EXAMINATION OF THE COMPONENTS OF THE INTERIM FISCAL POLICY PAPER WHICH WAS LAID BEFORE THE HOUSES OF PARLIAMENT ON September 25, 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.

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Auditor General's Comments

1. I have examined the components of the Fiscal Policy Paper FY2018/19 Interim Report, laid before the Houses of Parliament on September 25, 2018 in accordance with the Financial Administration and Audit (FAA) Act.

2. My examination of the Fiscal Policy Paper FY2018/19 Interim Report, confirmed that the contents are in keeping with the requirements of the Third Schedule of the FAA Act whereby it includes the minimum content under the Fiscal Responsibility Statement, Macroeconomic Framework and Fiscal Management Strategy, inclusive of the Fiscal Risk Statement.

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.**
   I found that the conventions and assumptions underlying the preparation of the Fiscal Policy Paper (FPP) FY2018/19 Interim Report broadly complies with the principles of prudent fiscal management. The Report identifies risks from the macroeconomic assumptions, wage settlements, and public bodies with arrears in particular, to the achievement of the budget and debt targets, although the Report does not quantify all risks noted.

   b. **Subsection 5(d) (ii) of the FAA Act requires the FPP to compare the outcome of the fiscal indicators with the targets of the previous year and give reasons for any deviations.**
   I found that the FPP FY2018/19 Interim Report does not accord with the FAA Act in terms of comparing the actual outcome of FY2017/18 to the original budget. Instead, the Report compared the actual outcome for FY2017/18 to the revised budget, which incorporates the Supplementary Estimates, as well as the estimates indicated in the February FPP FY2018/19.

   Subsection 6(b) requires the Auditor General to indicate that the reasons given pursuant to subsection 5 (d) (ii) are reasonable having regard to the circumstances.
   Amendment No 4. 2015 of Section 48E (3) of the FAA Act states "a Fiscal Policy Paper, which shall in addition to matters set out in the Third Schedule, include the economic outturn of the previous financial year."

   Given that the FPP Interim Report FY2018/19 would have represented the first tabling of the actual outturn for FY2017/18, I expected the Report to provide a disaggregation of tax revenue (details of Revenue) and detailed explanations for material variances from original budget, in order to assess reasonableness, "having regard to the circumstances". However, given the absence of the details of revenue performance for FY2017/18, as well as a comparison to the original FY2017/18 budget, I was limited in my ability to assess the reasonableness of explanations for deviations.

Notwithstanding, the Report is compliant with FAA Act (regulation, 2012) in terms of focus on the mid-year outturn, implications for the remainder of the year and the medium-term; providing results for April to July 2018 and projections to end FY2018/19 and the medium-term. However, reasons provided for deviations in revenue from budget were not always clear and/or adequate.

For April - July 2018, the Report highlighted the contribution of increased withholding tax flows from private sources to the positive performance in *Income & Profits* but did not clarify the source, whether prior year obligations, increased savings activity for the current period, or some other factor. Further, the Report ascribed stronger than budgeted GCT collections to 13 consecutive quarters of economic growth that was accelerating and augured well for tax collected. However, a comparison of growth across quarters would not explain greater than budgeted tax receipts, as the budget would have incorporated the higher growth.

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;**
The FAA 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.

Given that the Minister provided a list of public bodies for certification in 2016, which he subsequently withdrew, a list will not be due until August 31, 2019.

d. **A public private partnership involves only minimal contingent liabilities accruing to the Government.**
The FPP FY2018/19 Interim Report indicated that Cabinet has approved a preferred bidder for the Norman Manley International Airport (NMIA) planned public private partnership. However, I will not undertake an assessment for minimal contingent liability until after commercial close and financial closure, expected by the end of the third quarter of FY2018/19 and the end of FY2018/19, respectively.

My Recommendation

In February 2018 based on my review of the FPP FY2018/19, I recommended that the Ministry of Finance comply with the FAA Act by providing a comparison of fiscal outturn with the budget of the previous year, in order to enable a proper assessment of fiscal performance. Given that the FPP FY2018/19 Interim Report reflects a similar concern, I urge the Ministry to address this deficiency.

Pamela Monroe Ellis, FCCA, FCA
Auditor General

Executive Summary

Methodology

1. In examining the FPP FY2018/19 Interim report, I reviewed the following:

    - The Fiscal Policy Paper for FY2018/19;
    - The outturn for FY2017/18, the original budget for FY2017/18 and projections at February 2018 and September FY2017/18; as well as the evidence and clarifications provided by the Ministry of Finance and Public Service (MoFPS) regarding deviation from targets;
    - Projections provided to end FY2018/19 and medium-term including fiscal risks, and additional information from the MoFPS and publications from other external sources; and
    - Performed other procedures considered necessary to enable the review process.

2. In the conduct of my review of the FPP FY2018/19 Interim report, 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 We Found

Performance FY2017/18

3. The Interim FPP Report ascribed the over-performance of tax revenue to a wider tax net resulting from increased employment, alongside improvements in administration and compliance. However, provision of statistics for tax arrears would have assisted in confirming the increased Tax Revenue related to increased compliance and improvements in administration.

Performance April - July 2018

4. The Interim FPP indicated that the positive performance of *Income & Profits,* reflected in tax on interest, was due to stronger compliance mechanisms and increased withholding tax flows from private sources.

    a. Information presented on the various compliance programmes, provided reasonable explanations for the contribution of compliance to the overall positive variance in *Income & Profits*. However, a disaggregation by tax type relative to the targets would have provided a greater level of transparency and analysis.

    b. The Report stated that increased withholding tax flows from private sources also contributed to the positive performance in *Income & Profits*; however, it was unclear whether the flows represented prior year obligations, reflected increased savings activity for the current period, or some other factor. Consequently, I was unable to determine that the explanation for the deviation was reasonable.

c. The Report indicated that Corporate Income Tax (CIT) was lower than budget due mainly to July collections, which "reflected an anomaly relative to the collections for the last 4 years". Further, with increased compliance activities, "this lowered arrears payments normally observed in the month of July". However, it is my view that improved compliance would have reduced the incidence of arrears, hence, the explanation for the deviation as presented, requires further clarification for a determination of reasonableness.

d. The Report stated that the Jamaican economy had experienced 13 consecutive quarters of growth and that the pace of growth was accelerating, which augured well for tax collected and that GCT superseded expectations with collections $1.05 billion above budget. However, a comparison of growth across quarters would not explain performance relative to budget as the target would have accounted for the higher economic growth. Similarly, comparing collections in contractors levy relative to budget and using the growth in construction over the past year as an explanation would not be reasonable.

e. The Interim FPP Report indicated that the temporary bauxite levy regime modification for the sector is still in effect and has altered the levy collections significantly. However, provision of information on the arrangements with Jiuquan Iron and Steel Company (JISCO Alpart), and Windalco that had a 100 per cent waiver to March 31, 2018, would have enhanced transparency given that the February FPP FY2018/19 indicated that there was no change in the levy regime.

MOFPS Response: Cabinet agreed to a Fiscal Regime Agreement with JIRS/JISCO which provides for the payment of income tax, whilst providing for a waiver of the bauxite Production Levy in respect of any amount of bauxite or laterite extracted or won by Alpart in any Calendar Year in excess of the bauxite and laterite content of 1,450,000 Metric Tons of alumina actually shipped. This exemption will be granted for the duration of the Agreement which ends on 31 December 2021.

Fiscal Outlook

5. The Report indicated that for the rest of FY2018/19, Tax Revenue is expected to over-perform by $8.5 billion with *Income & Profits* and *International Trade* expected to be the main contributors. However, having given a precise value of $8.5 billion for expected tax over-performance, a disaggregation of tax revenue would have provided clearer insight on the expectations for *Income & Profits* and *International Trade* relative to the other sub-categories.

6. The Interim FPP indicated that the debt stock increased over the first quarter of the fiscal year mainly due to valuation effects arising from depreciation of the Jamaica Dollar, but did not provide a reason for the higher debt projections at the end of the year relative to the target outlined in the February FY2018/19 FPP. Given the importance of reducing the debt trajectory, some indication of the factors informing the higher projection would enhance transparency.

7. The Interim FPP indicated that the revised Expenditure budget (supplementary budget) takes into account increased allocation for higher wages and salaries in accordance with the new Wage Agreement and financing for an expansion in the staff size of the JDF. However, the Report projects compensation of

employees (including wages and salaries) to be in line with the original budget. This projection for wages and salaries, being 9.1 per cent of GDP would be above the legislated target of 9.0 per cent set out in section 48C (c) of the FAA Act, amended in 2016. The Fiscal Responsibility Statement in the FY2018/19 FPP had stated that the attainment of this target is a primary objective of the economic reform programme and that the GOJ intends to achieve this target in accordance with the legislation.

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Performance against Fiscal Framework

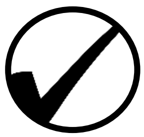
8. The fiscal outturn for FY2017/18 and projections were reviewed in the context of the Fiscal Rules. The Financial Administration and Audit (FAA) Amendment 2014 Act outlines the fiscal targets for which the Minister of Finance and Public Service should take 'appropriate measures'. The following chart indicates my outlook for the Fiscal Targets.

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

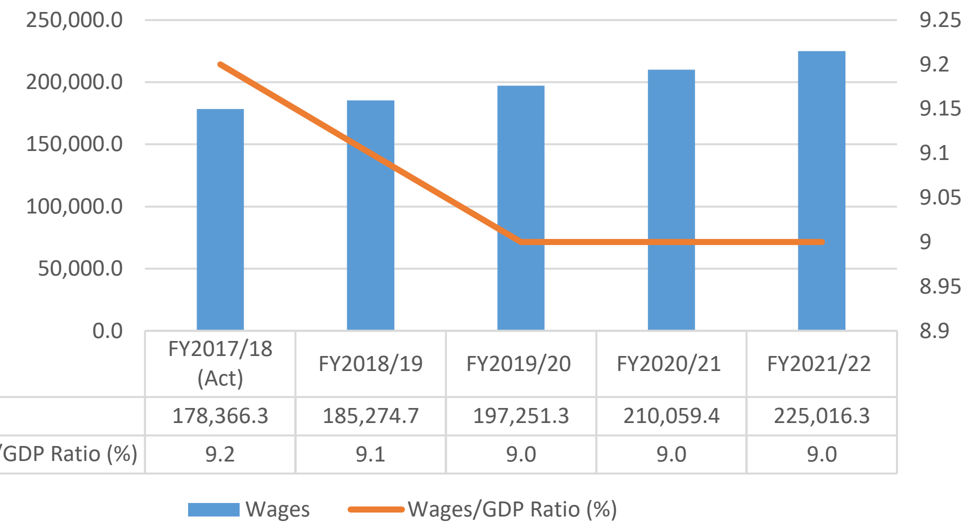
Keep in View

Fiscal Management

Wages and Salaries

9. The Interim FPP FY2018/19 report projects wages and salaries to increase to 9.1 per cent of GDP by end-March 2019 from the 9.2 per cent recorded at the end of FY2017/18, marginally above the legislated target of 9 per cent set out in section 48C (c) of the FAA Act[1]. For FY2018/19, wages and salaries are projected to be $185.3 billion, which accords with the new wage agreement (**Chart 1**). However, the Ministry concedes that should the outstanding wage settlements with some smaller bargaining units and the Police Federation exceed the provisions made in the four-year offer, this would pose a risk to the expenditure budget, the overall fiscal programme, and the achievement of the 9 per cent wage to GDP target.

Chart 1: Wages and Salaries (J$ million)



	FY2017/18 (Act)	FY2018/19	FY2019/20	FY2020/21	FY2021/22
Wages	178,366.3	185,274.7	197,251.3	210,059.4	225,016.3
Wages/GDP Ratio (%)	9.2	9.1	9.0	9.0	9.0

Source: MoFPS

10. Wages & Salaries for the April to July 2018 period accounted for 32.5 per cent of total expenditure compared to the original budget of 31.4 per cent but was below the average of 36.5 per cent for the April to July period of the past five years (**Table 1**). Even with a trend decline in wages & salaries for April to July over the last five years, the category continues to command the largest share of the Expenditure budget since FY2013/14, highlighting the importance of the Government's targeted realignment of this expenditure item, to increase fiscal space.

[1] Amended in 2016

Table 1: Wages & Salaries - April to July Performance

Outturn April to July	Budget FY2018/19	FY2018/19	FY2017/18	FY2016/17	FY2015/16	FY2014/15	FY2013/14
Wages & Salaries (J$mn)	61,510.1	61,251.3	58,354.1	54,295.5	53,087.8	53,409.0	53,471.9
Wages &Salaries/Total Expenditure (%)	31.4	32.5	34.5	32.4	34.5	38.2	43
Wages & Salaries/Non-Debt Expenditure (%)	41.1	41.6	46.5	46.3	48.8	55.4	57.2

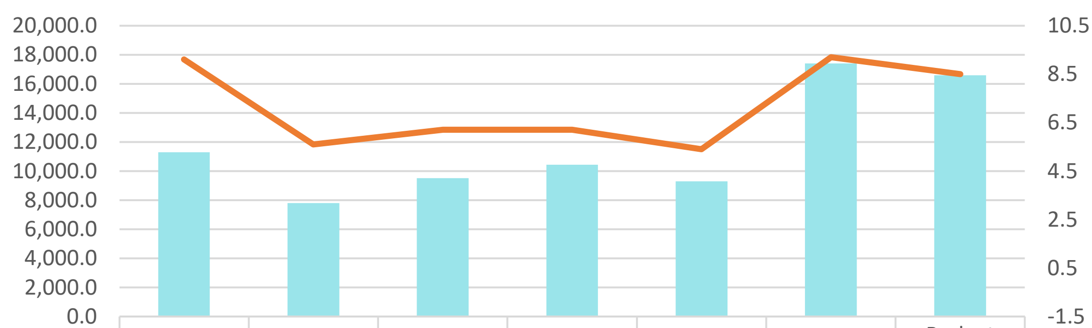
Source: MoFPS

Capital Expenditure

11. Capital Expenditure is budgeted to increase to 10.2 per cent of Total Expenditure for FY2018/19 and above the 5-year average of 8.0 per cent up to FY2017/18. The Interim FPP report highlighted that the bulk of the expected increase in capital spending would be geared towards the Major Infrastructure Development Programme (MIDP) and the Southern Coastal Highway Improvement Project (SCHIP). Further, additional capital expenditure is required to sustain the pace of implementation of these projects, especially those underway in the Kingston Metropolitan Area, with the overall outlay of $65.2 billion projected to exceed the original budget by $5.3 billion (8.9 per cent). This emphasis on capital expenditure accords with the reduction of the primary surplus target, which 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.

12. Capital Expenditure for April to July 2018 was $17.4 billion exceeded the original budget by $0.8 billion and accounted for 11.8 per cent of non-debt Expenditure, relative to the targeted ratio of 11.1 per cent for the four-month period. The positive trend in capital expenditure was also underscored, as its proportion of 9.2 per cent of total expenditure exceeded the budgeted ratio of 8.5 per cent, as well as the average ratio of 6.5 per cent for an April to July period of the 5 years to FY2017/18. (**Chart 2**).

Chart 2: Capital Expenditure: April - July Performance



	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18	FY2018/19	Budget FY2018/19
Capital Exp (J$mn)	11,297.3	7,803.1	9,516.2	10,434.9	9,301.1	17,390.2	16,588.2
Capital Exp/Total Exp (%)	9.1	5.6	6.2	6.2	5.4	9.2	8.5

Source: MoFPS

Tax Revenue

13. Total Tax Revenue for FY2017/18 was $496.9 billion, 3.9 per cent higher than original budget. Tax revenue over-performance was ascribed to a wider tax net resulting from increased employment, alongside improvements in administration and compliance **(Table 3)**. However, provision of statistics outlining the tax arrears would have assisted in confirming the increased Tax Revenue related to greater compliance and improvements in administration. The outturn represented a tax to GDP ratio of 25.7 per cent, in line with the ratio for FY2016/17, but higher than the five-year average of 24.2 per cent. Tax Revenue for the April to July 2018 period amounted to $168.4 billion, surpassing budget by $5.7 billion or 3.5 per cent.

Table 3: Tax Revenue

Fiscal Year	FY2017/18	FY2016/17	FY2015/16	FY2014/15	FY2013/14
Tax revenue Budget (J$mn)	478,254.6	445,161.6	411,882.3	384,286.0	360,517.6
Tax Revenue Actual (J$mn)	496,894.6	458,323.4	411,854.0	370,877.5	343,836.1
Variance Actual/ Budget (J$mn)	18,640.0	13,161.8	-28.3	-13,408.5	-16,681.5
Taxes Actual/GDP (%)	25.7	25.6	24.4	23.6	23.6

Source: MoFPS

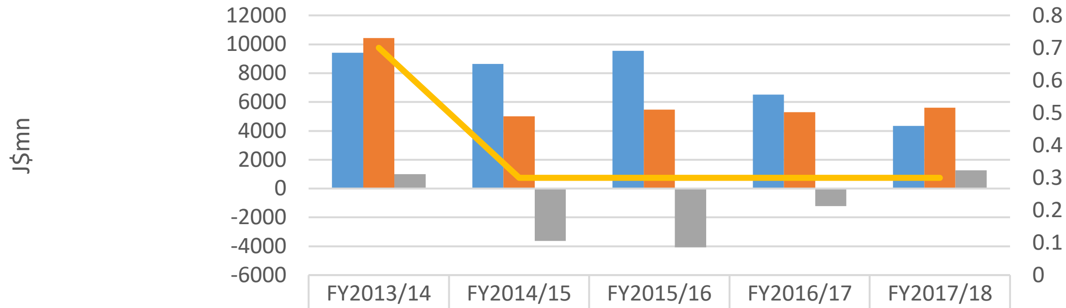
14. The Interim FPP FY2018/19 report indicated that the tax budget for FY2018/19 is greater than actual receipts for FY2017/18, with higher Tax Revenue predicated on growth of 6.9 per cent in nominal GDP. Tax revenue is forecasted to continue to expand over the medium-term, increasing to $647.8 billion in FY2021/22, which augurs well for the continuous attainment of the primary surplus target.

Grants

15. Grant receipts for FY2017/18 amounted to $5.6 billion, or $1.3 billion more than the original budget indicated in the FY2017/18 FPP, reflecting higher than programmed project disbursement and contrasts with shortfalls observed for previous years **(Chart 3)**. The Grants to GDP ratio has however remained flat at 0.3 per cent since FY2014/15, which coincides with continued improved economic performance relative to income eligibility[2].

[2] There is generally a required maximum income level for a country to be eligible for grant funding, for lower - middle or low income countries.

Chart 3: Grants – Actual vs Original Budget



	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Grants Budget (J$mn)	9422.3	8644.9	9539	6509.8	4352.1
Grants Actual (J$mn)	10428.5	5017.8	5463.6	5292.8	5614.4
Variance (J$mn)	1006.2	-3627.1	-4075.4	-1217	1262.3
Grants/GDP Actual (%)	0.7	0.3	0.3	0.3	0.3

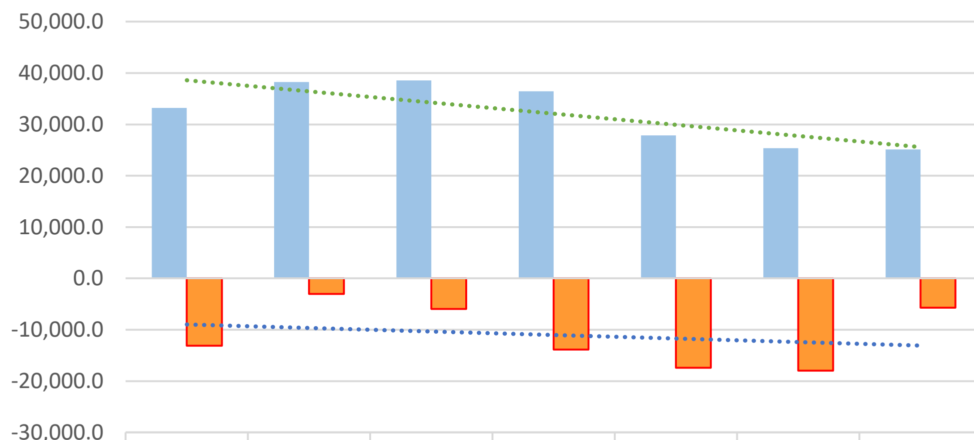
Source: MoFPS

For the April to July 2018 period, Grant inflows were $1.6 billion or $3.0 billion (65.3 per cent) lower than the original budget based on delayed disbursement from the European Union.

Primary Balance and Fiscal Balance

16. The primary balance for April to July 2018 was $38.2 billion, exceeding the average of $30.6 billion for an April to July period for the past five years but was relatively in line with that for April to July 2017. The fiscal balance for April to July 2018 was a deficit of $3.0 billion, relative to the $13.1 billion budgeted deficit and represented a better outturn than the average for the past five years (**Chart 4**).

Chart 4: Fiscal and Primary Balances – April to July



	Budget FY2018/19	FY2018/19	FY2017/18	FY2016/17	FY2015/16	FY2014/15	FY2013/14
Primary Balance (J$mn)	33,201.3	38,235.1	38,565.1	36,430.6	27,833.2	25,348.7	25,140.3
Fiscal Balance (J$mn)	-13,095.40	-3,024.7	-5,978.8	-13,876.5	-17,419.0	-17,971.8	-5,732.9

Source: MoFPS

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. The Fiscal Risk Statement in the February 2018/19 FPP highlighted 'the probability of deviations of fiscal outturns or other fiscal forecasts from expectations or budget'. The risks identified included macroeconomic assumptions used in preparing the FY2018/19 budget and medium-term projections, public debt dynamics, the operations of state owned enterprises, as well as Public Private Partnerships (PPP's) and contingent liabilities. However, strategies to mitigate risks were not provided for all risks identified in the interim FPP.

18. The Interim report states that at end-August 2018, twelve-month point-to-point inflation was 3.9 per cent with inflation projected to increase to 4.5 per cent for FY2018/19. Further, while lower than target inflation may be seen as a positive, there could be negative implications for tax revenues and nominal GDP, which is the base of the GOJ's programme targets, such as wage to GDP or the primary balance to GDP. This concern is relevant in a context where a one-to-one relationship between tax revenues and GDP growth has been established whereby a 1-percentage point change in nominal GDP would engender a similar change in tax revenue, in either direction.

19. The Report further identified the risk to the achievement of the wage to GDP target. While statutory deductions may increase with higher wages and salaries, the adverse impact of higher than planned wages and salaries, significantly outweighs the additional tax receipts from the increased wage bill.

20. The Interim FFP report indicated that the GOJ has a reserve of approximately J$550 million in the national disaster fund to finance post-disaster expenditures and that additional funding amounting to J$94 million, is available through the contingency fund. The February 2018/19 FPP had stated that the contingency provision for FY2018/19 for natural disasters remained unchanged at $500 million relative to FY2017/18. In real terms, the allocation for FY2018/19 would have represented a decline relative to FY2017/18; however, the FPP did not indicate the factors informing its decision to maintain this allocation.

Public Private Partnership

21. The FPP FY2018/19 Interim Report indicated that Cabinet approved a preferred bidder for the Norman Manley International Airport (NMIA) planned public private partnership. However, given the commercial close is expected by the end of the third quarter of FY2018/19 and financial closure by the end of FY2018/19, an assessment by the Auditor General for minimal contingent liability would not be undertaken at this time. The Interim report also indicates that several projects are being assessed for possible PPP development, including the Rio Cobre Water Treatment Plant.

Public Debt

22. The debt stock at end FY2017/18 was $1,952.1 billion, higher than the estimate of $1,941.3 billion in the February FPP FY2018/19(**Table 4**); however, the Interim report did not provide an explanation for the variation in the debt stock from the estimate. Notwithstanding, the debt stock for FY2017/18 outlined in the Interim FPP report represented 101.0 per cent of nominal Gross Domestic Product (GDP), which was lower than the projected Debt to GDP ratio of 102.8 per cent showed in the February FY2018/19 FPP. The lower ratio was facilitated by actual nominal GDP exceeding projections for FY2017/18, which augurs well for lower debt to GDP over the medium-term.

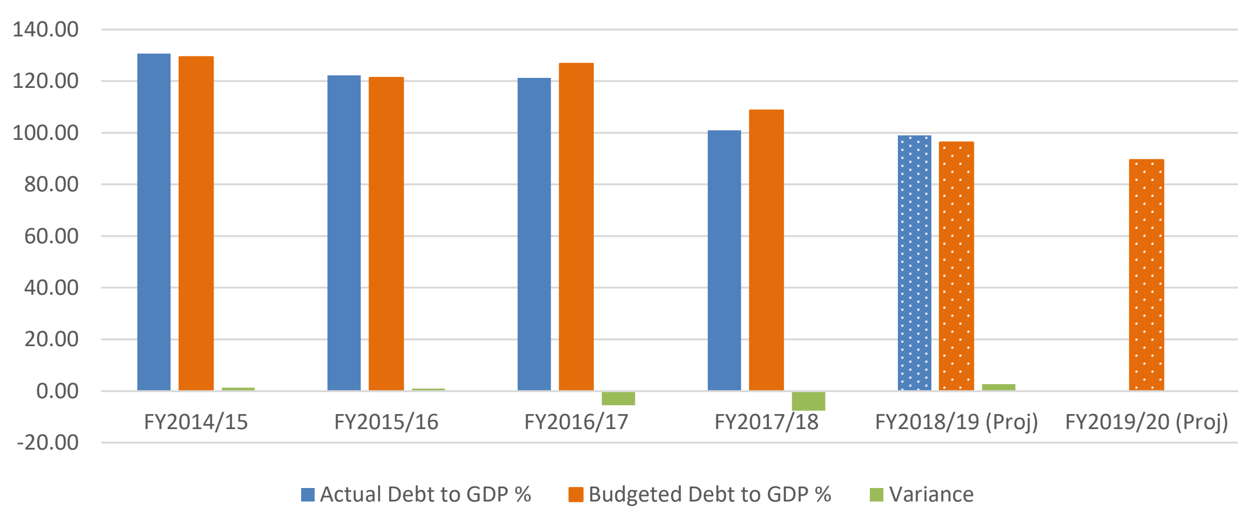
Table 4: Total Debt Projections

Fiscal Year	2015/16	2016/17	2017/18	2018/19	2019/20
Total Debt (J$mn)	2,068,759.1	2,159,936.4	1,952,148.7	1,941,601.9	1,932,631.9
Debt to GDP Ratio %	122.3	121.2	101.0	96.2	89.5

Source: MoFPS

23. The Interim report indicated a projection for public debt of $2,014.8 billion or 98.9 per cent of GDP at end FY2018/19, which is above the target outlined in the February FY2018/19 FPP of $1,941.1 billion (96.2 per cent of GDP) (**Chart 4**). However, the debt stock increased over the first quarter of the fiscal year mainly due to valuation effects arising from depreciation of the Jamaica Dollar. At the same time, no reasons for the higher debt projections at the end of the year relative to the target outlined in February FY2018/19 FPP was articulated.

Chart 4: Debt to GDP – Actual vs Budget



Source: MoFPS

24. Furthermore, data at end-July 2018 indicate a further increase in the public debt stock to $2,087.7 billion, underpinned by a significant increase in central government external debt due to further currency depreciation. This movement underscores the sensitivity of public debt to currency valuation changes based

on the high foreign currency component. Given the debt stock at end-July 2018, a significant reduction in debt stock over the remainder of the fiscal year will be required to achieve the debt target for FY2018/19, particularly in external debt, as domestic and net public bodies' debt are projected to be higher than the respective stocks at end-July 2018. However, underperforming public bodies continue be a source of risk to the achievement of the debt target.

Reasonableness of the Deviation of the Fiscal Indicators

25. 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.

26. 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.

27. In this section, I have reviewed the explanations provided for the period April to July 2018 as provided in the Interim 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 macroeconomic framework provided in the Interim Report in context of Budget Assumptions indicated in the FPP FY2018/19 February 2018;

b) A review of risks in the FY2018/19 Fiscal Policy Paper and Debt Management Strategy to determine if any has materialized or were excluded from initial projections analysis of supplementary information; and

c) A review of emerging risks discussed in the Interim Report;

d) confirmation where possible, of the Minister's explanations with observed data for FY2018/19 (April to July 2018).

28. My comments on variances provided in **Table 5** relate only to material issues pertaining to information provided in the Interim FPP FY2018/19 and by the MoFPS.

Table 5: Comments on the Explanation for the Fiscal Deviations for April-July 2018 relative to Budget (in millions of Jamaica Dollars)

Key Tax Types	Provisional	Budget	Deviation from budget	Deviation from budget (%)	GOJ's Explanation Stated in FPP FY2017/18 Interim	Audit Comments	Ministry's Response
Tax Revenue	$168,407.1	$162,658.2	$5,748.8	3.5			
Income & Profits	$39,231.1	$38,330.9	$900.2	2.3	Improvements in the real sector.		
Other Companies	$12,849.0	$13,350.5	-$501.5	-3.8	Mainly stemmed from the July 2018 collections (shortfall of 65.2%) as CIT payments, which are due quarterly, were generally on target up to the quarter ending June 2018. The receipts for July 2018 reflected an anomaly relative to the collections for the last 4 years.	The Interim FPP indicated an anomaly for the July 2018 figure, but did not explain the reason for the anomaly.	The anomaly was due to lower than expected arrears payments. Specifically, arrears payments in the month of July 2018 fell by 67.2% in comparison to July 2017.
Tax on Interest	$6,480.9	$4,765.4	$1,715.5	36.0	Due to stronger compliance mechanisms employed by the TAJ and increased withholding tax flows from private sector sources.		
Production & Consumption	$62,830.8	$59,865.5	$2,965.3	5.0	Continued improvements in the real sector.		
SCT (local)	$8,722.7	$7,672.0	$1.050.7	13.7	Reflected significant payments related to production of both refined petroleum products, as well as alcoholic beverages.		

Key Tax Types	Provisional	Budget	Deviation from budget	Deviation from budget (%)	GOJ's Explanation Stated in FPP FY2017/18 Interim	Audit Comments	Ministry's Response
GCT (local)	$32,987.8	$31,932.8	$1.055.0	3.3	Consistent with the positive trend in GDP growth.	Insufficient. Reference to GDP outturn for the quarter relative budget would have provided better analysis.	Estimates of GDP performance for the April to June 2018 quarter, pointed to higher economic activity relative to the similar period last year. Additionally, based on record employment levels, consumption levels would also have been higher year-on-year for April-July period
Betting, Gaming and Lottery	$1,665.8	$1,220.4	$445.4	36.5	This is in light of the increased participation in lotteries from both locals and visitors to the island.	The information on the increase in the number of lottery participants was not provided in the Interim FPP.	The MOFP has requested further information from the BGLC and we await same.
Education Tax	$9,346.0	$8,942.6	$403.4	4.5		The Interim report did not provide an explanation for variance.	Based on the April 2018 labour force survey result from Statin, there were 10,700 more persons added to the employed labour force which would positively impact this tax type.
Stamp Duty (Local)	$4,733.6	$5,107.3	-$373.7	-7.3		The Interim report did not provide an	

Key Tax Types	Provisional	Budget	Deviation from budget	Deviation from budget (%)	GOJ's Explanation Stated in FPP FY2017/18 Interim	Audit Comments	Ministry's Response
						explanation for variance.	
International Trade	$66,345.1	$64,461.8	$1,883.4	2.9	Benefited from a higher than programmed exchange rate and higher core imports, among other factors.	Reasonable. Exchange rate depreciated faster than anticipated.	
GCT (imports)	$28,344.8	$26,732.7	$1,612.1	6.0	Resulted from continued improvement in efficiency at the ports, specifically as it pertains to post clearance audits and the effectiveness of the contraband enforcement activities.		
SCT (Imports)	$15,769.0	$16,742.9	-$973.9	-5.8		The Interim report did not provide an explanation for variance.	Lower than anticipated impact (higher imports of refined products) from the shut-down of the refinery, as there was a build-up of inventory due to higher levels of production prior to the shut-down period.

Key Tax Types	Provisional	Budget	Deviation from budget	Deviation from budget (%)	GOJ's Explanation Stated in FPP FY2017/18 Interim	Audit Comments	Ministry's Response
Customs Duty	$13,383.6	$12,992.6	$391.0	3.0	Better economic conditions and the resulting expansion of imports have contributed to the increased collection.	Reasonable. Import data (in USD) from BOJ for April to June 2018 was above the similar 2017/18.	
Travel Tax	$6,897.1	$6,162.0	$735.6	11.9	Consistent with higher than expected tourist arrivals	Reasonable. Information from Jamaica Tourist Board (JTB) shows stop-over arrivals May to July 2018 period was ahead of last year's figure by 6.3 per cent.	
Non-Tax Revenue	$14,938.3	$15,313.3	-$375.0	-2.4	Broadly in line with the budget	The FFP Interim Report indicated that this category was lower by 2.4 %.	
Capital Revenue	$562.7	$269.0	$293.6	109.1	Higher than programmed inflows due in part to the higher than anticipated exchange rate applied to the scheduled loan repayment received.	Reasonable	
Grants	$1,603.0	$4,624.8	-$3,021.7	-65.3	Due to a programmed disbursement from the EU being delayed and rescheduled for later in the fiscal year.	Reasonable	