EXAMINATION OF THE COMPONENTS OF THE FISCAL POLICY PAPER, WHICH WAS LAID BEFORE THE HOUSES OF PARLIAMENT ON FEBRUARY 14, 2019

INDEPENDENT AUDITOR'S REPORT
THE AUDITOR GENERAL OF JAMAICA
FINANCIAL YEAR 2019/20

Vision Statement

"A better country through effective audit scrutiny"

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 (FPP), laid before the Houses of Parliament on February 14, 2019, in accordance with the Financial Administration and Audit (FAA) Act. The report met the requirements of the Third Schedule and included the minimum content under the Fiscal Responsibility Statement, Macroeconomic Framework and Fiscal Management Strategy.

My Responsibility

2. 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;**
An important principle of prudent fiscal management is that the budget must be based on a realistic macroeconomic framework. Accordingly, the estimates of expenditure for the year ahead and medium-term must be based on reasonable revenue projections. An important convention of prudent fiscal policy is that the public deficit be maintained at a level that is consistent with other macroeconomic objectives and external credit worthiness. Accordingly, risks that could jeopardise the achievement of the fiscal targets must be identified, classified and evaluated, enabling cost-effective and appropriate risk mitigating measures that are consistent with the broader policy objectives.

The Fiscal Policy Paper (FPP) FY2019/20 indicated the Government's commitment to the tenets of prudent fiscal management through "strict adherence to targets, the continuous monitoring of fiscal events and a willingness to make timely and sound fiscal decisions". The FPP also specified that any revenue or expenditure measure, which poses a risk to the achievement of the targets would not be adopted without the identification and implementation of requisite offsetting measures. Further, that the size and direction of the fiscal balance and public debt relied on the macroeconomic assumptions considered, including inflation, exchange and interest rates, as well as external and domestic demand and expectations for the price of oil and other key commodities.

In the context of prudent fiscal management, I undertook an evaluation of the macroeconomic assumptions underlying the revenue projections to assess the reliability of the forecasts used over the 7-year period to FY2017/18. The selected macroeconomic variables were real and nominal Gross Domestic Product (GDP), inflation, exchange rate and oil price. I found that for the review period, the one-year ahead forecasts on average were persistently above actual outturn, with nominal and real GDP over by 0.6 and 0.8 percentage points, for GDP respectively, and by 2.2 percentage points for inflation. However, following implementation of the enhanced Fiscal Rules in FY2014/15, the accuracy of the forecast for the GDP and inflation variables improved significantly. The robustness of the GDP projections is particularly critical given that nominal GDP is the base for the fiscal rule targets (e.g. wages/GDP, Debt/GDP) and any slippage in the forecast can result in failure to meet the fiscal targets and a loss of credibility. Although the accuracy of the forecasts for the variables for oil and exchange rate remained marginally less robust, this was not surprising, given the influence of external factors on these variables. Based on the relative accuracy of the macroeconomic forecasts, I am reasonably assured that the macroeconomic assumptions underlying the preparation of the Fiscal Policy Paper comply with the principles of prudent fiscal management.

Conventions of prudent fiscal management require a realistic assessment of risk. The Fiscal Risk Statement (FRS) identified major risks that could cause the Government's fiscal performance to deviate from forecast or pose a threat to sustainability over the long-term. While more of the risks identified were quantifiable, the information provided, represented an improvement over previous FPPs as it provided greater transparency of the threats to the achievement of the fiscal targets.

The FRS referred to risks related public entities that may require Central Government support to cover operating cost or pay debt assumption. Although the projected transfers to JUTC, Students Loan Bureau and Montego Bay Metro were included in the Budget for FY2019/20, there was no quantification of the risks for the other public bodies identified, particularly for the major entities. Although the FPP indicated that Petrojam has budgeted US$20.0 million towards the construction of a Vacuum Distillation Unit (VDU) as the first phase of the refinery upgrade in FY2019/20, it did not reveal the cost to complete the entire project.

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

The Fiscal Management Strategy provided an assessment of the fiscal outturn to December 2018 and the estimated outturn to end-March 2019, relative to the First and Second Supplementary Estimates, respectively. **As I reminded in my previous reviews, the FAA Act requires a comparison of actual fiscal outturn to the Original Budget, based on macroeconomic assumptions. Failure to provide such a comparison in the FPP constitutes a breach of the Act. The Supplementary Estimates incorporate actual outturn to-date and provide details of all new appropriations and changes to appropriations or their supporting information, subsequent to Parliament's approval of the Original Budget. Hence, any comparison of actual outturn with the Supplementary Estimates is not only irrelevant, but misrepresents fiscal performance, or the extent of fiscal effort. In light of the absence of the required comparison, in breach of the FAA Act, I am unable to comment on the reasonableness of the explanation for the deviations from Budget.**

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 wish the Auditor

General to consider for certification. The Ministry of Finance withdrew the list provided on August 12, 2016. Where the Minister provides a new list by August 2019, I will carry out my assessment thereafter.

d) a public private partnership involves only minimal contingent liabilities

The FPP FY2019/20 indicated two public private partnerships (PPPs) transactions that were in progress. In accordance with the FAA Act, I am required to assess whether 'a public private partnership involves only minimal contingent liabilities accruing to the Government'. The Norman Manley International Airport (NMIA) PPP, which was approved by Cabinet, achieved commercial closure with the signing of a 25-year Concession Agreement; however, financial close is not expected until the third quarter of FY2019/20. Thereafter, I will undertake an assessment for minimal contingent liability in accordance with my responsibilities under the FAA Act. On the other hand, the Schools Energy project is a 'Government Pays PPP and as such, the required support and spending must be covered in the budget and debt ceiling. Therefore, an assessment for contingent liability risk would not be required.

My Recommendation

Given the importance of achieving the legislated debt target of 60 per cent of GDP by FY2025/26, I recommend that, future Fiscal Policy Papers disclose the source of net public sector debt projections in accordance with the principles of transparency. I also recommended adherence to the provisions of the FAA Act by providing the appropriate comparison of actual outturn with the Original Budget.

Pamela Monroe Ellis, FCCA, FCA
Auditor General

Executive Summary

3. My review of the FPP was based on the requirements stated in Section 48B (6) of the FAA Act and therefore, I did not evaluate the merits of the Finance Minister's Fiscal Management Strategy. 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

i. My review revealed that the contents of the FPP FY2019/20 are in keeping with the requirements of the Third Schedule of the FAA Act and included the minimum content under the Fiscal Responsibility Statement, Macroeconomic Framework and Fiscal Management Strategy.

ii. The Fiscal Management Strategy (FMS) estimates Wage & Salaries for FY2018/19, to be in line with the legislated target of 9.0 per cent of GDP, following an outturn of 9.2 per cent for FY2017/18. However, there could be greater risk to the achievement of the legislated target if new Wages & Salaries in FY2019/20 are higher than anticipated and Government does not implement mitigating strategies. Further, given that the achievement of the wage to GDP target is predicated on higher GDP growth, if nominal GDP growth falls short of the projected 6 per cent, by 2.0 percentage points as indicated in the FPP, the wage to GDP legislated target will be breached.

iii. The FMS noted that the tax revenue to GDP has outpaced budget for the April to December period of FY2018/19, ascribing the improved performance to enriched compliance and enforcement mechanisms by the revenue authorities and economic improvements, indirect taxation policy and greater accountability processes through FAA Act. As a matter of transparency, the identification of the tax arrears element of tax revenue, as stated in my previous report, would have assisted in confirming the contribution of increased compliance to tax revenue performance for the current period.

iv. Risks associated with State Owned Enterprises are a source of contingent liability, which occur in the event that an entity is unable to service loans to the Government, service Government guaranteed loans, pay dividends or require recapitalization. The FPP indicates that actual transfers to the JUTC for FY2018/19 exceeded the budgeted amount by $2,556.7 million or 98.9 per cent. This manifestation of contingent liability clearly and adversely impacts the GOJ's fiscal operation, which may constrain the achievement of the legislated target.

v. The Fiscal Risk Statement (FRS) identified major risks that could cause the Government's fiscal performance to deviate from forecast or pose a threat to sustainability over the long-term. Of note, the FRS referred to risk related to public entities that may require Central Government support to cover operating cost or pay debt assumption[1]. However, given the significant size of Petrojam's assets and the magnitude of the planned upgrade of the refinery, the possible implication for the Government's budget and debt should be considered a realistic risk; even with the inclusion of the buy-back of Petrojam shares from Venezuela in the FY2018/19 Second Supplementary Estimates. Further, Petrojam has budgeted for the first phase of a refinery upgrade to commence in FY2019/20 at a cost US$20.0mn to facilitate commencement of construction for a Vacuum Distillation Unit (VDU); however, there was no indication of the cost to complete the entire project.

vi. The FPP assessed the fiscal performance for April to December 2018 and the estimated outturn for FY2018/19 against the First and Second Supplementary Estimates, respectively, instead of the Original Budget as outlined in the FY2018/19 Fiscal Policy paper, tabled on February 15, 2018. As previously indicated the Supplementary Estimates incorporates actual outturn to-date and as such misrepresents fiscal performance and undermines transparency. This is in a context where explanations provided for the fiscal deviations from the Supplementary Estimates do not provide a true picture of fiscal effort as demonstrated by all zeros indicated for the variances in Central Government Summary Accounts (Table 3F in FPP).

[1] Debt assumed by Government based on the public entity's failure to meet its obligation

Performance against Fiscal Framework

4. I reviewed the fiscal outturn and projections in the context of the Fiscal Responsibility Framework (FRF) which was amended 2014 to include the new Fiscal Rule, which sets a floor on the overall balance of the covered public sector[2], to bring debt down to 60 per cent of GDP or below by FY2025/26. The FRF also includes an escape clause and automatic correction mechanism, whereby annual deviations are stored in a notional account. When the cumulative deviations in the notional account exceeds a threshold, annual adjustments are required to get back on track with the Fiscal Rule. The FPP estimates a fiscal surplus above target for FY2018/19; however, in the event that the variance is negative we expect an adjustment to the notional account.

Fiscal Targets

FISCAL BALANCE	DEBT RATIO	WAGES RATIO	ORIGINAL BUDGET & SUPPLEMENTARY ESTIMATES	NOTIONAL ACCOUNT
				
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.	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.	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].	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).	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**
		

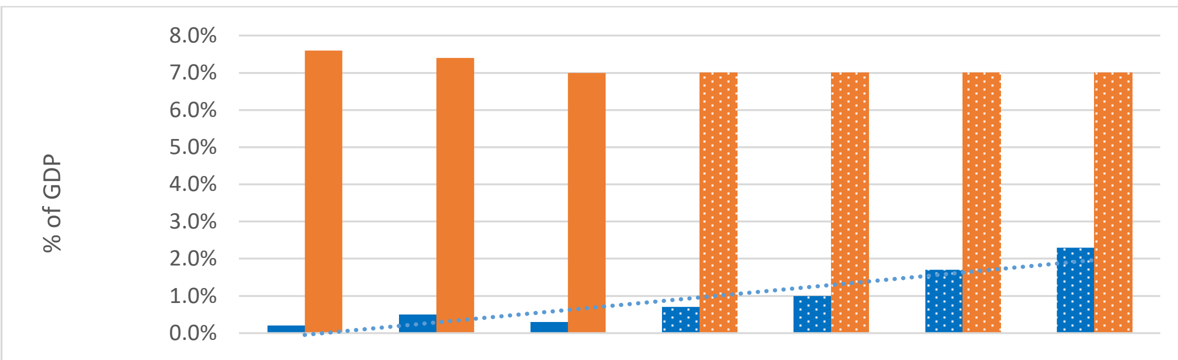
[2] Central Government and other public entities included in the specified public sector as defined in the FAA Act.

The Fiscal Management Strategy

Fiscal and Primary Balance

5. The Fiscal Management Strategy (FMS) stated that the GOJ Budget for FY2019/20 is designed to achieve the targets entrenched in the fiscal rule legislation and that the FY2019/20 fiscal programme aims to support the objective of reducing the public debt stock and debt servicing costs. 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 utilized to attain a Public Debt of no more than 60.0 per cent of GDP by the end of FY2025/26. The fiscal surplus for FY2019/20 is budgeted at $14.8 billion or 0.7 per cent of GDP, with successive increases in the fiscal surplus over the medium-term, sustaining the downward trajectory of the debt. (**Figure 1**).

Figure 1: Fiscal and Primary Balance



	FY2016/17	FY2017/18	FY2018/19 Est.	FY2019/20 Proj.	FY2020/21 Proj.	FY2021/22 Proj.	FY2022/23 Proj.
Fiscal Balance	0.2%	0.5%	0.3%	0.7%	1.0%	1.7%	2.3%
Primary Balance	7.6%	7.4%	7.0%	7.0%	7.0%	7.0%	7.0%

Source: AuGD Analysis

6. Attainment of the Fiscal and Primary balance targets for FY2019/20 and the medium term is dependent on prudent fiscal management, underpinned by credible macroeconomic assumptions and the identification and management of fiscal risks. With the ending of Jamaica's Precautionary Stand-By Arrangement with the IMF in 2019, credibility of the fiscal programme is critical, as many of our external creditors would have relied on the continuous independent oversight provided by the IMF, notwithstanding the normal Article IV reviews.

7. I conducted a basic evaluation of the historical performance of forecasts for several key variables included in the Macroeconomic profile of FPPs for the period FY2011/12 to FY2017/18 to assess reliability of the forecasts used. The selected macroeconomic variables were real and nominal GDP, inflation, exchange rate and WTI oil price. The review comprised an assessment of the forecast errors for each macroeconomic indicator, i.e. the difference between the actual figure of the macroeconomic

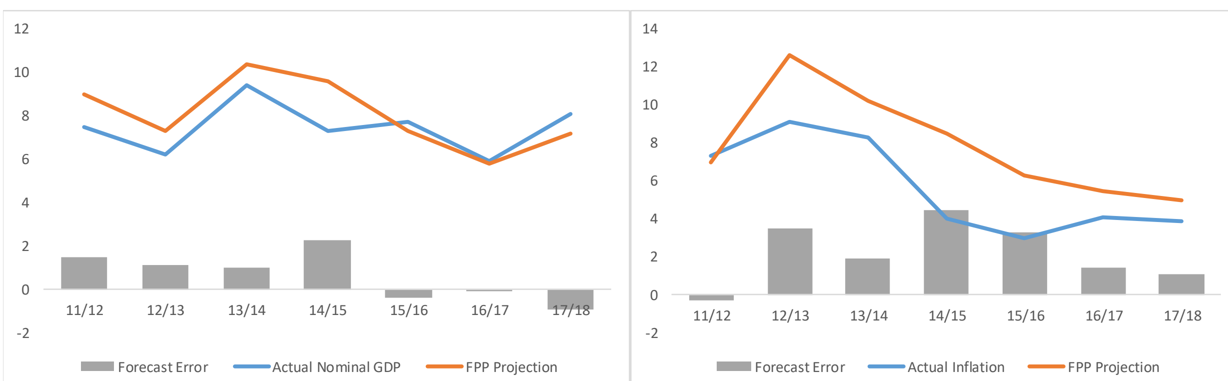
variable and the forecasted value, to determine whether there is a persistent over/under-estimation of the variables. For the assessment, particular focus was placed on the one-year ahead forecasts (T+1), as these assumptions informed the government's budget for the upcoming year.

8. For all the variables, we found that the one-year ahead forecasts generally exhibited a positive bias, meaning that forecasts, on average, showed a persistence to be above actual outturn over the assessment period. For instance, forecasts of economic growth for nominal and real GDP over the period were on average overestimated by 0.6 and 0.8 percentage points, respectively. One-year ahead forecasts for inflation showed a positive bias of 2.2 percentage points. Forecasts for the average USD/JMD exchange rate was on average overestimated by $0.84, while the WTI price was forecasted on average to be US$1.7 higher. As expected, the average bias for all variables was higher for forecasts further into the medium term, with the exception of inflation.

9. However, subsequent to the implementation of the enhanced fiscal rules in FY2014/15, we found improvements in the forecasting accuracy for GDP and inflation, whereas forecast for oil and exchange rate continued to be less accurate. However, this is not surprising given the significant influence of external factors on these variables. For nominal GDP, which is the base for the fiscal rule targets (e.g. wages/GDP, Debt/GDP), the robustness of the projection is of critical importance, particularly in a context where any slippage in the forecast for GDP can result in failure meet the fiscal targets and a loss of credibility (**Figure 2**).

Figure 2: Selected Macroeconomic variables

Nominal GDP % **Inflation %**



Tax Revenue

10. Revenue and Grants are projected to be 29.9 per cent of GDP in FY2019/20, 0.8 percentage point lower than the 30.7 per cent of GDP estimate for FY2018/19. The FPP projects Revenue and Grants is to average 29.5 per cent over the medium term. In particular, Tax Revenue for FY2019/20, is budgeted at 26.7 per cent of GDP, marginally above the projected outturn of 26.4 per of GDP for FY2018/19 and the ratio is projected to decline slowly through FY2022/23, averaging 26.3 per cent of GDP **(Figure 3)**.

However, if the downside risk to nominal GDP materialises such that growth is two percentage points lower as indicated in the FPP, then the tax revenue ratio could fall short of projection, to 24.7 per cent of GDP, given the one-to-one relationship between tax revenue and GDP.

Figure 3: Tax Revenue

Source: AuGD Analysis

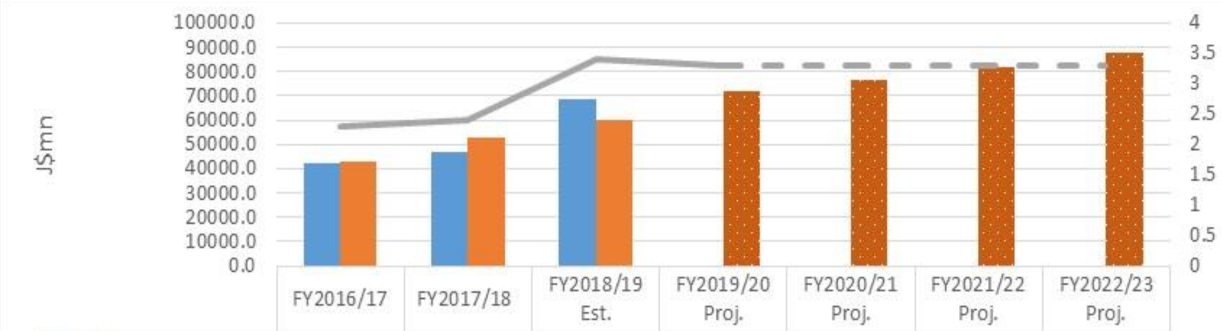
11. The Fiscal Management Strategy noted that the tax revenue to GDP has outpaced budget for the April to December period of FY2018/19, ascribing the improved performance to enriched compliance and enforcement mechanisms by the revenue authorities and economic improvements, indirect taxation policy and greater accountability processes through FAA Act. However, given that total tax revenue for FY2018/19 would include prior year receipts, I requested arrears data from the Ministry to determine current year tax performance. With the exclusion of tax arrears, tax revenue collected for the current year exceeded Original Budget by $21.5 billion, which supported the Ministry's assertion of enhanced compliance and enforcement efforts.

Capital Expenditure

12. Relaxation of the primary surplus target under the precautionary Stand-by Arrangement[3] facilitated the increased spending on capital projects as observed in FY2018/19. The FPP estimated an increase in the ratio of Capital Expenditure to GDP to 3.4 per cent for FY2018/19 from the initial 3.0 per cent, consistent with increased fiscal space provided during the year, which enabled more infrastructure work and allocations to the Ministry of National Security. I noted that although Capital Expenditure is budgeted to increase in nominal terms in FY2019/20, the ratio to GDP will fall marginally to 3.3 per cent and maintained at that level over the medium-term (**Figure 4**).

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

Figure 4: Capital Expenditure



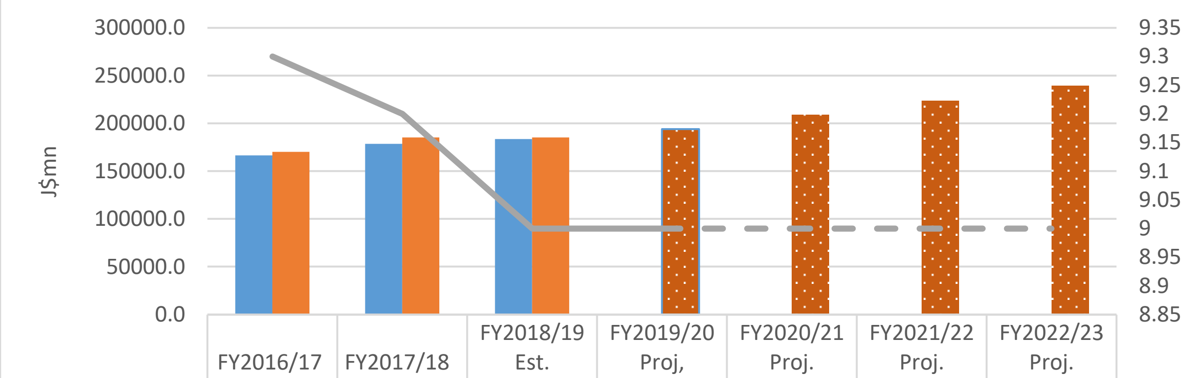
	FY2016/17	FY2017/18	FY2018/19 Est.	FY2019/20 Proj.	FY2020/21 Proj.	FY2021/22 Proj.	FY2022/23 Proj.
Actual	41955.3	46806.1	68803.1				
Budget	43000.8	52541.5	59825.1	72110.6	76549.7	81906	87737.1
% of GDP (Act/Bud)	2.3	2.4	3.4	3.3	3.3	3.3	3.3

Source: AuGD Analysis

Wages & Salaries

13. The Fiscal Management Strategy estimated wages & salaries for FY2018/19, to be in line with the legislated target of 9.0 per cent of GDP, following an outturn of 9.2 per cent for FY2017/18. This estimate represented an improvement over the projection of 9.2 per cent for FY2018/19, outlined in the FPP FY2018/19. Wages & Salaries are projected to be maintained at 9.0 per cent through the medium-term to FY2022/23 (**Figure 5**).

Figure 5: Wages & Salaries



	FY2016/17	FY2017/18	FY2018/19 Est.	FY2019/20 Proj,	FY2020/21 Proj.	FY2021/22 Proj.	FY2022/23 Proj.
Actual	166484.7	178366.3	183403.9				
Budget	170193.5	185258.1	185274.7	193958.3	208772	223380.1	239282
% of GDP	9.3	9.2	9.0	9.0	9.0	9.0	9.0

Source: AuGD Analysis

14. The Fiscal Risk Statement (FRS) stated that the GOJ has finalized a settlement with bargaining units representing 95 per cent of public sector workers, for the contract period 2017/2021 in most cases and will be seeking to settle the remaining claims as soon as possible. Further, it noted that outstanding

negotiations, could pose a risk to Government expenditure and the attainment of legislated target if wage payments are settled after the approval of the FY2019/20 budget.

15. However, there could be greater risk to the achievement of the legislated target if new wages & salaries are higher than anticipated and Government fails to implement mitigating strategies. Further, if nominal GDP growth falls short of the projected 6 per cent, by 2.0 percentage points based on the 50 per cent probability noted in the FPP, the legislated 9.0 per cent target of GDP could be still be missed. The FPP also projected wages & salaries to increase in nominal terms over the medium-term. Therefore, maintenance of the 9.0 per cent ratio will be dependent on higher GDP growth rates.

Public Debt

16. Public Debt is estimated to end FY2018/19 at 96.4 per cent of GDP, continuing its downward trajectory observed since FY2013/14. The Fiscal Management Strategy targets a further decline in the ratio to 90.9 per cent for FY2019/20, and 74.0 per cent by end FY2022/23 **(Table 1 and Figure 6)**. This path accords with the target for a Public Debt to GDP ratio of 60 per cent by FY2025/26.

Table 1: Debt/GDP (J$ Million)

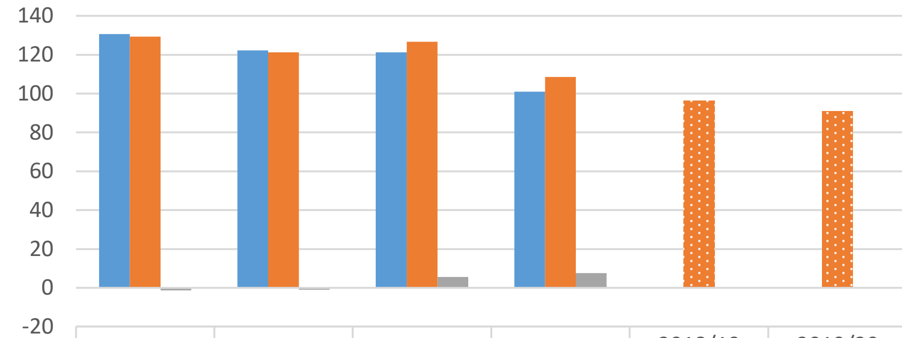
Fiscal Year	2019/20	2018/19	2017/18	2016/17	2015/16
Total Debt	1,959,443.70	1,960,995.30	1,952,148.70	2,159,937.10	2,068,759.10
Debt to GDP Ratio %	90.9	96.4	101	120.7	122.3

Source: MoFPS

17. The FMS highlighted that "projected fiscal surpluses expected to be generated from the government's operations will ease the upward pressures on the total public debt." Notwithstanding, it is important to note that the projected fall in the public debt to GDP ratio for FY2019/20 and over the medium term is largely underpinned by the forecasted growth in nominal GDP, as the public debt stock itself is targeted to rise subsequent to FY2019/20. Therefore, not achieving nominal GDP targets outlined in the FMS remains a significant risk to the legislated public debt to GDP target. Further risks to the nominal public debt stock include depreciation of the USD/Jamaica Dollar exchange rate, as well as underperforming public bodies, which may require increased debt financing or Government support. The management of risks emanating from public entities is therefore critical to the downward debt trajectory. Accordingly, greater transparency is required regarding the source of the increase in net public sector debt in a context where there is no disaggregation provided in the FPP for the significant increase to $72.3 billion at end FY2019/20 from the projected $3.6 billion at end FY2018/19.

MoFPS Response: The increase in the Net Public Bodies debt observed in FY2019/20 is largely due to the integration of the operations of the PetroCaribe Development Fund into Central Government operations. In light of this, the cross holdings (PCDF investments in GOJ bonds and securities as well as the loan from Central Government) will no longer be netted off from Public Bodies Debt.

Figure 6: Debt/GDP Budget vs Actual



	2014/15	2015/16	2016/17	2017/18	2018/19 (Proj)	2019/20 (Proj)
Actual Debt to GDP%	130.6	122.3	120.7	101		
Budgeted Debt to GDP %	129.3	121.3	126.7	108.6	96.2	90.9
Variance	-1.3	-1	6.0	7.6		

Source: AuGD Analysis

Fiscal Risks

18. The management of fiscal risks is critical to managing the growth of the public debt and the performance of other economic variables. The Fiscal Risk Statement of the February 2019 FPP, referred to ‘the probability of deviations of fiscal outturns or other fiscal forecasts from expectations or budget’. The FRS identified risks associated with the macroeconomic assumptions used in preparing the FY2019/20 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

19. The FRS informed that an assessment conducted by the World Bank Group in FY2018/19 estimated financing gaps for emergency losses in the event of high, medium and low severity disasters. This contributed to the signing of an agreement for a Contingent Credit Facility with the IDB, which provides funds of up to US$285 million in the aftermath of a natural disaster. The FRS further stated that this arrangement would close the estimated financing gap in the event of a medium risk disaster which, based on the IDB study would be approximately US$262 million but still below the amount required for a high-risk disaster estimated at US$543 million.

20. I noted that the contingency provision for FY2019/20 for natural disasters has remained unchanged at $500 million relative to FY2018/19. In real terms, this allocation for FY2019/20 would have declined relative to FY2018/19. Although this possibly indicates a lower risk profile based on the Caribbean Disaster Risk Management Program (CDRP), the FPP still has not explained the basis for this lower provision. In addition, the GOJ continued to maintain insurance through the Caribbean Catastrophe Risk Insurance Facility (CCRIF) for FY2019/20. The CCRIF provides policy coverage in the event of specific natural disasters.

State Owned Enterprises

21. The FRS identified risks associated with State Owned Enterprises closely monitored by the Ministry of Finance that have often been sources of contingent liabilities. Such risks may occur in the event that an entity in difficulty is unable to service loans to the Government, as well as, Government guaranteed loans, pay dividends or require recapitalization. The FRS indicated that actual transfers to the Jamaica Urban Transit Company (JUTC) for FY2018/19 exceeded the budgeted amount by $2,556.7 million or 98.9 per cent. In a context where JUTC continues to present a major source of contingent liability for the GOJ, this could adversely affect the debt trajectory towards the legislated target. Although the GOJ indicated that various measures were being explored to reduce the JUTC losses, these measures were not quantified or detailed in the FPP.

22. The FRS further stated that in the upcoming fiscal year, Petrojam is at risk of losing a significant portion of its market as the Jamaica Public Service (JPS) moves to utilise more Liquefied Natural Gas (LNG) and less heavy fuel oil (HFO) in its operations and as such, the plant is in urgent need of upgrade. The FPP however, did not quantify the level of this perceived risk to Petrojam's operations and the attendant impact on the GOJ's fiscal position. Given the contribution of Petrojam to GOJ revenues, a comprehensive assessment of any risk to this revenue stream is imperative. Petrojam has budgeted for the first phase of a refinery upgrade to commence in FY2019/20 at a cost US$20.0mn to facilitate commencement of construction for a Vacuum Distillation Unit (VDU); however, there was no indication in the FPP that this provision would have covered the cost for completing the project.

Reasonableness of the Deviation of the Fiscal Indicators

23. 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. Further, 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. However, the FPP only provided a comparison between the fiscal outturn for April to December 2018 and the First Supplementary Estimates. It did not provide a comparison with the Original Budget, based on macroeconomic assumptions outlined at the start of the fiscal year in the February FY2018/19 FPP. Given that the Supplementary Estimates incorporates actual outturn to-date as well as details of all new appropriations and changes to appropriations, subsequent to Parliament's approval of the Original Budget, I was unable to comment on the reasonableness of the explanation for the deviation from budget.