EXAMINATION OF THE COMPONENTS OF THE INTERIM FISCAL POLICY PAPER WHICH WAS LAID BEFORE THE HOUSES OF PARLIAMENT ON SEPTEMBER 28, 2016

INDEPENDENT AUDITOR'S REPORT
THE AUDITOR GENERAL OF JAMAICA
APRIL TO AUGUST 2016

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.

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The Auditor General's Review

1. I have examined the components of the Fiscal Policy Paper FY2016/17 **Interim Report,** which was tabled on September 28, 2016**.** The report comprised the Fiscal Responsibility Statement, Macroeconomic Framework and Fiscal Management Strategy. I reviewed the outturn for FY2015/16, the fiscal performance for April to August 2016, projections to end FY2016/17 and for FY2017/18, as well as the medium-term.

Responsibilities of the Minister of Finance

2. Section 48E of the Financial Administration and Audit (FAA) (Amendment) Act requires that the Minister shall cause to be tabled in both Houses of Parliament within six months of the passage of the Appropriations Act for the financial year to which the relevant Estimates of Revenue and Expenditure relate, a Fiscal Policy Paper which shall, in addition to the matters set out in the Third Schedule, include:
    a) The outturn of the previous financial year;
    b) The performance of the first quarter of the financial year;
    c) Projections to the end of the current financial year; and
    d) Projections for the succeeding financial year and medium-term.

3. Section 48D of the FAA Act requires that, 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.

Responsibilities of the Auditor General

4. My review of the FPP FY2016/17 Interim Report was conducted in accordance with my responsibilities under Section 122 of the Constitution of Jamaica, taking into consideration my earlier report on the FPP FY2016/17 dated 14th April 2016, which I had submitted to Parliament.

5. In the conduct of my review of the FPP FY2016/17 Interim report, I adhered to 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.

Methodology

6. In examining the FPP FY2016/17 Interim report, I reviewed the following:

- The Fiscal Policy Paper for FY2016/17;
- The outturn for FY2015/16 relative to target and projections at April 2016 and September FY2015/16, as well as the assessment of the evidence and clarifications provided by the Ministry of Finance and Public Service (MoFPS) regarding deviation from targets;
- Projections provided to end FY2016/17, FY2017/18 and the medium-term including an assessment of risks; and
- Other information from the MoFPS and publications from other external sources.

I also performed other procedures considered necessary to enable the review process.

Basis for Comments

7. My comments are largely related to performance relative to budget in instances where support information has been provided in the FPP FY2016/17 Interim Report which was provided to me for review on October 10, 2016, as well as from other credible sources where applicable.

8. The Financial Administration and Audit (Fiscal Responsibility Framework) Regulations requires that the Minister, no later than August 31 in the year 2016, and no later than August 31 in every third year thereafter, provide the Auditor General with a list of public bodies that the Ministry wishes the Auditor General to consider for certification. From this, the Auditor General should determine whether or not to certify the public bodies based on the criteria established in the Regulations. In a letter dated September 13, 2016, the Ministry of Finance suggested one public body for assessment. However, our preliminary review of the entity revealed several short-comings which would have disqualified the entity based on Regulation 14 (1) of the Financial Administration and Audit Act (Fiscal Responsibility Framework) Regulations. Following a review of our concerns, the Ministry withdrew its recommendation and did not provide another entity for consideration by the Auditor General.

9. The FPP FY2016/17 Interim Report identified three Public Private Partnerships (PPPs) under consideration, the Kingston Container Terminal (KCT), Norman Manley International Airport (NMIA) and Jamaica Railway Corporation (JRC). The report indicated that the privatisation of the NMIA had restarted with the appointment of a new enterprise team. Further, Government had entered into a non-binding Memorandum of Understanding with Herzog to allow the company to undertake further due diligence to finalize its business plan for the JRC rehabilitation.

10. Regarding the KCT PPP arrangement, the FPP indicated that a 30-year Concession Agreement (CA) was executed on April 7, 2015 with Kingston Freeport Terminal Limited (KFTL) to finance, expand, operate, maintain, and transfer the Kingston Container Terminal (KCT). The concessionaire successfully secured financing of US$265mn for Phase 1 works and satisfied all requirements to achieve financial closure on June 30, 2016. The FPP Interim Report stated that, "Activities to

facilitate the handover of the Terminal to KFTL were also successfully completed and facilitated the achievement of handover on the same date of financial closure."

11. In accordance with my obligation under the FAA Act to certify that a public private partnership involves only minimum contingent liability, I sought to obtain the business case as well as details of the financing arrangement. In response to my request, the MoFPS, in correspondence dated January 21, 2016, advised of an extension to the completion of the financing arrangements to March 31, 2016. In correspondence dated February 12, 2016, the Ministry advised that it was not in "possession of any recent assessment of contingent liabilities in relation to the KCT or NMIA PPPs". The Ministry also stated that based on the PBMA Act, which provides "a contingency ceiling of 3 per cent of Gross Domestic Product for user-pays projects like the KCT… technically, no contingent liability was in effect currently". The Ministry further stated that "the ceiling makes the provision that when the Phase 1 works come into effect, within the 5 year-period, then they will be covered under the ceiling and then regarded as a contingent liability of the Government".

12. I am concerned regarding the basis for the Ministry's assertions given that the Ministry indicated it received the relevant documents on October 21, 2016, quite some time after the financing arrangements were finalized on June 30, 2016. This suggests deficiencies in the process given that such documents would be fundamental to the conduct of an assessment of contingent liability or other fiscal risks in respect of any PPP arrangement. The requested documents were provided to the Auditor General on November 10, 2016 after the submission of this draft report to the Ministry for review and response.

13. The FPP FY2016/17 Interim Report informs that the GOJ commenced utilization of a new classification profile, Compensation of Employees, which comprises GOJ's (employer's) contribution to the public sector employees' health scheme that was previously classified under the Recurrent Programmes. Of note, budgeted Wages & Salaries in FY2016/17 is equivalent to 9.6 per cent of GDP, and projected to be 9 per cent by end FY2018/19. The target for the 9 per cent wage to GDP was legislated to be achieved by end FY2015/16. However, a Bill was passed in both Houses of Parliament to amend the FAA Act to give effect to a change for the attainment of a 9 per cent wage to GDP target from FY2015/16 to FY2018/19. The Amendment has not yet been Gazetted.

14. According to the FPP FY2016/17, the ratio of Total Public Debt to GDP is expected to fall to J$2,187.4bn or 126.7 per cent of GDP by the end of March 2017. The ratio should continue to decrease to 120.0 per cent of GDP at end FY2017/18 and further, to 106.9 per cent by end FY2019/20. This trajectory implies that total debt would have to be reduced by an average of 6.6 per cent per year from April 2017 to March 2020, in a context where the total public debt to GDP only declined by an average of 1.5 per cent per year over the five years to end of March 2016 (aggregate reduction of 7.4 per cent).

Recommendations

In keeping with my responsibilities under the FAA Act, the Ministry should ensure that critical information is provided to the Auditor General's Department on a timely basis, in respect of:

(a) assessment of contingent liabilities of future public private partnership arrangements; and
(b) certification of public bodies as being of a commercial nature, and should not be included in the specified public sector.

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 new debt definition for the Debt to GDP target has been delayed to take effect from April 1, 2017.

Total Debt

15. The stock of Public Debt was J$2,068,759.2mn or 122.4 per cent of GDP at the end of March 2016, exceeding the stock at end March 2015 by $27,065.5mn (**Table 1**). As indicated in the FPP FY2016/17 dated April 14, 2016, Total Public Debt is expected to be J$2,187,378.9mn or 126.7 per cent of GDP by end March 2017 and should decrease to 120.0 per cent of GDP at end FY2017/18. The ratio is projected to continue to fall to 106.9 per cent by the end of FY2019/20. Based on this sharp trajectory, Total Debt would have to be reduced by an average of 6.6 per cent per year from April 2017 to March 2020. This inference is supported by the fact that Total Public Debt only declined by an average of 1.5 per cent per year over the five years to end March 2016 (aggregate reduction of 7.4 per cent).

Table 1: Public Debt Performance and Vulnerability Ratios

Public Debt Indicators	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	Budget FY2016/17	Projections FY2017/18
Total Debt	1,662,273.5	1,812,635.5	1,946,005.0	2,041,693.8	2,068,759.2	2,187,378.9	2,244,064.1
Debt Vulnerability Ratios							
Total Debt/GDP%	131.6	135.2	133.3	129.6	122.4	126.7	120.0
Interest/tax Revenue	41.6	39.7	32.0	34.5	30.5	31.1	26.4
Interest /GDP	9.5	9.5	7.5	8.2	7.7	8.0	6.9
Total Debt Service /Tax Revenue	85.9	66.9	63.0	7.2	113.7	48.8	60.4

16. The FPP FY2016/17 Interim states that at end July 2016, Total Public Debt was J$2,113,413.0mn, an increase of J$44,653.8mn relative to end FY2015/16 (**Table 2**). The increase was reflected in both the External and Domestic Debt which grew by $35,603.4mn and J$9,050.4mn, respectively. Comparable information to August was not provided to enable assessment in the context of the fiscal accounts. Of note, interest cost is projected to increase significantly by 9.3 per cent during FY2016/17 relative to FY2015/16. This is largely reflected in the external debt and due to the depreciation of the Jamaica dollar. Consequently, interest cost as a percentage of tax revenue or GDP is projected to be higher in FY2016/17 relative to FY2015/16, given the faster projected growth in interest costs.

Table 2: Public Debt end July 2011 to end July 2016

Item (End of Period)	Jul-11	Jul-12	Jul-13	Jul-14	Jul-15	Jul-16
Total Debt (J$mn)	1,582,300.7	1,711,647.5	1,857,671.7	2,061,407.6	2,050,109.8	2,113,413.0
Domestic debt (J$mn)	842,205.2	973,858.5	1,014,205.3	1,032,939.7	857,433.4	824,998.9
External Debt (J$mn)	740,095.6	737,789.0	843,466.4	1,028,467.9	1,192,676.4	1,288,414.1
External Debt (US$mn)	8,590.4	8,226.2	8,281.1	9,113.6	10,187.2	10,180.4

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

17. The management of fiscal risks is critical to the performance 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'.

18. The FPP FY2016/17 Interim identified key sources of fiscal risks, providing a brief update on four of the risks identified in the April 2016 FPP, namely Natural Disasters, Tax Refund Arrears, Domestic Arrears and Public Private Partnerships. The report however, did not provide a quantification of these fiscal risks. However, regarding tax revenue, the MoFPS in a previous FPP (April 2016) 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.

19. The Interim report revealed that the premium for the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC) programme, which includes coverage for Tropical Cyclone (TC), Earthquake (EQ) and Excess Rainfall (XSR) exceeded the contingency provision included in the budget by US$0.9mn. The April 2016 FPP stated that the provision for FY2016/17 is US$4.0mn.

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.

20. 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".

21. The FPP FY2016/17 Interim Report indicated that loan receipts for FY2016/17 are budgeted at $89,384.6mn **(Table 3)**. Budgeted Capital Expenditure (excluding amortization) represents 48.1 per cent of total budgeted loan receipts, an increase in proportion relative to the outturn for FY2015/16. The increase is noted in a context where the allocation for Capital Expenditure within the overall Expenditure Budget has been increased to 8.6 per cent, relative to the outturn of 7.1 per cent for FY2015/16.

Table 3: Use of Central Government Borrowings

Fiscal Year	FY2010/11	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	Budget FY2016/17
Loan Receipts Budget (J$mn)	176,288.5	140,778.2	251,145.8	103,279.6	110,894.5	128,930.6	89,384.6
Capital Expenditure Budget(J$mn)	63,206.4	60,415.4	39,493.0	44,721.8	34,628.2	30,409.0	43,000.8
Budgeted Capital Expenditure/Loan Receipts(%)	35.9	42.9	15.7	43.3	31.2	23.6	48.1
Loan Receipts Actual (J$mn)	212,968.9	163,519.3	261,746.1	93,527.2	168,705.8	298,620.1	
Capital Expenditure Actual (J$mn)	55,594.1	53,230.9	37,758.0	36,988.9	23,019.1	32,747.3	
Actual Capital Expenditure/Loan Receipts(%)	26.1	32.6	14.4	39.5	13.6	11.0	

22. Budgeted Capital Expenditure was $19,748.3mn for the period April to August 2016, representing 43.4 per cent of budgeted loan inflows for the period; whilst actual capital spending was $12,693.0mn and actual loan receipts were $42,810.3mn for the period.

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 9c) 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 come into effect from April 1, 2017.

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

Tax Revenue

24. For FY2015/16, actual Tax Revenue was $411,854.0mn, which was relatively in line with budgeted amount of $411,882.3mn **(Table 4)**. The Tax Revenue to GDP ratio of 24.4 per cent was above the 5-year average of 23.6 per cent. Tax Revenue performance for FY2015/16 was predicated on nominal GDP growth of 7.5 per cent as well as changes in other macroeconomic variables.

Table 4: Tax Revenue Budgeted vs. Actual

Fiscal Year	FY2010/11	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Tax Revenue Budget J$mn	287,211.3	290,308.3	335,625.1	360,517.6	384,286.0	411,882.3
Tax Revenue Actual J$mn	279,874.2	289,882.2	319,764.9	343,836.1	370,877.5	411,854.0
Variance (Actual/Budget)	-7,337.1	-426.1	-15,860.2	-16,681.5	-13,408.5	-28.3
Tax Revenue/GDP %	23.9	23.0	23.9	23.5	23.6	24.4

25. Tax Revenue for FY2016/17 is budgeted at $447,383.4mn, 8.6 per cent above actual receipts for FY2015/16. Tax growth is predicated on nominal GDP growth of 4.7 per cent as well as movements in other macroeconomic variables.

26. For the April to August 2016 period, Tax Revenue amounted to $177,704.8mn, exceeding the budgeted amount by $9,194.6mn or 5.5 per cent. A disaggregation of Tax Revenue revealed that all revenue categories exceeded respective targets, as Income & Profits (PAYE and 'other companies'), International Trade (import-related SCT and GCT) and Production & Consumption (GCT (local) and Stamp Duty (Local) largely exceeded target (**Figure 1**).

Figure 1: GCT & SCT April to August FY2011/12 to FY2016/17

	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Tax Revenue	118563.7	124994.8	132343.4	136560.3	158137.3	177704.8
VAT(GCT&SCT)	54350.3	59365.4	60823.2	60993.8	78088.6	87062.1
VAT/Tax Revenue	45.8	47.5	46.0	44.7	49.4	49.0

Wages & Salaries

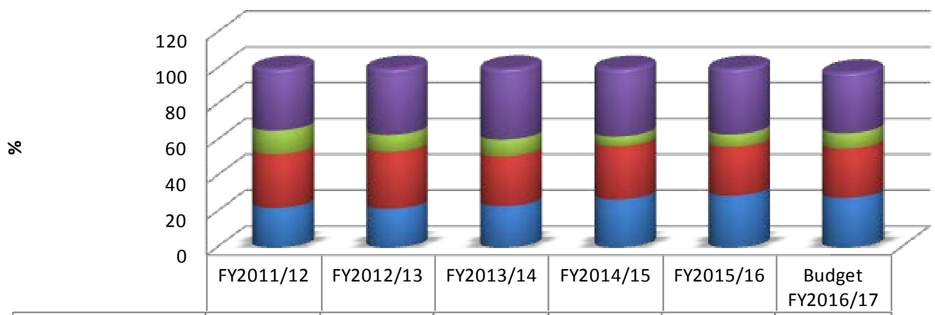
27. For FY2015/16, Wages & Salaries was $168,787.4mn, $3,558.0mn or 2.2 per cent above the original budget. The Wages & Salaries to GDP ratio of 10.3 per cent exceeded the budgeted ratio of 9.8 per cent but was below the 5-year average of 10.8 per cent. Wages & Salaries accounted for 36.6 per cent of total expenditure for FY2015/16, which was below the previous fiscal year. Notwithstanding the decline in share, Wages & Salaries has commanded the largest share of the Expenditure budget since FY2011/12 (**Table 6 & Figure 2**).

Table 6: Wages & Salaries - Budgeted vs. Actual

Fiscal Year	FY2013/14	FY2014/15	FY2015/16	Budget FY2016/17	Proj. FY2017/18	Proj. FY2018/19	Proj. FY2019/20
Wages& Salaries -Budget(J$mn)	157,253.3	161,704.3	165,229.4	170,193.5	178,148.1	185,523.4	202,220.5
Wages& Salaries -Actual(J$mn)	156,361.6	158,758.5	168,787.4				
Variance Actual/Budget (J$mn)	-891.7	-2,945.8	3,558.0				
Wages Actual/GDP%	10.7	10.2	10.3	9.6	9.4	9.0	9.0

28. Wages & Salaries is budgeted to be $170,193.5mn or 9.6 per cent of GDP by end-March 2017. Of note, the projection for the achievement of the 9 per cent wage to GDP target for FY2018/19 was legislated to be achieved by end FY2015/16. However, a Bill was passed in both Houses of Parliament to amend the FAA Act to give effect to a change for the attainment of a 9 per cent in the wage to GDP from FY2015/16 to FY2018/19. The Amendment has not yet been Gazetted.

Figure 2: Distribution of Expenditure - FY2011/12 to FY2016/17



	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	Budget FY2016/17
Wages& Salaries	34.6	36.9	39.6	37.8	36.6	33.9
Capital Expenditure	13.2	9.5	9.4	5.5	7.1	8.6
Interest Expense	29.9	31.8	27.8	29.8	27.3	27.6
Programmes	22.3	21.8	23.3	26.9	29.0	27.8

29. For the April to August 2016 period, actual Wages & Salaries was $68,710.7mn, that is $2,367.4mn or 3.3 per cent below budget. Wages & Salaries accounted for 46.2 per cent of non-debt Expenditure for the five-month period relative to the target of 44.4 per cent. As a proportion of total Expenditure the wage ratio was 32.7 per cent, marginally higher than the budgeted ratio of 31.8 per cent but well below the average of 37.4 per cent for an April to August period of the past 5 years (**Table 7**).

Table 7: Wages & Salaries - April to August Performance

Outturn (April-August)	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17	Budget FY2016/17
Wages& Salaries (J$mn)	57,262.6	63,665.0	67,990.4	68,876.3	67,858.0	68,710.7	71,078.1
Wages&Salaries/Total Expenditure	33.3	38.1	41.8	38.7	34.9	32.7	31.8
Wages& Salaries/Non-debt Expenditure	50.0	58.5	56.7	56.2	49.2	46.2	44.4

Interest Cost

30. For FY2015/16 interest cost was $125,679.6mn, that is $5,934.7mn or 4.5 per cent below budget. The interest cost to GDP ratio at 7.4 per cent was below the 5-year average of 9.1 per cent (**Table 8**). Interest cost accounted for 27.3 per cent of total Expenditure for FY2015/16, which was below the 29.7 per cent for FY2014/15. For FY2016/17, interest cost is budgeted at $138,458.7mn or 7.8 per cent of GDP and 27.6 per cent of total Expenditure.

Table 8: Interest Cost - Budgeted vs. Actual

Fiscal Year	FY2010/11	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Interest Payment Budget J$mn	142,149.4	131,083.9	136,533.8	119,566.8	132,669.1	131,614.4
Interest Payment Actual J$mn	128,354.7	120,635.1	126,937.5	109,919.5	124,512.7	125,679.7
Variance (Actual/Budget) J$mn	-13,794.7	-10,448.8	-9,596.3	-9,647.3	-8,156.4	-5,934.7
Interest Actual/GDP %	11.0	9.5	9.5	7.5	7.9	7.4

31. For the April to August 2016 period, interest cost was $61,144.2mn, $2,517.9mn or 4.0 per cent less than budgeted. The ratio of Interest cost to Tax Revenue of 34.4 per cent was below the budgeted ratio of 37.8 per cent as well as the average ratio of 40.3 per cent for an April to August period of the past five years. Interest cost represented 29.1 per cent of Total Expenditure for April to August FY2016/17, which was marginally above budget, but below the average of 30.6 per cent for an April to August period of the past 5 years (**Table 9**).

Table 9: Interest Cost - April to August Performances

Outturn (April-August)	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17	Budget FY2016/17
Interest Cost (J$mn)	57,468.2	58,384.8	42,912.2	52,264.4	56,542.3	61,144.2	63,662.0
Interest/Tax %	48.5	46.8	32.4	38.3	35.6	34.4	37.8
Interest Cost/Total Expenditure%	33.4	34.9	26.4	29.4	29.1	29.1	28.5

Recurrent Programme Expenditure

32. Recurrent Programmes Expenditure for FY2015/16 was $133,502.4mn, exceeding budget by $6,270.1mn or 4.7 per cent. The ratio of Recurrent Programmes to GDP at 7.9 per cent exceeded both the budgeted ratio of 6.8 per cent and the 5-year average of 6.7 per cent (**Table 10**). Recurrent Programmes expenditure accounted for 28.9 per cent of Total Expenditure for FY2015/16 and exceeded the previous year of 26.9 per cent. For FY2016/17, Recurrent Programmes expenditure is budgeted at $139,772.4mn or 7.9 per cent of GDP. The share in Total Expenditure is budgeted to rise to 27.8 per cent, marginally below the 29.8 per cent for FY2015/16.

Table 10: Recurrent Programmes Expenditure – Budgeted vs. Actual

Fiscal Year	FY2010/11	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Programmes(Budget)	74,121.0	87,215.1	92,160.7	93,664.2	110,281.1	139,772.5
Programmes(Actual)	76,862.5	89,699.4	87,201.4	91,971.7	112,696.7	133,502.4
Variance (Actual/Budget)	2,741.5	2,484.3	-4,959.3	-1,692.5	2,415.6	6,270.1
Programme Actual/GDP%	6.6	7.1	6.5	6.3	7.2	7.9

33. For the period April to August 2016, Recurrent Programmes was $62,037.4mn, which was below budget by $2,519.1mn or 3.9 per cent. Recurrent Programmes expenditure accounted for 41.7 per cent of non-debt Expenditure for April to August FY2016/17 relative to a target of 40.3 per cent. Recurrent Programmes expenditure accounted for 29.6 per cent of Total Expenditure, marginally above the budgeted ratio of 28.9 per cent as well as the average of 23.6 per cent for an April to August period of the past 5 years (**Table 11**).

Table 11: Recurrent Programmes - April to August Performance

Outturn (April-August)	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17	Budget FY2016/17
Programmes(J$mn)	33,702.3	36,746.1	35,283.1	44,201.0	57,841.5	62,037.4	64,556.5
Programmes/Total Expenditure(%)	19.6	22.0	21.7	24.9	29.8	29.6	28.9
Programmes/Non-debt Expenditure(%)	29.4	33.8	29.4	36.1	42.0	41.7	40.3

Capital Expenditure

34. Capital Expenditure for FY2015/16 was $32,747.3mn, $2,338.4mn or 7.7 per cent above budget (**Table 12**). The Capital Expenditure to GDP ratio was 1.9 per cent for FY2015/16 and accounted for 7.1 per cent of total Expenditure for FY2015/16, exceeding the budgeted share of 6.6 per cent. The increase is consistent with the IMF's adjustment of the primary surplus target to 7 per cent of GDP from 7.5 per cent of GDP. For FY2016/17, Capital Expenditure is budgeted at 2.4 per cent of GDP. As a proportion of Total Expenditure, Capital Expenditure is budgeted to increase to 8.6 per cent but is below the 5-year average to FY2015/16.

Table 12: Capital Expenditure – Budgeted vs. Actual

Fiscal Year	FY2010/11	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Capital Expenditure Budget (J$mn)	63,206.4	60,415.4	39,493.0	44,721.8	34,628.2	30,409.0
Capital Expenditure Actual(J$mn)	55,594.1	53,230.9	37,758.0	36,988.9	23,019.1	32,747.4
Variance (Actual/Budget)	-7,612.3	-7,184.5	-1,735.0	-7,732.9	-11,609.1	2,338.4
Capital (Actual)/GDP%	4.7	4.2	2.8	2.5	1.5	1.9

35. For the period April to August 2016, Capital Expenditure was $12,693.0mn or $7,055.3mn or 35.7 per cent below budget (**Table 13**). This outturn which accounted for 8.5 per cent of non-debt Expenditure was less than the targeted ratio of 12.3 per cent for the five-month period. The ratio was also lower than the budgeted ratio of 8.8 per cent of Total Expenditure as well as the average ratio of 8.1 per cent for an April to August period of the past 5 years.

Table 13: Capital Expenditure: April - August Performance

Outturn (April-August)	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17	Budget FY2016/17
Capital Expenditure(J$mn)	23,573.4	8,370.6	16,555.7	9,454.2	12,098.4	12,693.0	19,748.3
Capital Expenditure/Total Expenditure	13.7	5.0	10.2	5.3	6.2	6.0	8.8
Capital Expenditure/Non-debt Expenditure	20.6	7.7	13.8	7.7	8.8	8.5	12.3

Primary Balance

36. The Primary Surplus for FY2015/16 as a per cent of GDP was 7.4 per cent, which exceeded the revised target of 7.25 per cent (**Table 14**). However, with the actual GDP data being revised upward from the estimated GDP for FY2015/16, the primary surplus outturn as a per cent of GDP was revised to 7.1 per cent. Of note, the nominal amount targeted was achieved.

Table 14: Primary Balance: Budgeted vs. Actual

Fiscal Year	FY2010/11	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Primary Balance Target(J$mn)	61,295.1	69,264.2	83,558.3	111,121.2	121,275.0	126,727.7
Primary Balance Target/GDP%	4.9	5.2	6.0	7.5	7.5	7.5
Primary Balance Actual(J$mn)	54,145.2	39,662.7	72,336.6	111,657.1	117,241.7	120,795.8
Primary Balance Actual %	4.6	3.1	5.4	7.7	7.5	7.4

37. The Primary Balance target for FY2016/17 is projected to be $122,962.5mn or 7.0 per cent of GDP. Of note, the estimated GDP for FY2016/17 has been revised upwards, resulting in the nominal primary balance budget being equivalent to 6.9 per cent of GDP. Consequently, the GOJ has also revised upward the nominal primary balance target to meet the 7 per cent requirement.

38. For the period April to August 2016, the primary surplus amounted to $41,654.2mn, $24,199.3mn or 138.6 per cent better than target (**Table 15**). The outturn for the April to August FY2016/17 exceeded the average of $22,445.6mn for an April to August period of the previous 5 years.

Table 15: Primary Balance: April to August Performance

Outturn (April-August)	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17	Budget FY2016/17
Primary Balance	11,959.7	17,456.3	25,059.3	25,348.7	32,404.0	41,654.1	17,454.8

Fiscal Balance

39. Central Government recorded a Fiscal Deficit of $4,880.9mn or 0.3 per cent of GDP for FY2015/16 compared to the budgeted deficit of $4,886.7mn or 0.3 per cent of GDP (**Table 16**).

Table 16: Fiscal Balance: Budgeted vs. Actual

Outturn	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Fiscal Balance Budget(J$mn)	-61,819.9	-52,975.5	-8,045.7	-11,394.1	-4,880.9
Fiscal Balance Budget(%GDP)	-4.6	-3.8	-3.8	-0.7	-0.3
Fiscal Balance Actual(J$mn)	-80,972.4	-54,610.5	1,737.6	-7,270.8	-4,883.7
Fiscal Balance Actual(%GDP)	-6.4	-4.1	-4.1	-0.5	-0.3

40. For FY2016/17, the target for the Fiscal Balance is a deficit of $14,412.3mn or 0.8 per cent of GDP. For the first five months of FY2016/17, the Fiscal Deficit was $19,490.0mn, $26,717.2mn less than budgeted but exceeded the average of $14,415.5mn for an April-August period of the past 5 years (**Table 17**).

Table 17: Fiscal Balance: April to August Performance

Outturn (April-August)	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17	Budget FY2016/17
Fiscal Balance	-14,526.3	-9,628.4	-5,812.9	-17,971.8	-24,138.3	-19,490.0	-46,207.2

Part B: Reasonableness of the Deviation of the Fiscal Indicators

41. I have reviewed the explanations provided in the FPP FY2016/17 Interim Report. 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 FY2016/17 April 2016;
   b) A review of estimated revenue gains/losses from the FY2016/17 Revenue Measures;
   c) A review of risks in the FY2016/17 Fiscal Policy Paper and Debt Management Strategy to determine if any has materialized or were excluded from initial projections;
   d) A review of emerging risks discussed in the Interim Report;
   e) Confirmation where possible, of the Minister's explanations with observed data.

42. My comments on variances provided in **Table 18** are confined to those elements for which adequate information was provided in the FY2016/17 Interim FPP and by the Ministry of Finance.

Table 18: Comments on the Explanation for the Fiscal Deviations for April-August 2016 relative to Budget (in millions of Jamaican dollars)

Item	Provisional April - August	Budget April - August	Diff	Diff %	GOJ's Explanation Stated in FPP FY2016/17 Interim	Audit Comments	Ministry's Response
Revenue & Grants	**190,427.0**	**177,516.8**	**12,910.2**	**7.3**			
Tax Revenue	177,704.8	168,510.2	9,194.6	5.5	Higher than budgeted collections from Income &Profits, Production & Consumption and International Trade.	Tax revenue exceeded budget and was bolstered by higher than budgeted performance in the major tax components – Income & Profits (mainly O*ther companies* & '*tax on interest'*) and International Trade (mainly import related SCT and GCT).	
Income & Profits	46,311.9	42,709.8	3,602.0	8.4			
Other Companies	9,929.3	8,947.4	981.9	11.0	Collections positively impacted by the faster pace of growth in real GDP for the quarter relative to the corresponding quarter of FY 2015/16, Continued compliance enforcement activities also had a positive impact on corporate tax receipts.		
Tax on Interest	5,342.0	4,896.7	445.3	9.1	Due to lower refunds, improvement in administrative efficiency and due diligence.	Refunds for this tax type amounted to $4.3 billion, $3.7 billion below target for the period.	

Item	Provisional April - August	Budget April - August	Diff	Diff %	GOJ's Explanation Stated in FPP FY2016/17 Interim	Audit Comments	Ministry's Response
PAYE	29,188.6	27,332.9	1,855.7	6.8	The full impact of the threshold adjustment was partly offset by private sector related PAYE reductions for July being reflected in August and not July, as they have up to 15 days after month-end to pay over PAYE and other salary based deductions.	Information was insufficient to validate this assertion notwithstanding the positive performance of PAYE also observed in July 2016.	**The revenue forecast assumed that the full impact of the threshold adjustment for PAYE would commence in July. This was an oversight as private sector monthly statutory payments are paid over to TAJ 15-30 days after the end of the month in question. So July's statutory tax payments would be paid in August**
Production & Consumption	60,576.0	57,444.7	3,131.3	5.5			

Item	Provisional April - August	Budget April - August	Diff	Diff %	GOJ's Explanation Stated in FPP FY2016/17 Interim	Audit Comments	Ministry's Response
GCT (local)	32,022.1	30,689.8	1,332.3	4.3	Due to recent improvements in economic conditions, there has been a renewed boost of confidence in the economy. This coupled with compliance activities has kept this tax type above projections.	The consumer confidence indices for the June and September 2016 quarters were on average 23.5 per cent and 41.0 per cent higher than the index for the December 2015 quarter (latest available data at budget) and the average for the same period of 2015, respectively. However, there is no direct link between survey of consumer confidence and consumer spending as the survey only utilizes the opinions and expectations of consumers rather than actual spending.	**In the absence of timely data on consumer spending, a reasonable inference (from the expansion in household credit) could be made that consumption had increased during the period under review.**
Stamp Duty	6,059.4	5,012.9	1,046.5	20.9	Positive performance is partly attributable to an extraordinary payment of approximately $800.0mn, stemming from the sale of high end properties and the issuance of shares.	No readily available information to assess.	
SCT (local)	6,050.4	6,494.1	-443.7	-6.8	No explanation provided by the MOFP		**The major portion of SCT is from the SCT on fuel – dependent on the level of manufacturing by PetroJam vs the import of refined fuel determines impacts the flows**

Item	Provisional April - August	Budget April - August	Diff	Diff %	GOJ's Explanation Stated in FPP FY2016/17 Interim	Audit Comments	Ministry's Response
							for this tax between inland collections and collections at the port (where the shortfall here is more than covered).
International Trade	70,816.9	68,355.6	2,461.3	3.6	This is mainly attributable to increases in Custom Duty, GCT (Imports) and SCT (Imports).		
GCT (imports)	29,951.4	28,386.1	1,565.3	5.5	Improved compliance, enhanced by the ASYCUDA World System, growth in the trade volumes, the value effect of the depreciating exchange rate and tariff adjustments.	The value of the Jamaica Dollar vis-a-vis the US dollar depreciated by 4.5 per cent over the April to August 2016 period which would increase the value of imports.	
SCT (Imports)	19,038.2	17,906.1	1,132.1	6.3			
Travel Tax	5,267.40	6,165.70	-898.30	-14.6	This performance was due to the delay in the timeframe wherein the new tax rate would be fully reflected in travel tickets, due to the pre-booking factor.	This delay should have been taken into account at the time of formulation of the budget.	**Agreed. This was an oversight.**

Item	Provisional April - August	Budget April - August	Diff	Diff %	GOJ's Explanation Stated in FPP FY2016/17 Interim	Audit Comments	Ministry's Response
Grants	2920.7	1345.5	1575.2	117.1	This was due to a higher than budgeted disbursement which was programmed to come in smaller tranches. The portion of the grant flows from the Chinese Development Bank for the construction of new Ministry of Foreign Affairs building was received earlier than programmed.		
Bauxite Levy	1403.1	1068.5	334.6	31.3	Bauxite Levy registered higher than expected collection due in part to higher aluminium prices on the world market for the review period.	According to LME data, average aluminium prices have increased by 7.2 per cent for August 2016 relative to average prices in March 2016 at the time of budget formulation.	
Non-Tax Revenue	8158.6	6277.4	1881.2	30.0	Partially due to improvement in collections from MDAs.		
Total Debt (end July)	2,113,413.0						
Domestic	824,998.9				i) The addition of $6.0bn to the stock from the reopening of a fixed rate instrument as well as (ii) Depreciation which added $3.0bn to the US dollar denominated instruments in the domestic portfolio.	The impact of the depreciation was confirmed by our own calculations.	

Item	Provisional April - August	Budget April - August	Diff	Diff %	GOJ's Explanation Stated in FPP FY2016/17 Interim	Audit Comments	Ministry's Response
External	1,288,414.1				This change in the external stock was largely influenced by the depreciation of the Jamaica dollar.	The external debt stock was confirmed to be influenced by depreciation as the US dollar stock fell by US$85.0 million over the period.	