals	4,549.1	5,238.8	-689.7	-13.2	Lower than expected growth in nominal income.	Nominal income for FY2015/16 is estimated to have grown by 4.3 per cent relative to expectations for growth of 7.3 per cent as presented in the February FPP 2015/16. This explanation is therefore validated.	
PAYE	71,966.2	71,333.2	633.0	0.9	Improvement and recovery of the business environment, as reflected in the increase in employment.	STATIN labour force survey indicated an increase in the labour force of 22,600 for October 2015 relative to October 2014. This corroborates the increase in employment levels since the FY2015/16 budget.	

	Provisional	Budget					
Item	**April - March**	**April – March**	**Diff**	**Diff %**	**GOJ's Explanation Stated in FPP FY2016/17**	**Audit Comments**	**Ministry's Response**
Other Companies	42,282.2	42,656.6	-374.4	-0.9	Outturn stemmed from TAJ's improved compliance activities, including the Fiscal Incentive Regime and the 'Know your taxpayer' campaign.	The information however showed a negative deviation relative to budget. But the explanation provided was for performance relative to the previous year.	**The shortfall of 0.9% was not considered material; accordingly, the focus was on the increase over the previous year.**
Production & Consumption	**133,792.2**	**133,420.0**	**372.2**	**0.3**	Outstanding performers were GCT and SCT.		
GCT (local)	72,745.0	70,551.4	2,193.6	3.1	i) Lower payment of refunds ii) improved compliance with significant increase in collection of arrears iii) full year effect of payment of GCT by GOJ MDA's.	GCT refunds were $924.7mn below target while arrears collection exceeded budget by $1,399.2mn. The contribution to the positive deviation is therefore confirmed. The full year impact of the payment of GCT by MDAs should have been incorporated into the budget as this was known prior to the budget, and hence should not be considered a contributing factor to the deviation.	**An estimate for the full year impact was included in the 2015/16 budget however the MOFP at the time of preparing the budget in January 2015 did not have full information. This resulted from the fact that there were implementation challenges, including delays, in FY 2014/15 for this new measure, which impacted the estimates for 2015/16.**
Telephone Call Tax	5,808.2	7,429.9	-1,621.7	-21.8	Reduction in collections reflects lower telephone calls due to increased use of Voice over Internet Protocol (VoIP).	The reasonableness of the explanation was not validated due to the unavailability of telephone call data.	**In the absence of raw telephone call data, the returns that TAJ receives from telecoms providers formed the basis of the explanation. There is also anecdotal evidence of this switch from traditional Calls toward Data Use.**

	Provisional	Budget					
Item	**April - March**	**April – March**	**Diff**	**Diff %**	**GOJ's Explanation Stated in FPP FY2016/17**	**Audit Comments**	**Ministry's Response**
SCT (local)	14,028.2	13,253.6	774.6	5.8	The $7.00 per litre increase in the specific SCT rate on petrol which took effect in March 2015, as well as higher inflows from alcohol.	Supplementary information from the MOFPS indicated lower inflows from SCT relative to budget for FY2015/16 by $842.7mn. The contribution of the increased specific SCT rate to the positive deviation could not be established in the absence of breakout between local and import component of SCT. No disaggregated data was provided to enable a validation of the contribution of alcohol to the higher inflows.	**Disaggregated data will be provided.** **However the discussion in the FPP on the increase in SCT from petroleum is in relation to the last year's collections and not the target.**
Environmental Levy (Domestic)	235.2	590.0	-354.8	-60.1	The shortfall reflected a change of the implementation date from April 1, 2015 to June 1, 2015, with payments commencing in October 2015.	Delayed implementation of the domestic Environmental Levy resulted in a foregoing of tax receipts that was budgeted to be collected.	
Minimum Business Tax	560.9	832.6	-271.7	-32.6	The underperformance was partly due to non-compliance on the part of some businesses as there are significant outstanding payments.	The FPP did not provide a break out of the proportion of registered businesses that were required to pay MBT in FY2015/16 to enable an assessment of performance; given that all taxpayers in the 'active taxpayer ledgers' were	**In terms of active taxpayer ledgers, there are 17,906 companies and 95,223 individuals. Only 17,581 taxpayers paid the MBT**.

	Provisional	Budget					
Item	**April - March**	**April – March**	**Diff**	**Diff %**	**GOJ's Explanation Stated in FPP FY2016/17**	**Audit Comments**	**Ministry's Response**
						not required to pay the tax in FY2015/16. For example, companies incorporated within the last 24 month under the Companies Act and those individuals earning less than $5mn up from $3mn since June 11 2015.	
International Trade	**147,302.1**	**148,596.0**	**-1,293.9**	**-0.9**	This category fell short of target as imports declined at a faster rate than projected.		
Customs Duty	29,520.9	30,790.6	-1,269.7	-4.1		No explanation was provided in the FPP for the deviation.	**This deviation against Budget was not considered material so the analysis focussed on outturn versus the previous fiscal year.**
SCT (Imports)	37,257.0	36,493.4	763.6	2.1	Implementation of new revenue measures namely: increased SCT on cigarettes (from $10.50 to $12 per stick), increased rates on specific SCT on petrol by $7.00 per litre and conversion of the 1.0 per cent petroleum cess to a specific SCT on petrol of $2 per litre.	No explanation was provided for the positive deviation from target as the MOFPS focused on performance relative to FY2014/15.	**This deviation against Budget was not considered material so the analysis focussed on outturn versus the previous fiscal year.** **Disaggregated data will be provided.**

	Provisional	Budget					
Item	**April - March**	**April – March**	**Diff**	**Diff %**	**GOJ's Explanation Stated in FPP FY2016/17**	**Audit Comments**	**Ministry's Response**
GCT (imports)	65,806.4	66,102.3	-295.9	-0.4	Higher import values for telecommunication machines and instruments, motor vehicles and consumer appliances.	No explanation was provided for the negative deviation from target as the MOFPS focused on performance relative to FY2014/15.	**This deviation against Budget was not considered material so the analysis focussed on outturn versus the previous fiscal year.**
Travel Tax	10,150.9	10,496.4	-345.5	-3.3		No explanation was provided in the FPP for the deviation.	**This deviation against Budget was not considered material.**
Non-Tax Revenue	**35,748.6**	**30,961.3**	**4,787.3**	**15.5**	Distributions from public bodies were more than budgeted. Customs administration fee was also above target.		
Bauxite Levy	**2,116.9**	**4,779.7**	**-2,662.8**	**-55.7**	The shortfall largely reflected a lower price for each tonne of ore exported based on an interim agreement which stemmed from a dispute between Noranda Bauxite Limited regarding the applicable bauxite levy rate. Lower than anticipated aluminium prices was also a factor.	The explanations provided were validated. Collections from the bauxite levy were impacted by the lower rate which obtained as result of the dispute. Based on data from the London Metal Exchange, average prices for aluminium fell by 15.9 per cent during FY2015/16.	

	Provisional	Budget					
Item	**April - March**	**April – March**	**Diff**	**Diff %**	**GOJ's Explanation Stated in FPP FY2016/17**	**Audit Comments**	**Ministry's Response**
Grants	**5,463.6**	**9,539.0**	**-4,075.4**	**-42.7**	The shortfall was partly due to a delay in disbursement of a portion of the EU programmed budgetary support as well as slower than anticipated execution of projects which affected inflows.	The MOFPS did not identify the capital projects that were delayed.	**The shortfall in EU support in FY 2015/16 was $1,869.4mn (44.2%). Of this amount, $275.0mn was due to difference in budgeted Euro/J$ rate. The remainder of $1,595.0mn represents (a) a delay in the submitting and subsequent processing of the request (Euro 7mn or J$945.0mn) for disbursement and (b) likely loss of resources as the conditions precedent for disbursement were not fully met. The Euro 7mn that was requested in 2015/16 is programmed for disbursement in FY 2016/17.**