EXAMINATION OF THE COMPONENTS OF THE FISCAL POLICY PAPER FY2021/22, WHICH WAS LAID BEFORE THE HOUSES OF PARLIAMENT ON FEBRUARY 18, 2021

INDEPENDENT AUDITOR'S REPORT

THE AUDITOR GENERAL OF JAMAICA
FINANCIAL YEAR 2021/22

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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Table of Contents

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Auditor General's Comments

1. I have examined the components of the Fiscal Policy Paper (FPP), which was laid before the Houses of Parliament on February 18, 2021, 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 (FPP) within two weeks after the FPP is laid before both Houses of Parliament, and provide a report to the Houses 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:

Prudent fiscal management requires the budget to be based on reasonable revenue projections, underpinned by realistic macroeconomic assumptions. Given the direct relationship with tax revenues and implications for the Debt to GDP and Wage to GDP ratios, I reviewed actual nominal GDP vis-a-vis original forecasts over five consecutive fiscal years to assess the reasonableness of the forecasts. I found the variances at most were 0.5 percentage point, except for FY2019/20, where the variance was 2.6 percentage points. I noted that in February 2020, nominal GDP growth for FY2019/20 was estimated to be 5 per cent; however, the actual outturn was substantially lower at 3.4 per cent. At the same time, I noted that Jamaica imposed its first travel restriction on January 31, 2020, commencing with China and thereafter imposed other travel, work, and business-related restrictions in the March quarter and beyond. Fiscal prudency requires the timely evaluation and quantification of risk to enable application of risk mitigating measures that support the broader policy objectives. The importance of this principle was underscored by the wide disparity between the estimate at February 2020, for nominal GDP growth for FY2019/20 and the actual outturn in March 2020.

Considering the suspension of the fiscal rules in May 2020 based on the actual and projected adverse impact of COVID-19 and the new debt target date of end-FY2027/28, I reviewed the FPP to ascertain compliance with the enhanced fiscal rules, which require inclusion of a Fiscal Risk Statement (FRS) that evaluates contingent liabilities and other unbudgeted risks to the achievement of the fiscal targets. In this regard, I noted that the Interim FPP FY2020/21 mentioned that three of the existing concessionaires had indicated their intention to invoke the force majeure clauses that are provided for in the agreements. Given that the contingent liability risk could materialise with the invocation of the force majeure clause, the FRS should have acknowledged this risk and indicated its risk mitigating strategy. Of note, the Disaster Risk Management Act was amended to consider the risks associated with the COVID-19 pandemic on the economy.

In terms of contingent liability risks relating to natural disasters, the FRS stated that Government of Jamaica (GOJ) would be continuing a risk-layered approach to disaster risk financing in addition to compiling an up to-date GOJ asset register to facilitate insurance of public assets as well as, private insurance to limit implicit liability to Government in the event of 'debilitating' private losses.

The FPP FY2021/22 forecasted nominal and real GDP for FY2021/22, to grow by 10.6 per cent and 5.2 per cent respectively, following estimated declines of 8.2 per cent and 11.6 per cent, respectively for FY2020/21, occasioned by the deleterious impact of COVID-19, with growth continuing into the medium-term. The FRS highlighted that growth was predicated on positive COVID-19-related global developments; however, no specific mitigating measure was proffered except that GOJ would continue its monitoring to gauge possible spill-over effects. Additionally, it was asserted that housekeeping and servicing costs relating to inflation-linked debt expenditure could be higher if inflation exceeded forecast, but that a higher price level in the economy might also increase revenue receipts; noting that it was unclear if the revenue effect outweighed the expenditure effect. Nonetheless, variance decomposition can enable quantification of the components of revenue and expenditure due to the change in inflation, which can inform mitigating strategies to target inflation risk.

Risk mitigating strategies were however, identified for other key macroeconomic indicators. It was noted that to reduce GOJ's risk exposure to interest rate changes, the debt issuance strategy is primarily for fixed-rate debt instruments; while to mitigate exchange rate risk, the GOJ would maintain its strategy of issuing mainly local currency debt in the domestic market. With regards to the risk emanating from unexpected adverse movements in oil prices, the GOJ plans to reduce its reliance of oil imports along with the associated costs, through continuation of the Energy Efficiency and Conservation Programme (EECP) and Energy Management and Efficiency Project (EMEP). However, the FPP did not quantify the expected impact of the programmes.

The FRS, in highlighting the risk from seven public bodies with significant arrears, identified a risk mitigating strategy whereby arrears would be monitored/managed within an established $6.4 billion ceiling. The GOJ would also continue its Public Bodies Rationalisation Programme aimed at reducing the risk from the number of public bodies by curtailing losses, reducing operational costs and minimizing overlapping functions, noting $1.0 billion in savings, as at September 2020.

Based on my review of the macroeconomic assumptions and related risks to the forecasts, I am reasonably assured that the preparation of FPP FY2021/22 complied with the conventions and assumptions of prudent fiscal management and the enhanced fiscal rules.

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

The Fiscal Management Strategy (FMS) informed that Central Government performance for April – December 2020 was assessed relative to the First Supplementary Estimates given that it was the point at which the expected impact of the COVID-19 pandemic was incorporated in the annual budget. Although the FAA Act requires an assessment relative to Original Budget, I considered this non-conformity to be reasonable, having regard to the circumstances whereby the nominal GDP growth forecast of 5.7 per cent that underpinned revenue projections for FY2020/21, in February 2020, would not have benefitted from critical disclosure of the nature and extent of the pandemic. This was underscored by the significant adverse deviation from Original Budget indicated in Table 3B.3 in the FPP. In this context, generally, I found the reasons advanced for the deviations in the revenue from the First Supplementary Estimates (positive or negative) to be reasonable. The FMS attributed lower than budgeted *Production & Consumption* and *International Trade* tax receipts to the greater than anticipated decrease in business activities in a wide cross section of the economy. I found that this was corroborated by the downward revision to -8.2 per cent from -2.8 per cent for the nominal GDP growth forecast for FY2020/21 that underpinned the First Supplementary Estimates.

At the same time, the better than budgeted tax receipts from *Income & Profits* was attributed mainly to higher than budgeted domestic interest payments and PAYE receipts, which were bolstered by the payment of COVID-related redundancy payments as well as, retroactive salary payments. I found the explanation for the increase in PAYE to be reasonable having regard to the circumstances associated with the closures and cutbacks in the private sector. However, greater clarity was required with respect to the higher than budgeted Tax on Interest, given that Domestic Interest Payment was $2.6 billion below budget, and no evidence was provided regarding tax liabilities accrued on savings and investments in financial institutions. Regarding Non-Tax revenue, Capital Revenue and Grants, I found the explanations proffered for the positive performances relative to budget to be reasonable.

Ministry's Response: The higher Tax collected was driven by pay-outs, based on higher than budgeted flows that came from the private sector.

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. 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. However, based on the Minister's notification on October 18, 2019, that no public body met the condition for consideration at that time and considering the conditions of the FAA Act, there is no basis for me to certify any public body as carrying out functions of a commercial nature until 2022.

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

The Fiscal Policy Paper FY2020/21 Interim Report highlighted that three of the five existing concessionaires had indicated their intention to invoke force majeure clauses that are provided for in the concession agreements. Further, that invoking the force majeure clauses could result in the Government granting relief to the concessionaires for obligations under the contracts and may also result in compensation events for the Government. Given that the FPP FY2021/22 made no mention of any invocation of force majeure clauses, I sought an update from the Ministry of Finance and was informed that the Ministry had been advised that a fourth concessionaire had indicated its intention to invoke force majeure clause. Of note, in the February FPP FY2020/21 review, I indicated that the likelihood of a force majeure event materializing for the NMIA PPP was low, with the fiscal impact to the Government deemed to be medium, given that the level of termination payment by AAJ to the Concessionaire is mitigated by insurance proceeds, which accrue to the Concessionaire.

Ministry's Response: Force Majeure claims have been made by two of the Concessionaires. The Cabinet has already approved some of the claims made by the concessionaires and negotiations are underway to facilitate further relief.

My Recommendation

3. The GOJ has indicated its commitment to make the necessary adjustments over the medium-term to return to the trajectory that will achieve the legislative debt target by FY2027/28. However, given suspension of the fiscal rules provision and possible realisation of contingent liability risks associated with four PPPs, provision of the medium-term projections to FY2027/28 would have provided more assurance of the Government's commitment to meeting the fiscal targets.

Pamela Monroe Ellis, FCCA, FCA
Auditor General

Executive Summary

4. I reviewed the FPP FY2021/22 in accordance with the requirements stated in Section 48B (6) of the FAA Act. 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.

Performance against Fiscal Framework

5. The GOJ tabled an amendment to the FAA Act in May 2020 to extend the legislated Debt to GDP target of 60 per cent or below from March 2026 to March 2028 and passed a resolution in Parliament for the suspension of fiscal rules, given the expected adverse economic impact of the COVID-19 pandemic. This led to an early revision of the fiscal targets in the First Supplementary Estimates, on account of expected significant revenue shortfall and reprioritisation of expenditure. The Government subsequently tabled Second and Third Supplementary Estimates in October 2020 and January 2021, respectively due to the continued impact of the COVID-19 pandemic, which has created the need for additional expenditure in areas such as health, social welfare, and education. However, with the suspension of the Fiscal Rules in May 2020, no reference was made to a suspension of the legislated Wage to GDP target. Based on the projections presented in the FPP, the Wage to GDP ratio is estimated at 10.7 per cent at end FY2020/21, declining to 9.9 per cent at end FY2022/23 and remaining flat to FY2024/25. No forecasts were provided beyond FY2024/25.

What I found

6. My review revealed that the contents of the FPP FY2021/22 included the minimum content under the Fiscal Responsibility Statement, Macroeconomic Framework and Fiscal Management Strategy in conformance with the requirements of the Third Schedule of the FAA Act.

   i. The Fiscal Responsibility Statement (FRS) reiterated that in pursuing the policy objectives, the Government remains committed to the principles of prudent fiscal management and seeks to manage fiscal risks, accordingly. It is in this context that I reviewed the Fiscal Management Strategy (FMS) to determine reasonableness of reasons given for deviations in Central Government performance relative to budget, and the FRS to assess compliance with the principles of prudent fiscal management and the enhanced fiscal rules.

   ii. The FMS highlighted that the assessment of Central Government performance was undertaken in relation to the First Supplementary Estimates, rather than the Original Budget, given that the First Supplementary Estimates was the first point at which the expected impact of the pandemic was incorporated in the annual budget. Although the FAA Act requires an assessment of performance relative to Original budget, I considered this non-conformity to be reasonable, having regard to the circumstances whereby nominal GDP underpinning the revenue projections in the Original Budget, would not have in February 2020, benefitted from critical disclosures of the nature and extent of the pandemic. I reviewed Central Government performance for April – December 2020, relative to the First Supplementary Estimates and found the reasons advanced for the deviations to be largely reasonable. The FMS attributed lower than budgeted receipts from *Production & Consumption* and *International Trade* tax receipts to a greater than anticipated decrease in business activities in a wide cross section of the economy. I found that this was corroborated by the downward revision of the forecast for growth in nominal GDP for FY2020/21 that underpinned revenues in the First Supplementary Estimates, to -8.2 per cent from -2.8 per cent.

iii. Concurrently, the better than budgeted tax receipts from *Income & Profits* was attributed mainly to higher than budgeted domestic interest payments and PAYE receipts, which were bolstered by the payment of COVID-related redundancy payments, as well as retroactive salary payments. I found the explanation for the increase in PAYE to be reasonable having regard to the circumstances associated with the closures and cutbacks in the private sector. However, greater clarity was required with respect to the higher than budgeted Tax on Interest, given that Domestic Interest Payment was $2.6 billion below budget, and no evidence was provided regarding tax liabilities accrued on savings and investments in financial institutions. With regards to Non-Tax Revenue, Capital Revenue and Grants, I found the explanations for the positive performances relative to budget to be reasonable. In particular, the FMS noted that receipt of over $3.4 billion from the sale of TransJamaican Highway Limited Preference Shares by NROCC contributed to the better than anticipated Non-Tax Revenue. The information provided was consistent with published information regarding the transaction that took the form of a private placement on July 31, 2020.

iv. I reviewed the Fiscal Risk Statement (FRS) in the context of enhanced fiscal rules that require the inclusion of an FRS in the FPP that provides an evaluation of contingent liabilities and other unbudgeted risks to the achievement of the fiscal targets. In addition, I considered the suspension of the fiscal rules in May 2020, that was based on the actual and projected adverse impact of COVID-19 and the new debt target date of end-FY2027/28. In a context where prudent fiscal management requires the budget to be based on reasonable revenue projections, underpinned by realistic macroeconomic assumptions, I also sought to ascertain compliance with these principles. Fiscal prudency also requires the timely evaluation and quantification of risk to enable application of risk mitigating measures that support the broader policy objectives.

v. I reviewed actual nominal GDP vis-a-vis original forecasts over five consecutive fiscal years to assess the reasonableness of the forecasts given the direct relationship with tax revenues and the implications for the Debt to GDP and Wage to GDP ratios. Whereas I found the variances were at most, 0.5 percentage point from target, for FY2019/20 the variance was 2.6 percentage points. Further review revealed that in February 2020, nominal GDP growth for FY2019/20 was estimated at 5 per cent; however, by the end of March, the actual outturn was substantially lower at 3.4 per cent. This wide disparity between the estimate for nominal GDP growth for FY2019/20 in February 2020 and the actual outturn in March 2020, underscored the importance of timely assessments of risks, particularly those emanating from global eventualities, given the openness of the domestic economy. Of note, Jamaica imposed its first travel restriction on January 31, 2020 commencing with China. Thereafter, travel restrictions for other countries were implemented on February 27, 2020. By March 18, 2020, 'Work from Home' requirements for all non-essential employees across Government and the private sector were imposed, plus restrictions on some business and entertainment.

vi. For FY2021/22, nominal and real GDP are forecasted to grow by 10.6 per cent and 5.2 per cent respectively, with growth continuing over the medium-term. This follows estimated declines of 8.2 per cent and 11.6 per cent in FY2020/21 for nominal and real GDP respectively, occasioned by the deleterious impact of COVID-19. The FRS highlighted that growth for FY2021/22 was predicated on positive COVID-19-related global developments, and that GOJ would continue its monitoring to gauge possible spill-over effects; but proffered no specific mitigating measure. The FRS also asserted that housekeeping and servicing costs for inflation-linked debt expenditure could be higher if inflation exceeded forecast but that a higher price level in the economy might also increase revenue receipts; noting that it was unclear if the revenue effect outweighed the expenditure effect. Nonetheless, variance decomposition can enable quantification of the components of revenue and expenditure due to the change in inflation, which can inform mitigating strategies to target inflation risk.

vii. On the other hand, the FRS indicated that to reduce GOJ's risk exposure to interest rate changes, the debt issuance strategy was for primarily fixed-rate debt instruments; additionally, the GOJ would maintain its strategy of issuing mainly local currency debt in the domestic market to mitigate exchange rate risk. Regarding the risk emanating from unexpected adverse movements in oil prices, the GOJ plans to reduce its reliance of oil imports along with the associated costs, through continuation of the Energy Efficiency and Conservation Programme (EECP) and Energy Management and Efficiency Project (EMEP). However, the FPP did not quantify the expected impact of the programmes.

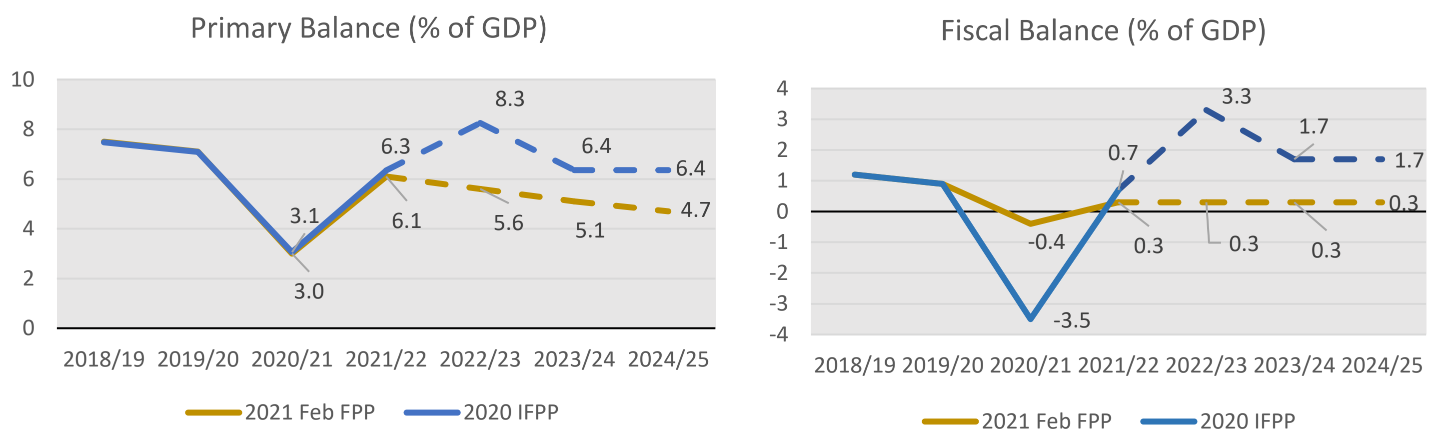
viii. In terms of contingent liability risks from natural disasters, the report outlined that GOJ would be adopting a risk-layered approach to disaster risk financing, as well as compiling an up to-date GOJ asset register to facilitate insurance of public assets as well as private insurance to limit implicit liability to Government in the event of 'debilitating' private losses. The FRS also highlighted the risk from seven public bodies with significant arrears, noting the risk mitigating strategy whereby arrears would be the monitored/managed within an established $6.4 billion ceiling. Mention was made of Government's planned continuation of its Public Bodies Rationalisation Programme aimed at reducing the risk to GOJ from the number of public bodies by curtailing losses, reducing operational costs and minimizing overlapping functions, while informing of $1.0 billion in savings, as at September 2020.

The Fiscal Management Strategy

Primary and Fiscal Balance

7. Primary and Fiscal balances as a per cent of GDP for FY2020/21 were revised to 3.0 and –0.4 from estimates presented in the Interim FPP FY2020/21, based on the ongoing impact of the pandemic (**Figure 1**). For FY2021/22, the Primary and Fiscal Balance targets as a per cent of GDP are estimated to be 6.1 and 0.3, respectively, reflecting increases of 3.1 and 0.7 percentage points relative to FY2020/21. However, if the adverse impact of COVID-19 persists into the new fiscal year, a subsequent downward revision may be necessary consistent with prudent fiscal management.

Figure 1: Primary and Fiscal Balance (% of GDP)



Source: MoFPS

Tax Revenue

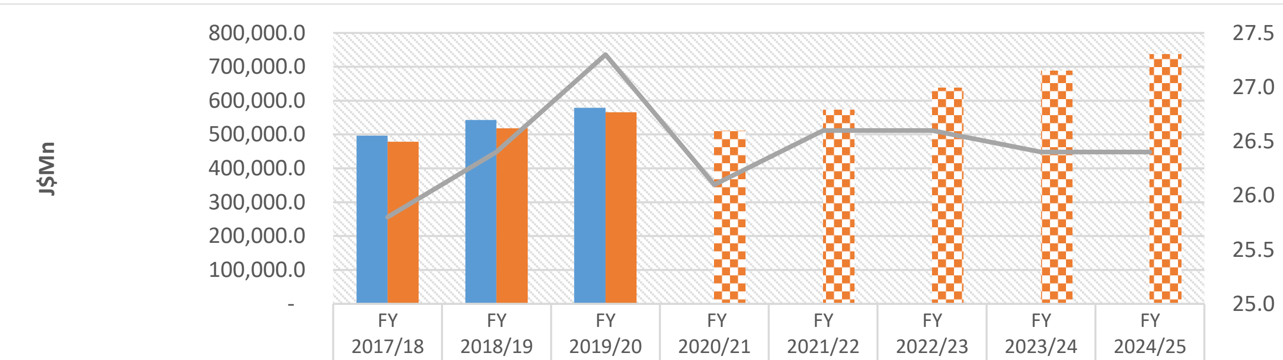
8. For April-December 2020, Tax Revenue exceeded the First Supplementary Estimates by $2.9 billion, reflected in *Income & Profits*, while *Production & Consumption* and *International Trade* tax receipts were below budget. The FMS attributed the better than budgeted tax receipts from *Income & Profits* mainly to higher than budgeted Domestic Interest payments and to a lesser extent PAYE receipts, noting that the latter was bolstered by the payment of COVID-related redundancy payments as well as, retroactive salary payments. I found the explanation for the increase in PAYE to be reasonable having regard to the circumstances associated with the closures and cutbacks in the private sector. However, greater clarity was required with respect to the higher than budgeted Tax on Interest, given that Domestic Interest costs were $2.6 billion below budget, and no evidence was provided regarding tax liabilities accrued on savings and investments in financial institutions. The lower than anticipated tax receipt from *Production & Consumption* and *International Trade* was attributed to the fallout in domestic economic activities from the effects of the pandemic. For April-December

2020, Capital Revenue was in line with budget but was 97.3 per cent lower than receipts for FY2019/20 primarily due to lower than budgeted Loan payments. Grants receipts were marginally higher than anticipated with inflows of $394.5 million (11 per cent) or 2.1 per cent greater than FY2019/20.

Ministry's Response: The higher Tax collected was driven by pay-outs, based on higher than budgeted flows that came from the private sector.

9. For FY2021/22, Revenue and Grants are projected at 31.2 per cent of GDP, representing an increase of 1.6 percentage points above the estimated outturn for FY2020/21. The FPP projects Revenue and Grants to decline to 29.4 per cent in FY 2023/24 and remaining flat in FY2024/25. Tax revenue is projected to increase marginally in FY2021/22 to 26.6 per cent of GDP and thereafter declining to 26.4 per cent in FY2023/24 and FY2024/25 (**Figure 2**). However, in nominal terms, the projections for tax revenue reflect a steady increase consequent on expected improvements in economic activity based on rebound from the adverse impact of the COVID-19 pandemic. We noted that this positive outlook for FY2021/22 was consistent with forecast from IMF's World Economic Outlook which projects global economic growth of 5.5 per cent in 2021, contingent on vaccine-led improvements, as well as additional policy support for some industries.

Figure 2: Tax Revenue (% of GDP)



	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
Tax Revenue Actual	496,894.6	542,919.4	579,397.0					
Tax Revenue Budget	478,254.6	518,435.2	565,878.3	510,051.0	572,461.2	638,468.1	687,958.5	736,692.20
Tax Revenue (%) of GDP	25.8	26.4	27.3	26.1	26.6	26.6	26.4	26.4

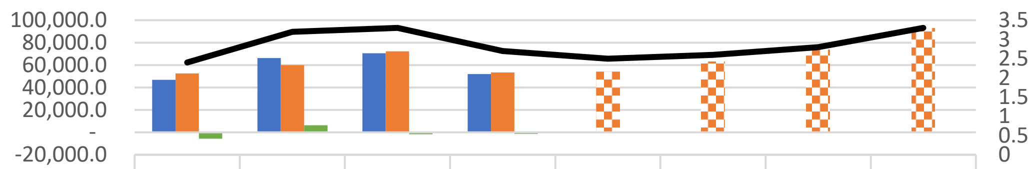
Source: MoFPS

10. Notwithstanding this expectation, the downside risk to GDP growth and revenue projections for the Jamaican economy should be considered, given the one-to-one relationship between Tax revenue and GDP. This is in the context of risks based on the openness of the Jamaican economy and its dependence on its major trading partners, in particular the United States (US). In this regard, slower than expected vaccine rollouts, new waves and variants of the coronavirus in the global economy could engender further fall out in Jamaica's tourism and other service sectors as well as have a spill-over effect on other sectors such as agriculture.

Capital Expenditure

11. Capital Expenditure for April to December 2020 was $36.4 billion, $3.0 billion (9.0 per cent) above the First Supplementary Estimates and is estimated to increase to $52.0 billion by end FY2020/21. The FPP FY2021/22 stated that the reduction in projected Capital Expenditure relative to the previous year, would have been affected by the reallocation of resources to programmes earmarked to manage the pandemic. For FY2021/22, Capital Expenditure is projected to increase to $54.2 billion (2.5 per cent of GDP) steadily increasing to $92.9 billion (3.3 per cent of GDP) by FY2024/25 (**Figure 3**). We note that, Capital Expenditure of $73.8 billion estimated for FY2023/24 would have returned Government nominal spending level to FY2019/20 trajectory, but as a per cent of GDP, would still be on a lower trajectory.

Figure 3: Capital Expenditure (J$ million)



	FY2017/ 18	FY2018/ 19	FY2019/ 20	FY2020/ 21 Est.	FY2021/ 22 Proj.	FY2022/ 23 Proj.	FY2023/ 24 Proj.	FY2024/ 25 Proj.
Actual	46,806.1	66,204.3	70,392.9	52,026.4				
Budget	52,541.5	59,825.1	72,110.6	53,514.3	54,201.3	63,090.3	73,752.4	92,884.9
Deviation from Budget	-5,735.4	6,379.2	-1,717.7	-1,487.9				
% of GDP	2.4	3.2	3.3	2.7	2.5	2.6	2.8	3.3

Source: MoFPS

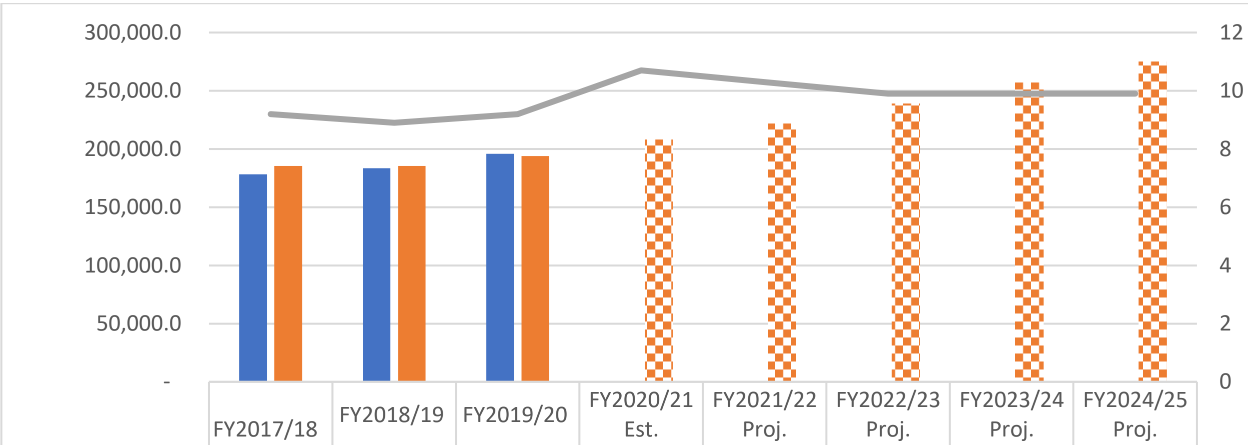
12. The FPP indicated that for FY2021/22 approximately $17.4 billion has been allocated to the Southern Coastal Highway Improvement Project (SCHIP), which is expected to be a major driver of the economic recovery process. However, if the impact of the pandemic persists through the medium-term, we would expect a further downward revision to Capital Expenditure in a context where this activity was previously adjusted to enable greater fiscal support for spending on Programmes.

Wages & Salaries

13. For April to December FY2020/21, Wages & Salaries marginally exceeded the First Supplementary Estimates by $455.2 million (0.3 per cent) and is estimated to account for 10.7 per cent of GDP for FY2020/21 (**Figure 4**), which is outside of the legislated target of 9 per cent. For FY2021/22, Wages & Salaries are budgeted to decline marginally to 10.3 per cent and further to 9.9 per cent in FY2022/23, remaining at that level up to FY2024/25. The Fiscal Risk Statement indicated that the public wage bill can pose a risk to government expenditure if wage settlements exceed budget

and/or not concluded in time for budget; noting as well that the current wage contract comes to an end in March 2021. In addition, the public sector compensation review has been completed with recommendations. The FPP gave no indication of when these recommendations would be implemented.

Figure 4: Wages & Salaries (J$ million)



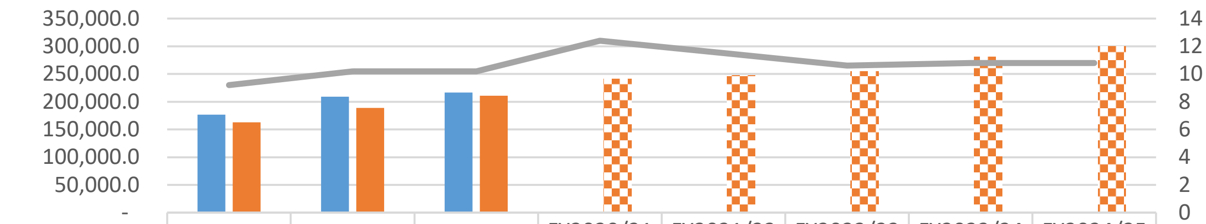
	FY2017/18	FY2018/19	FY2019/20	FY2020/21 Est.	FY2021/22 Proj.	FY2022/23 Proj.	FY2023/24 Proj.	FY2024/25 Proj.
Actual	178,366.3	183,505.5	195,935.5					
Budget	185,258.1	185,274.7	193,958.3	207,912.6	221,859.5	238,652.1	256,841.9	274,816.8
% of GDP	9.2	8.9	9.2	10.7	10.3	9.9	9.9	9.9

Source: MoFPS

Programmes

14. Programmes expenditure for April to December 2020 was below First Supplementary Estimates by $6.2 billion (3.4 per cent). The FPP stated that delays in expenditure under the CARE programme and procurement of goods and services by the Ministries Departments and Agencies accounted for the underperformance. It is estimated that Programmes expenditure will be $241.4 billion at end FY2020/21 (12.4 per cent of GDP) and gradually decline over the medium-term, ending at 10.8 per cent in FY2024/25 (**Figure 5**).

Figure 5: Programmes (J$ million)



	FY2017/18	FY2018/19	FY2019/20	FY2020/21 Est.	FY2021/22 Proj.	FY2022/23 Proj.	FY2023/24 Proj.	FY2024/25 Proj.
Actual	176,779.5	209,079.7	216,856.6					
Budget	162,736.2	188,656.1	210,717.5	241,436.7	247,821.2	254,288.4	281,101.0	300,196.7
% of GDP	9.2	10.2	10.2	12.4	11.5	10.6	10.8	10.8

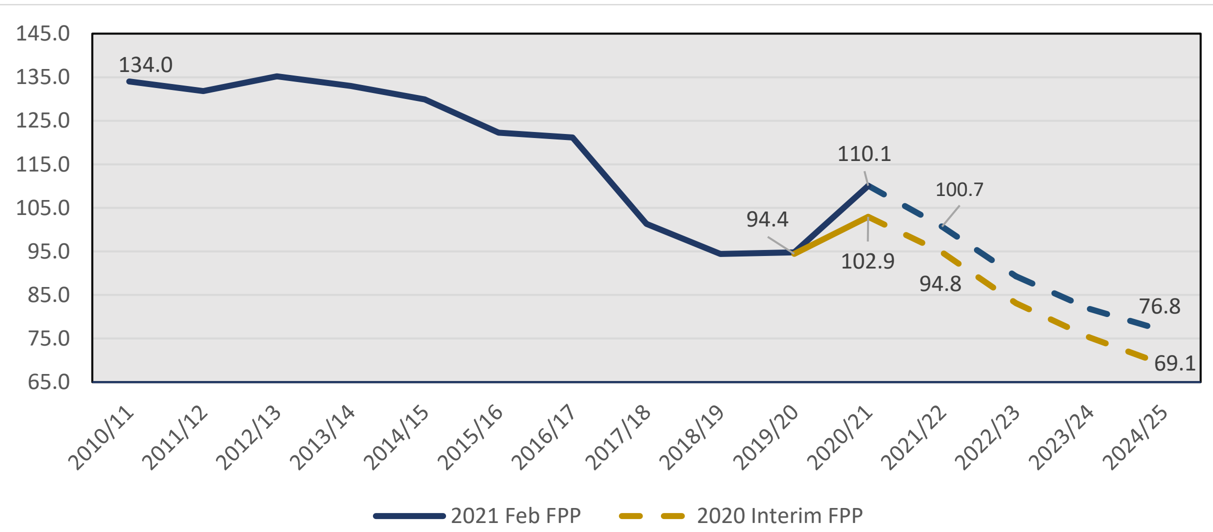
Actual Budget % of GDP

Source: MoFPS

Public Debt

15. For FY2020/21, Debt to GDP was estimated to increase by 15.7 percentage points to 110.1 per cent relative to FY2019/20, largely due to the fall in nominal GDP and an increase in the nominal debt stock (**Figure 6**). The Debt to GDP ratio is projected to decline to 100.7 per cent for FY2021/22 and thereafter, steadily to 76.8 per cent by FY2024/25. However, in a context where the achievement of the 60 per cent of GDP target was extended to FY2027/28, we would have expected an extension of the projections in line with the path towards the revised legislated target; as the improvement in the forecasted Debt to GDP over the medium-term also hinges on sustained global economic recovery, based on containment of the COVID 19 pandemic.

Figure 6: Medium Debt Target (% of GDP)



Source: MoFPS

Fiscal Risk Assessment

16. Due to the ongoing pandemic which has led to the rapidly evolving macroeconomic condition, the management of fiscal risk is paramount. The FPP reiterated the GOJ's commitment to sound fiscal management in the face of depreciating exchange rate, widening current account deficit, revenue shortfall and increased expenditure. The FRS highlighted that growth was predicated on positive COVID-19-related global developments; however, no specific mitigating measure was proffered except that GOJ would continue its monitoring to gauge possible spill-over effects. Additionally, the FRS stated that deviations in inflation from target will impact fiscal expenditure primarily in terms of costs related to inflation-linked debt servicing and housekeeping expenditures, as well as revenue collection. While inflation impacts revenue positively, the FPP indicated that it was not clear whether the positive impact on revenue outweighs the negative impact on expenditure. Nonetheless, variance decomposition can enable quantification of the components of revenue and expenditure due to the change in inflation, which can inform mitigating strategies to target inflation risk.

17. The FRS highlighted that global oil prices fell below projections, averaging US$37.15/bbl. and indicated that this had resulted in a large forecast error for FY2020/21. Regarding the risk emanating from unexpected adverse movements in oil prices, the GOJ indicated plans to reduce its reliance of oil imports along with the associated costs, through continuation of the Energy Efficiency and Conservation Programme (EECP) and Energy Management and Efficiency Project (EMEP). However, the FPP did not quantify the expected impact of the programmes.

18. As earlier discussed, the Government has stated its intention to continue its risk-layering approach to mitigate the risks associated with natural disasters and has placed its focus for the need for an up-to-date asset register to facilitate insurance of public assets as well as limit the implicit liabilities in the event of 'debilitating' private losses through private insurance. We note that a catastrophe bond was to be issued in April 2020 to address this risk; however, due to the pandemic, the issuance was postponed.

State Owned Enterprises

19. Since the start of the COVID-19 pandemic, several public bodies were adversely affected, given the severe economic downturn. The FPP identified Public Bodies, including Government Funded Entities, as well as Self-Financing Public Bodies (SFPBS), as a source of fiscal risks; highlighting that some public bodies would have received greater than planned support from the GOJ, including some that were previously self-sufficient. The FRS noted the risk from seven public bodies with significant arrears and accordingly, identified a risk-mitigating strategy whereby arrears would be monitored/managed within an established $6.4 billion ceiling. The report also indicated a continuation of Public Bodies Rationalisation Programme aimed at reducing the risk to GOJ from the number of public bodies by curtailing losses, reducing operational costs and minimizing overlapping functions.

Public Private Partnerships

20. The Interim FPP had acknowledged that for the five User Pays concession agreements that have been implemented, the operations of the related assets have been impacted negatively by the COVID-19 pandemic. The Ministry had further stated that three of the existing concessionaires had indicated their intention to invoke the force majeure clauses that are provided for in the concession agreements. The three concessionaires were MBJ Jamaica Limited (Sangster International Airport), PAC Kingston Airport Limited (NMIA) and TransJamaican Highway (East West Highway). Of note, the Disaster Risk Management Act was amended to consider the risks associated with the COVID-19 pandemic on the economy. Given that contingent liability risk could materialise with the invocation of force majeure clauses, the FRS should have identified this risk and articulated the risk-mitigating strategy. Further, the FPP FY2021/22 made no mention of the status regarding invocation of the respective clauses or negotiations with the three PPPs. Based on our request for an update on the status of the Force Majeure submissions, the Ministry advised that a fourth concessionaire had indicated its intention to invoke force majeure clauses. The Ministry did not elaborate on the status of negotiations.

Ministry's Response: Force Majeure claims have been made by two of the Concessionaires. The Cabinet has already approved some of the claims made by the concessionaires and negotiations are underway to facilitate further relief.

21. The NMIA PPP was the last completed PPP, which achieved Financial closure on October 2, 2019 and for which the operations of the Airport were handed over to the concessionaire, PAC Kingston Airport Limited later that month. In our assessment of this PPP in February 2020, we had stated that the likelihood of a force majeure event materializing was low with the fiscal impact to the Government deemed to be medium, in the context where the level of termination payment by AAJ to the Concessionaire is mitigated by insurance proceeds that accrue to the Concessionaire. We note that the FRS revealed a significant fall off in the revenues of the AAJ, but that the entity's accumulated reserves were adequate to finance its operations. In addition, the Ministry stated that if the pandemic should be protracted, these entities could experience greater fallout in their operations requiring Central Government support.

22. The FPP identified that three PPP transactions are currently in progress, the Rio Cobre Water Treatment Plant in Content, St. Catherine through the National Water Commission, the Schools Energy Efficiency and Solar Project and the Jamaica Ship Registry through the Maritime Authority of Jamaica. While there was no indication in the FPP, of the nature of the Rio Cobre and Jamaica Ship Registry PPPs, we recognise that for 'Government pays' arrangements, Government already holds the risks.

Ministry's Response: The Rio Cobre PPP is being pursued as "Government Pays" arrangement, while the Jamaica Ship Registry PPP is being pursued as "User Pays" arrangement.

Reasonableness of the Deviation of the Fiscal Indicators

23. Subsection (5)(d)(ii) of the FAA Act requires that the Minister compares the outcomes 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.

24. In this section, I have reviewed the explanations provided for April to December 2020 as provided in the FPP FY2021/22. In determining the reasonableness of the explanations provided by the Minister of Finance, the following were undertaken:
    a. A review of the macroeconomic assumptions provided in the Interim Report in indicated vis-à-vis the assumptions indicated in the FPP FY2021/22 February 2021;
    b. A review of emerging risks discussed in the FPP FY2021/22 and Debt Management Strategy to determine if any risks has materialized or were excluded from initial projections analysis of supplementary information; and
    c. Confirmation, where possible, of the Minister's explanations with observed data for FY2020/21 (April to December 2020).

25. My comments on variances provided in **Table 1** relate only to material issues presented in the FPP FY2021/22 and by the Ministry of Finance and the Public Service (MoFPS).

26. In most instances, the explanations provided by the Ministry for deviations of fiscal indicators were reasonable. The report focused on the comparison between the outturns of the fiscal indicators to the First Supplementary Estimates. An explanation for the deviations from budget were not included for SCT (local) and Accommodation taxes. I also noted that actual debt costs for the period did not explicitly corroborate the reasons advanced for the deviation in the Tax on Interest. Deviations in Other Inflows (incl'd PCDF) and Other Outflows were also unexplained. These items include ad hoc income and expenditure that are not included in the Fiscal Balance. In the interest of transparency, I expected some clarification for the significant falloff in Other Inflows.

Table 1: Comments on the Explanation for the Fiscal Deviations for April - December 2020 relative to (First Supplementary) Budget

Item	Provisional April – Dec	First Suppl. Budget April - Dec	*Diff*	Diff %	GOJ's Explanation Stated in FPP FY2021/22	Audit Comments	Ministry's Response
Revenue & Grants	**398,261.6**	**392,917.8**	**5,343.8**	**1.4%**			
Tax Revenue	346,492.4	343,622.9	2,869.6	0.8%			
Income & Profits	**97,768.0**	**91,400.6**	**6,367.4**	**7.0%**			
Other Companies	31,454.5	30,529.0	925.5	3.0%			
PAYE	47,735.3	45,897.2	1,838.1	4.0%	Collections were bolstered by taxes paid on redundancy payments directly related to layoffs resulting from COVID-19 and retroactive payments from negotiated salary increases for previous periods.	Explanation provided in the FPP was reasonable.	
Tax on Interest	14,327.6	12,470.3	1,857.3	14.9%	Benefitted from higher Domestic Interest payments.	Explanation provided was not confirmed by the figures included in Table 3A.1.	**The higher Tax collected was driven by pay-outs, based on higher than Budgeted Flows that came from Private sector.**
Tax on Dividend	2,063.4	510.9	1,552.5	303.9%	Higher inflows were recorded on account of the payment of arrears by one entity in November 2020.		
Production & Consumption	**125,268.7**	**127,536.8**	**-2,268.1**	**-1.8%**			
GCT (Local)	67,175.1	74,368.9	-7,193.8	-9.7%	Due to greater than anticipated decreases in business activities impacting a wide cross-section of the economy, leading to a	Explanation provided in the FPP was reasonable.	

	Provisional	First Suppl. Budget					
Item	**April – Dec**	**April - Dec**	***Diff***	**Diff %**	**GOJ's Explanation Stated in FPP FY2021/22**	**Audit Comments**	**Ministry's Response**
					reduction in the sales of taxable goods.		
Other Licenses	1,325.1	760.5	564.5	74.2%	Explanation not provided.		
SCT (local)	18,628.3	16,899.4	1,728.9	10.2%	The year-over-year change was attributed to a 37.3% decline in production at the local refinery and a decline in alcohol production for the hotel and entertainment industries.	Explanation not provided for the deviation from budget.	**The SCT performance was driven by production levels that would have exceeded expectations given the very conservative budget formulated in the 1st Supplementary. Above budget collections from SCT (local) reflects a lower than anticipated impact of the COVID-19 containment measures, which was expected to significantly disrupt the demand, and hence production of travel-related petroleum products.**
Betting, Gaming and Lottery	4,571.8	4,170.8	401.1	9.6%			

	Provisional	First Suppl. Budget					
Item	April – Dec	April - Dec	*Diff*	Diff %	GOJ's Explanation Stated in FPP FY2021/22	Audit Comments	Ministry's Response
Accommodation Tax	597.3	152.1	445.2	292.8%	The lower inflows are consistent with the fallout in the Tourism industry from COVID-19 with the local and global restrictions on movement and travel.	Explanation provided in the FPP relates to the YoY deviation. Explanation not provided for the deviation from budget.	**The performance of this tax type was influenced by the better than very conservative budget targets developed for the 1st Supplementary Budget. Several months were budgeted at near or zero collections. Additionally, the performance also reflects the improvement in visitor arrivals since the reopening of Jamaica's international borders.**
Telephone Call Tax	2,737.5	2,091.7	645.7	30.9%			
International Trade	**123,455.7**	**124,685.4**	**-1,229.7**	**-1.0%**	Reduction is consistent with the closure of the air and sea borders during the first quarter, and the overall reduction in business activity on account of the COVID-19 pandemic.	Explanation provided in the FPP was reasonable.	
Stamp Duty	1,427.7	1,844.1	-416.4	-22.6%			
SCT (Imports)	29,892.6	34,898.3	-5,005.7	-14.3%	Negatively impacted by a reduction in the importation of motor vehicles and petroleum products.	Explanation provided in the FPP was reasonable.	

	Provisional	First Suppl. Budget					
Item	**April – Dec**	**April - Dec**	***Diff***	**Diff %**	**GOJ's Explanation Stated in FPP FY2021/22**	**Audit Comments**	**Ministry's Response**
GCT (imports)	56,456.3	54,723.4	1,732.9	3.2%			
Non-Tax Revenue	**47,772.8**	**45,715.2**	**2,057.5**	**4.5%**	Includes revenue related to the sale of TransJamaican Highway Limited Preference Shares by NROCC Limited and CCRIF-SPC pay-out of $500.0mn.	Explanation provided in the FPP was reasonable.	
Capital Revenue	**22.1**	**0.0**	**22.1**	**0.0%**			
Grants	**3,974.2**	**3,579.7**	**394.5**	**11.0%**	Explanation not provided.		**Very conservative Budget targets were exceeded in most months. Additionally, Grants receipts were above budget due to higher than projected inflows from the European Union (EU).**
Capital Expenditure	**36,430.2**	**33,429.8**	**3,000.4**	**9.0%**	Explanation not provided.		**Very conservative Budget targets were exceeded in most months.**
Other Inflows (incl PCDF)	**2,210.9**	**21,052.6**	**-18,841.7**	**-89.5%**	Explanation not provided.		**The shortfall in Other Inflows primarily reflects the non-execution plans by the GOJ to dispense its holdings of JPS shares as well as to divest the Jamaica Mortgage Bank.**

Item	Provisional April – Dec	First Suppl. Budget April - Dec	*Diff*	Diff %	GOJ's Explanation Stated in FPP FY2021/22	Audit Comments	Ministry's Response
Other Outflows	**31,903.6**	**34,547.4**	**-2,643.8**	**-7.7%**	Explanation not provided.		**Other outflows were lower than programmed due to the rescheduling of loan disbursement to the National Water Commission to later in the fiscal year.**
Total Debt (As at end - December 2019)	**2,072,505.7**				At end-December 2020, the stock of total public debt outstanding was $2,072,505.7mn, $60,645.6mn or 3.0 percent more than the $2,011,860.1mn recorded at end-March 2020. Overall, the change reflected an increase in Central Government with partially offsetting reductions in net public bodies' debt, over the period.	Explanation provided in the FPP was reasonable.	
Central Govt Domestic	776,483.2						
Central Govt External	1,248,629.9						
Net Public Bodies	47,392.7						