EXAMINATION OF THE COMPONENTS OF THE FISCAL POLICY PAPER, WHICH WAS LAID BEFORE THE HOUSES OF PARLIAMENT ON FEBRUARY 15, 2018

INDEPENDENT AUDITOR'S REPORT

THE AUDITOR GENERAL OF JAMAICA

FINANCIAL YEAR 2018/19

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

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

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

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

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Auditor General's Comments

1. I have examined the components of The Fiscal Policy Paper (FPP), laid before the Houses of Parliament on February 15, 2018 in accordance with the Financial Administration and Audit (FAA) Act. I found the report to be comprehensive and clear, and I commend the efforts of the Ministry of Finance in that regard. Notwithstanding, the Ministry of Finance has not provided a fulsome response to all questions asked, however my report is scheduled in order to meet the statutory deadline.

2. The report met the requirements of the Third Schedule and comprised a Fiscal Responsibility Statement; Macroeconomic Framework; and Fiscal Management Strategy.

My Responsibility

3. Section 48B (6) of the FAA Act requires the Auditor General to examine the components of the Fiscal Policy Paper and provide a report to the Houses of Parliament indicating whether:-

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

My examination of the FPP found that, whereas the conventions and assumptions underlying the preparation of the Fiscal Policy Paper broadly complied with the principles of prudent fiscal management, some risks were not fully explained. For example, the Fiscal Risk Statement indicated that a one per cent increase in GDP would result in a one per cent increase in tax revenue and "if elasticity is greater (or less) than one, revenue would more than proportionately increase (or decrease) with GDP". However, **Figure VI (b)** in the Fiscal Risk Statement revealed that estimated tax elasticity had been increasing since FY2012/13 and was 'two' for FY2016/17, relative to one in previous years, which is an important point of reference for current tax revenue projections. Further, the Fan Chart presented in **Figure VI (a**) showed a 50 per cent probability that real GDP growth would turn out to be between 2.0 per cent and 3.0 per cent for FY2018/19. Thus, if GDP growth were on the downside in FY2018/19, and even with no further increase in tax elasticity, there would be a proportionately larger shortfall in tax revenue than was portrayed in the Fiscal Risk Statement, requiring greater adjustment to Expenditure in the absence of revenue measures.

In another instance, the Fiscal Responsibility Statement revealed that the First Supplementary Estimates for FY2017/18 included a loan of US$100.0 million to Petrojam Limited to assist the refinery in mitigating the negative impact on its financing arising from an Executive Order issued by the USA in respect of Venezuela. If there is uncertainty regarding continuance of the Order, it would be prudent to recognize the risk that could arise to the debt ratio if Government needs to borrow, in order to provide further financial support to Petrojam. In its response, the Ministry of Finance indicated: **This is a direct loan from the Government. The lines of credit from the financial institutions to PetroJam have reopened, so there should be no need for additional borrowing.**

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

I examined the information provided for April to December 2017 and found that the reasons provided for the deviation from budget, were largely reasonable. However, in some instances there was no quantification of the contributory factors, which could give greater credence to the reasons advanced for the deviations. For example, the Fiscal Management Strategy pointed to three main contributing factors to the over performance of tax revenue relative to budget. These were the rebalancing of taxes towards indirect taxation; increased compliance measures and economic recovery. Statistics provided, confirmed reasonableness regarding the impact on tax revenue of growth in the Services Industry, as well as Manufacturing and Construction. The FPP noted that with the change in the tax system, consumption taxes were more conducive to bringing more taxpayers inside the tax collection net, resulting in an overall improvement in compliance. Inclusion of tax arrears collected vis-a-vis number of taxpayers could have provided greater assurance of reasonableness of the explanation for the higher than budgeted tax collections. This in a context where tax arrears collected are exceptional one-off flows from prior periods, and not related to current year performance. In its response, the Ministry indicated: **With respect to the overall improvement in compliance, we do take the point that the evidence should have been explicitly stated in the PART 3 of the FPP. Nonetheless Appendix V page 2 para 2 (last sentence) noted "For the fiscal year to December, 15,106 new taxpayers were registered, a 46 per cent increase over the corresponding period last year".**

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

My obligation under Section 50 (1) of the FAA Act is to certify that a public body carries out functions that are of a commercial nature. The Act requires that the Minister, no later than August 31, in every third year, provide the Auditor General with a list of public bodies that the Minister wishes the Auditor General to consider for certification. The Ministry provided a list on August 12, 2016, which it subsequently withdrew; and therefore, I was not required to undertake this responsibility for FY2017/18.

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

The FPP indicated that the Enterprise Team had approved the final Business Case and Procurement Plans for the Schools Solar Energy Public Private Partnership (PPP). This project is a 'government pays' PPP and as such, the required support and spending must be covered in the public budget as well as, public debt ceiling. Accordingly, contingent liability risk would not arise in this instance. However, the FPP anticipates the Commercial Close for the Norman Manley International Airport Public Private Partnership (PPP), which is, will take place during FY2018/19. Given that this is a 'user pays' PPP, I expect to determine whether this PPP involves only minimal contingent liabilities, once financial close is achieved.

My Recommendation

4. The Fiscal Policy Paper compared the projected outturn for FY2017/18 to the First Supplementary Budget. I recommend that a juxtaposition of the fiscal outturn with the original budget be included in accordance with the FAA Act, as the revised budget takes into consideration actual and projected fiscal performance, which might inhibit proper assessment of fiscal performance.

Pamela Monroe Ellis, FCCA, FCA, CISA
Auditor General

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Executive Summary

5. My examination of the Fiscal Policy Paper (FPP) FY2018/19, confirmed that the contents were in keeping with the requirements of the Third Schedule of the FAA Act. The FPP included the minimum content under the Fiscal Responsibility Statement, Macroeconomic Framework and Fiscal Management Strategy.

6. I conducted my review of the FPP based on the requirements stated in Section 48B (6) of the FAA Act. I did not evaluate the merits of the Finance Minister's Fiscal Management Strategy.

7. In conducting my assessment, I adhered to the standards issued by the International Association of Supreme Audit Institutions and International Standard on Assurance Engagement (ISAE) 3000 – Assurance Engagements Other than Audits or Reviews of Historical Information issued by the International Auditing and Assurance Standards Board.

What I found

The Conventions and assumptions underlying the preparation of the Fiscal Policy Paper

8. The conventions and assumptions underlying the preparation of the Fiscal Policy Paper broadly complied with the principles of prudent fiscal management. However, some risks for FY2018/19 were not fully explained for example, the risks to tax revenue from lower GDP through the higher tax elasticity of 'two' and to the debt ratio, if there is continuation of USA's Executive Order against Venezuela, necessitating further financial support to Petrojam.

   i. The Fiscal Risk Statement also indicates that tax revenue "is impacted through the SCT on petroleum and petroleum products". In a context where crude oil prices are currently above forecast in the Macroeconomic Framework, the risks are on the upside, which augurs well for SCT collections.

   ii. The Fiscal Management Strategy forecasted Bauxite levy receipts to remain flat for FY2018/19 and over the medium term, reflecting only legacy payments by the owners of Noranda. However, based on current arrangements, WINDALCO is expected to resume bauxite levy payments in April 2018, while Noranda and Alpart are to resume levy payments in the fourth quarter of FY2021/22. There was no indication in the FPP as to whether the waiver arrangements would be extended.

   iii. The FPP indicates a budgeted Wage to GDP ratio for FY2018/19 of 9.2 per cent and that "further actions will be taken to ensure that by end FY2018/19, the wage to GDP meets 9.0 per cent legislated target and will be maintained across the medium-term". Based on the Fiscal Risk Statement, wage expenditure could be greater than planned if settled after approval of the budget. Further, the budgeted ratio of 9.2 per cent assumes nominal GDP growth of 6.9 per cent and a 50 per cent probability of achieving real GDP growth of between 2.0 per cent and 3.0 per cent. Hence, there is a greater risk that the legislated target might not be met.

iv. The Fiscal Risk Statement for FPP FY2017/18 stated that a Country Disaster Risk Profile (CDRP) was custom built for Jamaica and that the quantification of Government's direct contingent liability based on historical government expenditure and the results from the CDRP was being finalised. I note however that for FY2018/19, the contingency provisions for natural disasters remained unchanged at $500 million relative to FY2017/18, which based on expectations for inflation and the exchange rate, might suggest a lower risk profile based on the CDRP. However, the FPP did not provide an explanation.

v. The FPP projects self-financed public bodies (SFPBs) to record an overall balance surplus of $11.4 billion for FY2017/18 relative to the budgeted overall surplus of $2.5 billion and ascribes the expected overperformance to underperformance of capital expenditure and not to higher levels of efficiency by the SFPBs. This is in a context where the enhanced fiscal rules focus on fiscal consolidation to achieve debt sustainability.

vi. I note that the projected dividend distributions from SFPBs for FY2018/19 of $26.0 billion is significantly higher relative to the estimate for FY2017/18. Additionally, a full year of royalty payments from Alpart relative to receipts for one quarter coupled with ramped up alumina production should also support growth in Non-Tax Revenue for FY2018/19 and the medium term. Based on the arrangement with GOJ, Alpart was to begin making royalty payments of US$0.50 per metric tonne on January 1, 2018.

Reasons given for the deviation from Budget

vii. Whereas in general, the explanations provided for the deviation of the April - December 2017 outturn from budget appeared to be reasonable, quantification of some major contributory factors would have given greater assurance of credibility.

viii. Statistics provided, confirmed reasonableness regarding the impact on tax revenue of growth in the Services industry, as well as Manufacturing and Construction. However, the Fiscal Management Strategy did not provide statistical evidence for the contribution from increased compliance in a context where an overall improvement in compliance was linked to the change in the tax system and strong tax collection. Inclusion of tax arrears collected vis-a-vis number of taxpayers could have provided greater assurance regarding the contribution of compliance to the higher than budgeted tax collections. This in a context where tax arrears collected are exceptional one-off flows from prior periods, and not related to current year performance.

Performance against Fiscal Framework

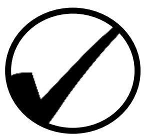
9. The fiscal outturn and projections were reviewed in the context of the fiscal rules. The Financial Administration and Audit (FAA) Amendment, 2014 Act outlines the fiscal targets for which the Minister of Finance and Public Service should take 'appropriate measures'.

Fiscal Targets

FISCAL BALANCE

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.

DEBT RATIO



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.

WAGES RATIO

To reduce the ratio of wages paid by the Government as a proportion of the Gross Domestic Product to 9 per cent or less by the end of the financial year ending March 31, 2019 and maintain or improve the ratio thereafter [FAA (Amendment) Act 2016].

ORIGINAL BUDGET & SUPPLEMENTARY ESTIMATES

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).

NOTIONAL ACCOUNT

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

Key:

On track

Target at risk

Keep in View

The Fiscal Management Strategy

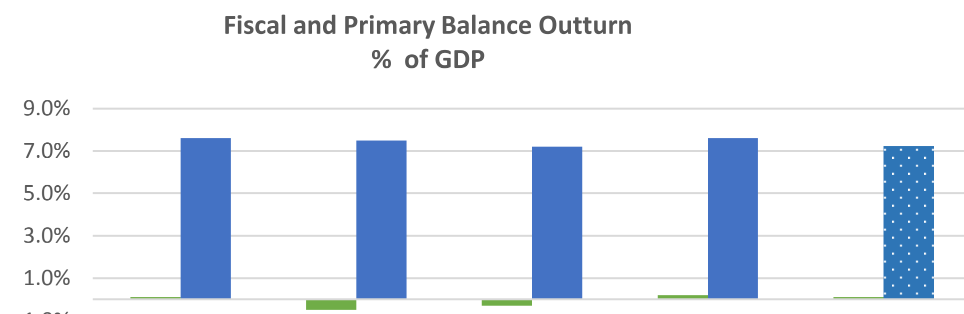
Fiscal and Primary Balance

10. The Fiscal Management Strategy states that as part of efforts to reduce the public debt to GDP ratio, the GOJ legislated "through the Financial Administration and Audit (FAA) Act and the Public Debt Management Act (PDMA) certain tools designed to prescribe the desired fiscal balance that is consistent with the achievement of debt sustainability within a specified timeline". Further, that in conforming to these Fiscal Rules, the Government has continued to target a primary balance of 7.0 per cent of GDP alongside a fiscal balance that allows for a decline in the debt ratio of 60 per cent of GDP or less by FY2025/26.

11. The Fiscal Management Strategy indicated that the budget for FY2018/19 is designed "to achieve the targets entrenched in the fiscal rule legislation and within the context of the current Precautionary Stand-By Arrangement (PBSA) with the IMF. Accordingly, the focus will be towards achieving the primary balance target of 7.0 per cent of GDP, and the corresponding fiscal balance, which are the operational instruments" being utilised to attain the public debt to GDP target. **MOFPS Response: The primary balance target is determined based on 7% of the projected nominal GDP consistent with the IMF agreement. It does not replace the fiscal balance as stipulated in the Fifth Schedule.**

12. The Fiscal Management Strategy indicated a fiscal surplus of $4.1 billion or 0.2 per cent of GDP for FY2018/19, following a projected fiscal surplus of $1.8 billion or 0.1 per cent of GDP for FY2017/18; with continued surpluses over the medium-term (**Figure 1**).

Figure 1: Fiscal and Primary Balance

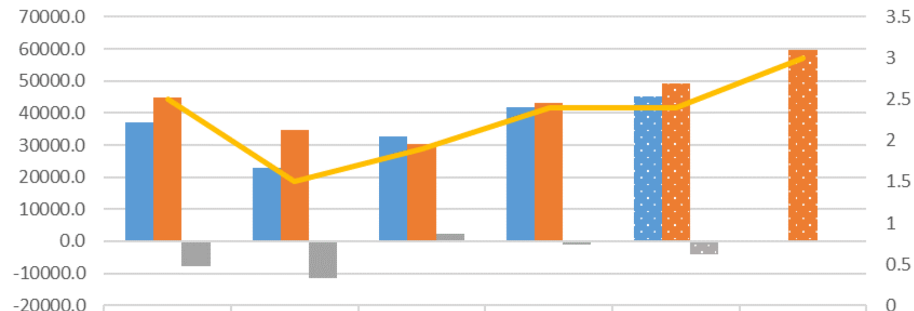


	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18 (Poj.)
Fiscal Balance	0.1%	-0.5%	-0.3%	0.2%	0.1%
Primary Balance	7.6%	7.5%	7.2%	7.6%	7.2%

Source: MoFPS

13. The FPP FY2018/19 notes fiscal operations for FY2017/18 will generate a primary surplus slightly higher the annual 7.0 per cent of GDP targeted over the three-year life of the precautionary Stand-by Arrangement[1]. The FPP FY2018/19 projects successive primary surpluses of 7.0 per cent of GDP over the medium term, sustaining the downward trajectory of the debt. Of note, the primary surplus target of 7.0 per cent of GDP was formulated to create room for spending on growth inducing capital projects, which is projected to increase to 3 per cent of GDP at end FY2018/19 and will remain same for the medium-term (**Figure 2**).

Figure 2: Capital Expenditure



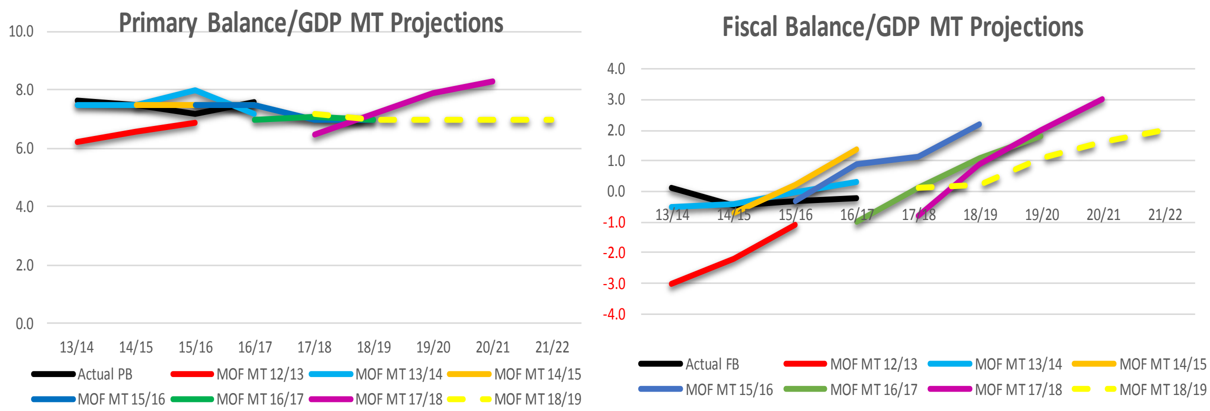
	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18 (Proj.)	FY2018/19 (Proj.)
Actual	36988.8	23019.0	32747.3	41955.3	45170.8	
Budget	44721.8	34628.2	30409.0	43000.8	49282.5	59825.1
Deviation from Budget	-7733.0	-11609.2	2338.3	-1045.5	-4111.7	
% of GDP	2.5	1.5	1.9	2.4	2.4	3.0

Source: MoFPS

14. Attainment of the Fiscal and Primary balance targets is highly dependent on prudent fiscal management, underpinned by credible macroeconomic assumptions and the identification and management of fiscal risks. These factors affect the achievement of targets for Tax Revenue, Wages & Salaries, Programme Expenditure, and Capital Expenditure. Over the years with the materialisation of fiscal risks, the medium-term primary and fiscal balance targets have had to be adjusted (**Figure 3).**

[1] In 2016 Jamaica entered a 36 month precautionary Stand-by Arrangement with the International Monetary Fund.

Figure 3: Primary & Fiscal Balance



Source: AuGD Analysis

15. The Fiscal Management Strategy projects Revenues and Grants for FY2018/19 and the medium-term, to progressively exceed programmed expenditure net of amortization over the period. The FY2018/19 represents the first time in five years that programmed expenditure is constrained within the expected level of Revenue to be generated. The Ministry further indicated that projections of Revenue and Grants for FY2018/19 and the medium term reflected a passive forecast, underpinned mainly by key macroeconomic assumptions outlined in its Macroeconomic Framework and supported by the revenue strategies of Tax Administration Jamaica (TAJ) and Jamaica Customs Agency (JCA).

16. I found that, whereas the projections for FY2018/19, were broadly in line with principles of prudent fiscal management, some of the risk were not fully explained, particularly with respect to Tax Revenue and Wages & Salaries.

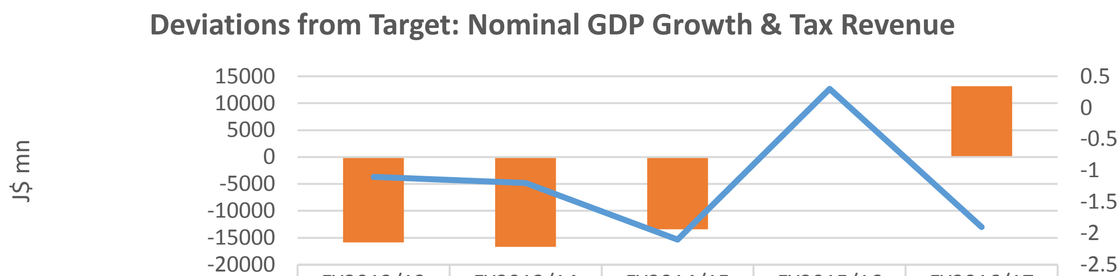
Tax Revenue

17. The Fiscal Management Strategy ascribed the higher than budgeted tax revenue for April to December 2017 to improvements in GDP and compliance. Statistics provided confirmed growth in the services Industry, as well as Manufacturing and Construction, which would have had a positive impact on tax revenue. At the same time, it was stated that with the change in the tax system, consumption taxes were more conducive to bringing more taxpayers inside the tax collection net, resulting in an overall improvement in compliance. Inclusion of statistics on the tax arrears collected vis-à-vis the number of taxpayers would have assisted in confirming the contribution of increased compliance to strong tax revenue performance. This in a context where tax arrears collected are exceptional one-off flows from prior periods.

18. The Fiscal Management Strategy also projects Tax Revenue to grow by 6.8 per cent for FY2018/19 and average 5.9 per cent over the medium term to FY2021/22. GDP growth was identified as a key

determinant of the Tax Revenue forecast. Our review of past performance of nominal GDP growth projections for the last 5 years to FY2016/17 indicated that GDP outturn was lower than projections in four of the five years. Further, Tax revenue performance was lower than projected in three of the four years in which nominal GDP was below projections, underscoring the important relationship between economic activities and tax performance (**Figure 4**).

Figure 4: Tax Revenue



	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Tax Revenue	-15860.2	-16681.5	-13408.5	-28.3	13161.8
Nominal GDP Growth	-1.1	-1.2	-2.1	0.3	-1.9

Source AuGD Analysis

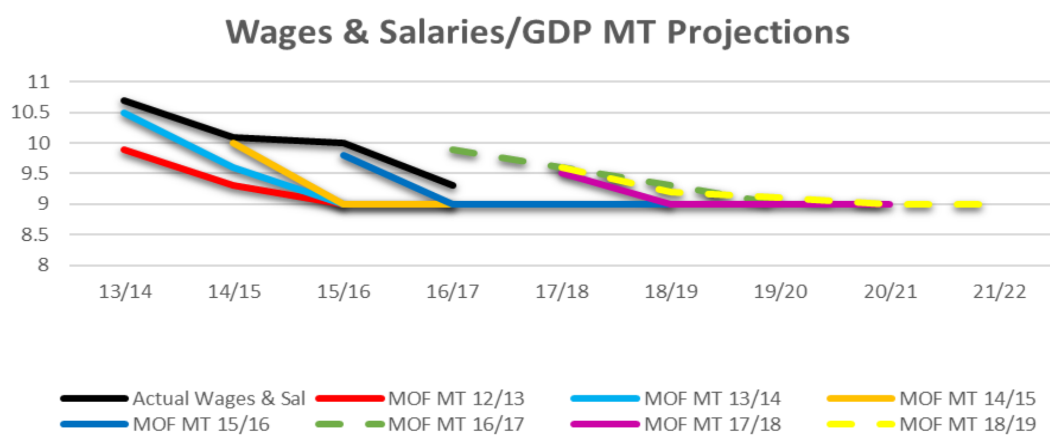
19. For FY2018/19, based on the Fiscal Risk Statement, there is a 50 per cent probability that GDP will fall between 2.0 and 3.0 per cent**.** **Figure VI (b)** revealed a trend increase in estimated tax elasticity to 'two' for FY2016/17, relative to one in previous years. This is an important point of reference for current tax revenue projections as, even if the elasticity remains the same for FY2018/19, if GDP growth is on the downside, there would be a proportionately larger shortfall in Tax Revenue collections than was portrayed in the Fiscal Risk Statement. In the absence of new revenue measures, lower Tax Revenues would require greater adjustment to the Expenditure in order to achieve the projected primary and fiscal balances and maintain the downward trajectory of the debt stock towards the 60 per cent of GDP target. This is in a context where the Fiscal Responsibility Statement states, "the forecast for Revenue and Grants for FY2018/19 provides full financing for the expenditure budget (net of Amortization) and therefore no new revenue measures are required".

Wages & Salaries

20. The Fiscal Management Strategy projects Wage & Salaries to decline to 9.2 per cent of GDP by end FY2018/19, following a projected outturn of 9.6 per cent of GDP at end FY2017/18. Wages & Salaries are projected to be further reduced to 9.0 per cent by end FY2020/21 (**Figure 5**). According to the Fiscal Risk Statement, wage expenditure could be greater than planned if new salaries are settled after approval of the budget. Further, if projected nominal GDP growth of 6.9 per cent for FY2018/19 is not achieved and further actions are not taken, there is a greater risk that the legislated target for FY2018/19 will not be met. Of note, with amendments to the Financial Administration and Audit Act

in 2015 and 2016, the legislated target has been postponed twice. With Wages & Salaries projected to increase in nominal terms over the medium-term, a reduction in the wage to GDP ratio will be dependent on higher GDP growth rates. For four of the five years up to FY2016/17, GDP has underperformed relative to projections, highlighting challenges to the attainment and the maintenance of the 9.0 per cent wage to GDP target.

Figure 5: Wages & Salaries



Source: AuGD Analysis

Public Debt

21. Since FY2013/14, actual debt to GDP has steadily declined. The Fiscal Management Strategy targets the public debt ratio to fall to 96.2 per cent of GDP at end FY2018/19 from 102.8 per cent in FY2017/18 partly through liability management operations of domestic debt and external debt (**Table 1 & Figure 6**). The Debt to GDP ratio is projected to fall to 74.2 per cent by FY2021/22.

22. In pursuance of the public debt to GDP target of 60 per cent or less by the end of FY2025/26, the GOJ also seeks to control the growth of the Specified Public Sector (SPS) debt through prudent fiscal management.

Table 1: Debt/GDP (J$ Million)

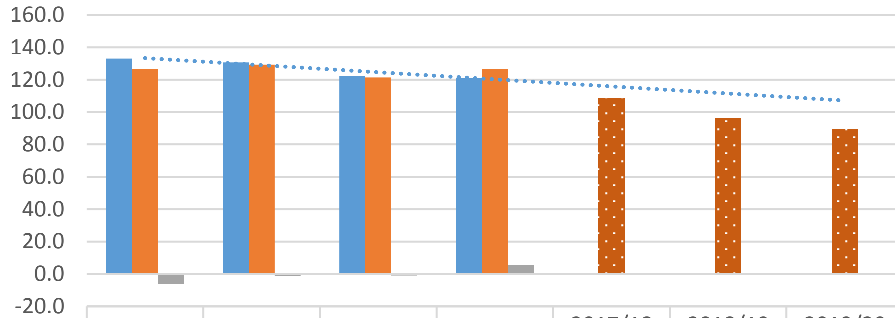
Fiscal Year	2015/16	2016/17	2017/18	2018/19	2019/20
Total Debt	2,068,759.1	2,159,936.4	1,941,262.7	1,941,601.9	1,932,631.9
Debt to GDP Ratio %	122.3	121.2	102.8	96.2	89.5

Source: MOFP

23. There are however, some risks to the achievement of the debt target from underperforming public bodies, which may require additional government support. At the same time, the Fiscal Responsibility Statement indicated that the First Supplementary Estimates for FY2017/18 included a loan of

US$100.0 million to Petrojam Limited to assist the refinery in mitigating the negative impact on its financing arising from an Executive Order issued by the USA in respect of Venezuela. If the Order remains for FY2018/19, there is contingent risk to the debt ratio if Government needs to borrow to support to Petrojam. The Ministry indicated "no further support is planned at this time".

Figure 6: Debt/GDP Budget vs Actual



	2013/14	2014/15	2015/16	2016/17	2017/18 (Proj)	2018/19 (Proj)	2019/20 (Proj)
Actual Debt to GDP %	133.0	130.6	122.3	121.2			
Budgeted Debt to GDP %	126.7	129.3	121.3	126.7	108.6	96.2	89.5
Variance	-6.3	-1.3	-1.0	5.5			

Source: MOFP

Self-Financing Public Bodies

24. The Fiscal Responsibility Statement states, "In conformity with the enhanced fiscal rules, the Ministry of Finance will continue monitoring and reporting on the Specified Public Sector (SPS) in FY2018/19". Self-financed public bodies (SFPBs) are projected to record an overall balance surplus of $11.4 billion for FY2017/18 relative to the budgeted overall surplus of $2.5 billion, which represents a 41.9 per cent decline relative to FY2016/17. The expected overperformance is ascribed to underperformance of capital expenditure. This is in a context where the enhanced fiscal rules focus on fiscal consolidation to achieve debt sustainability. An overall deficit of $10.4 billion is projected for FY2018/19, largely predicated on increased capital expenditure and transfers to Government.

25. Although there are some public bodies that maintained surpluses, others carry deficits and as such are recognized as a source of fiscal risk to the Government. The Fiscal Risk Statement in the FPP FY2018/19 noted the Government has undertaken to contain the domestic arrears of seven large public bodies[2] by establishing a ceiling of $6,400.0 million on the accumulation of new debt of these entities.

[2] These public bodies are Clarendon Alumina Production Limited, National Water Commission, Housing Agency of Jamaica, Jamaica Urban Transit Company Limited, National Health Fund, National Road Operating and Constructing Company Limited and Urban Development Corporation.

Reasonableness of the Deviation of the Fiscal Indicators

26. 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.

27. 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.

28. In this section, I have reviewed the explanations provided for the period April to December 2017 as provided in the FPP FY2018/19. 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 FY2016/17;
    c) analysis of supplementary information; and
    d) confirmation where possible, of the Minister's explanations with observed data for FY2017/18 (April to December 2017).

29. My comments on variances provided in **Table 2** relate only to material issues pertaining to information provided in the FPP FY2018/19 and by the MoFPS.

30. In addition to the explanation of the fiscal performance to December 2017, the FPP FY2018/19 provides summary projections for April 2017 to March 2018. I note that the projections to March 2018 were compared to the First Supplementary Estimates; however, no comparison was made with the original budget consistent with the requirement of the FAA Act. A comparison with the original budget is required, as the Supplementary Estimates would have been informed by the fiscal performance as well as expectation for the rest of the fiscal year, up to the time it was tabled, and therefore would not be reflective of appropriate budgeted information. **MOFPS Response: The First Supplementary Budget involved changes to both the Revenue Profile and Expenditure Profile. These changes were infused into the Original Budget profile for both Revenues as well as Expenditures. For this reason, the use of the First Supplementary Budget Profile would not impact or inhibit a proper assessment of fiscal performance. Notwithstanding, the Interim Fiscal Policy Paper will present a comparative analysis of the final outturn against Original as well as First Supplementary Budget.**

Table 2: Comments on the Explanation for the Fiscal Deviations for April-December 2017 relative to Budget (in millions of Jamaica Dollars)

	Provisional	Budget					
Item	**April – Dec**	**April - Dec**	**Diff**	**Diff %**	**GOJ's Explanation Stated in FPP FY2018/19**	**Audit Comments**	**Ministry's Response**
Revenue & Grants	**390,947.6**	**376,442.5**	**14,505.2**	**3.9**			
Tax Revenue	353,063.2	341,562.9	*11,500.3*	3.4	The three main contributing factors to the above budget performance were the rebalancing of taxes towards indirect taxation, increased compliance measures, and the continued economic recovery.	No supportive Data provided in the FPP regarding the contribution from compliance.	
Income & Profits	**78,379.7**	**77,184.9**	**1,194.7**	**1.5**			
Tax on Interest	4,904.9	9,838.4	-4,933.5	-50.1	Contributing to the shortfall was the higher than programmed refund of withholding taxes, which was more than compensated for by the above programme performance of other tax types.	No information provided in the FPP regarding refunds, hence to contribution could not be confirmed.	**For April – December, refunds of Withholding Taxes amounted to $10,548.2mn**
Other Companies	32,226.3	25,496.9	6,729.4	26.4	Factors influencing the outturn are companies reporting increased profitability due to increase sales and lower operational expenses, increased in year-over-year exports by 9.2 % (companies involved in export), and significant increase in the number of companies registered.	No information provided in FPP regarding the number of newly registered companies. Hence, the contribution to higher company taxes from this source could not be confirmed.	**Request has been sent to TAJ and will be shared.**
Tax on Dividend	1,318.7	1,026.6	292.2	28.5	Companies realizing greater than anticipated profitability.	Reasonable explanation.	
PAYE	37,689.2	38,925.5	-1,236.3	-3.2		Explanation provided for year-on-year change; however, no explanation	**The shortfall against the Budget for the Apr-Dec period relates to the GOJ budgeted salary increase**

	Provisional	Budget					
Item	**April – Dec**	**April - Dec**	**Diff**	**Diff %**	**GOJ's Explanation Stated in FPP FY2018/19**	**Audit Comments**	**Ministry's Response**
						provided for deviation relative to budget.	**payments to begin in October 2017 which did not occur in the absence of settlements with the unions.**
Individuals	2,240.5	1,897.5	*343.0*	18.1	Mainly due to the non-implementation of the programmed wage increases for public sector workers, due to non-settlement of the wage negotiations for the period.	Clarification requested as explanation was inconsistent with tax type.	**Two unrelated matters coming together due to deletion of subtitle "PAYE". The deviation for Individuals was due to continued improvements in Compliance activities by TAJ**
Production & Consumption	**129,388.2**	**118,531.0**	**10,857.2**	**9.2**	Mainly attributable to the real sector categories of Hotel & Restaurant and Construction and Manufacturing.	Reasonable explanation.	
Stamp Duty	9,574.2	10,021.9	*-447.7*	-4.5		The MoFPS did not comment regarding the deviation of this tax type.	
GCT (Local)	66,913.1	61,950.6	*4,962.6*	8.0	Performance can be attributed to increased consumption emanating from the record employment levels and economic momentum.	A reasonable conclusion as increased employment should contribute higher aggregate demand.	
SCT (local)	20,571.3	15,781.2	4,790.1	30.4	This is partly due to higher than anticipated production; the SCT collections were also considerably impacted by the revenue measures.	Reasonable explanation.	
Environmental Levy (Domestic)	361.7	340.8	20.8	6.1	Impacted by the increased local production of petroleum and its by-products. Other industries that have contributed to the outturn were the Food, Beverage, Tobacco, and other sub industries, which also posted increased outputs.		

	Provisional	Budget					
Item	**April – Dec**	**April - Dec**	**Diff**	**Diff %**	**GOJ's Explanation Stated in FPP FY2018/19**	**Audit Comments**	**Ministry's Response**
Contractors Levy	1,530.7	1,081.9	448.8	41.5	Positive performance supported by increased renovation and construction work in both the residential and commercial sectors.	Reasonable explanation. Macroeconomic data confirmed increased value added in the Construction sector.	
Minimum Business Tax	824.0	665.2	158.8	23.9	Performance was due to the increase compliance efforts by the revenue authorities.	Could not confirm, as the number of businesses paying the tax in April to Dec 2017 relative to the previous year was not provided.	
International Trade	**145,295.3**	**145,846.9**	**-551.7**	**-0.4**			
Customs Duty	29,182.2	27,757.0	1,425.2	5.1	Mainly influenced by the higher than budgeted year-over-year import growth rate.	Reasonable explanation.	
SCT (Imports)	38,002.7	39,609.1	-1,606.4	-4.1	Due to factors such as the increase in importation of smaller cars; the decline in the number of duty paid cigarette sticks; and the lower than budgeted importation of finished petroleum products.	The information on the number of imported cigarette sticks was not provided in the FPP.	**Request has been sent to JCA and information will be shared.**
GCT (imports)	59,882.5	62,284.3	-2,401.9	-3.9	Due to the currency appreciation and lower importation of a range of items attracting this tax.	Exchange rate appreciation confirmed. No disaggregation of import data provided to confirm lower importation.	
Travel Tax	14,119.4	12,088.1	2,031.4	16.8	Impacted by higher than projected stopover arrivals.	Reasonable Explanation. Tourism data showed that higher stopover arrivals for 2017.	

	Provisional	Budget					
Item	**April – Dec**	**April - Dec**	**Diff**	**Diff %**	**GOJ's Explanation Stated in FPP FY2018/19**	**Audit Comments**	**Ministry's Response**
Non-Tax Revenue	**32,202.8**	**30,930.0**	**1,272.7**	**4.1**	The Custom Administration Fee (CAF) transfers were higher than budgeted and provided a partial explanation for the deviation.	Cannot confirm as no information provided on the extent of the CAF's contribution to the deviation, or for other factors.	**Outside of the CAF, the flows from the 3 De-earmarked public bodies would be the main driver of the over performance.**
Capital Revenue	**2,187.9**	**613.8**	**1,574.1**	**256.4**	Due primarily to higher than budgeted loan repayment transactions.	No information was provided.	
Total Debt (As at end-December 2017)	**1,952,965.6**				The reduction relative to end-March 2017 can be attributed to liability management operations executed during the second half of the fiscal year and the impact of lower than anticipated exchange rate.	Reasonable Explanation.	
Domestic	760,275.8						
External	1,176,647.7						
Net Public Bodies	16,042.1						