EXAMINATION OF THE COMPONENTS OF THE FISCAL POLICY PAPER FY2024/25 INTERIM REPORT WHICH WAS LAID IN THE HOUSES OF PARLIAMENT ON OCTOBER 08, 2024

INDEPENDENT AUDITOR'S REPORT
AUDITOR GENERAL'S DEPARTMENT OF JAMAICA
FY2024/2025

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

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

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

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

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Auditor General's Opinion

1. I examined the components of the Fiscal Policy Paper (FPP) FY2024/25 Interim Report, laid by the Minister of Finance and Public Service (MoFPS) before the Houses of Parliament on 2024 October 08, in accordance with the Financial Administration and Audit (FAA) Act. I found that 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. In addition, the FPP included the Fiscal Risk Statement (FRS) as required by the enhanced fiscal rules.

2. 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.

My Responsibility

3. 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[1], 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:**

      i. The principles of prudent financial management require expenditure to be based on reasonable revenue projections, underpinned by credible macroeconomic assumptions for the current budget and the medium-term. Further, that risks be identified and realistically assessed to determine appropriate risk mitigating measures.

      ii. The Fiscal Risk Statement (FRS) identified the risks to the budget and projections as those arising from the underlying macroeconomic assumptions related to economic growth, inflation, interest rates, exchange rates and commodity price changes, the operations of public bodies and public private partnerships. The Fiscal Responsibility Statement for the FPP FY2024/25 Interim Report indicated that due to the adverse effects of Hurricane Beryl, the economy is expected to contract by 0.2 per cent for 2024/25, down from the initially expected expansion of 1.8 per cent. Notwithstanding, the Government has made adjustments that will facilitate the continued downward trajectory of the public debt ratio to 60 per cent of GDP by 2027/28. Of note, a build-up of domestic arrears by public bodies was highlighted as a major fiscal risk, requiring continued monitoring within the established ceiling of $6,400.0 million. As at August 2024, total domestic arrears of public bodies amounted to $7,500.0 million,

[1] The Auditor General is required to review the Fiscal Policy Paper until the Independent Fiscal Commission Act, 2021 comes into operation as per "publication of the notification of assent".

exceeding the ceiling by $1,100.0 million (17.2 per cent). Data provided by the MoFPS at our request, showed that Clarendon Aluminium Production Limited (CAP) and the National Water Commission (NWC) were responsible for 96.4 per cent of the $7,500.0 million in arrears.

iii. The FRS also placed special emphasis on climate-related fiscal risks, pointing to several strategies that were either implemented or planned, including the use of geographic information systems (GIS) in the mapping of hazards and asset exposures to reduce these risks. Mention was also made of the prioritization of disaster-risk financing and the issue of a new Catastrophe (CAT) Bond and renewal of parametric insurance coverage to mitigate and build fiscal resilience to the shocks from natural disasters.

iv. The FPP Interim Report identified additional expenditure of $40.7 billion, to be financed primarily from additional revenue sources amounting to $33.2 billion, based on a securitization of receivables transaction, reflected in Non-Tax Revenue. However, the FPP Interim report did not elaborate on the nature of the transaction. Accordingly, I requested the relevant information from the Ministry of Finance on October 11, 2024, which was provided on October 22, 2024. The information provided revealed that the transaction involved the securitization of the portion of the Norman Manley International Airport (NMIA) revenue achieved through the issue of a US$480 million, 12-year, 6.75 per cent bond marketed to qualified institutional buyers only. The bond was issued by the special purpose vehicle (SPV), to which the GOJ sold its 53.22 per cent share of the NMIA revenue. The securitization transaction was predicated on a gradual increase in passenger volumes, and by extension, an increase in revenue flows. The Ministry indicated that the issuance was handled by an arranger, with significant experience in similar types of airport credit arrangements.

v. Documentation provided informed that, in a context where the revenue share of 53.22 per cent is the Issuer's only source of revenue, if the entity receives a lower revenue percentage for any reason or, if the NMIA operator fails to timely pay any portion when due, the Government will top-up the missing amount or the shortfall. Further, if an "Alternate Airport" commences operations, the Issuer shall request that the Government compensates it for the effects, reasonably attributable to, or caused by, the "Alternate Airport" on the gross revenues of the NMIA. In response to our query regarding whether the Ministry undertook its own risk assessment, the Ministry responded "given that it is not the GOJ's bond, there is no recourse to the GOJ. Investors needed to conduct their own credit and risk assessments." The Ministry indicated that a securitization contingency of $2.4 billion was included in the First Supplementary Estimates for FY2024/25 under recurrent spending for the Ministry of Finance. However, in the absence of a risk assessment, I am not able to determine the adequacy of the contingency provision.

vi. A review of the Medium-Term Fiscal Profile reveals significantly lower Non-Tax Revenue for the period FY2025/26 through to FY2027/28, relative to FY2024/25. In this regard, the First Supplementary Budget FY2024/25 indicates Non-Tax Revenue totalling $162.1 billion, of which $78.3 billion relates to the securitization transaction. According to the Ministry of Finance, the fall off in the Non-Tax Revenue for FY2025/26 relative to FY2024/25, is primarily due to the securitization inflows in FY2024/25, whereas for FY2026/27, this mainly relates to the expected termination of the NHT Distribution ($11.4 billion) at end-March 2026, based on the National Housing Trust (Amendment) Special Provisions Act, 2020.

Given the materiality and effects of the securitization transaction on the Fiscal Policy Paper, in the absence of a risk assessment, I cannot confirm that the FPP FY2024/25 Interim Report conforms with the principles of prudent fiscal management.

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

i. The FPP FY2024/25 Interim Report summarized Central Government's performance for FY2023/24 and April to August 2024, relative to the original budget, and identified reasons for deviations from targets, in accordance with the requirements of the FAA Act. For FY2023/24, Revenue and Grants exceeded budget by 3.1 per cent, primarily reflected in Non-Tax Revenue, which was 28.4 per cent above budget, given higher than anticipated inflows from de-earmarked companies, the Public Sector Pension Scheme, and miscellaneous revenue. Tax Revenue marginally exceeded budget by 0.9 per cent, primarily reflecting greater than budgeted PAYE (16.1 per cent) and Tax on Interest (33.9 per cent) receipts. The better-than budgeted PAYE inflows were mainly attributed to improved employment conditions as well as the payment of salaries and arrears under the new compensation system, while Tax on Interest was boosted by strong growth in local currency bank deposits. I found these explanations to be reasonable given that the unemployment rate reportedly fell to 4.5 per cent for FY2023/24 from 6.6 per cent the previous year, whereas interest rates were elevated based on BOJ's policy rate being maintained at 7.0 per cent up to March 2024. The 39.9 per cent surplus in Bauxite Levy relative to budget was largely attributed to the part payment of arrears by WINDALCO, whereas Grants reflected higher than programmed receipts from Japan International Corporation Agency (JICA) and the Caribbean Development Bank (CDB). Based on the foregoing, I found the explanations provided for the deviations in revenue from the FY2023/24 budget to be reasonable having regard to the circumstances.

ii. For April to August 2024, Revenue and Grants exceeded budget by 2.6 per cent, largely reflecting above-budget Non-Tax Revenue, Tax Revenue and Grants. Within Tax Revenue, higher than budgeted *Income and Profits* was dominated by Corporate Taxes, attributed to stronger than expected company performance, and greater than anticipated Tax on Interest due to stronger growth in local currency deposits. These positive performances countered shortfalls from

Production & Consumption and *International Trade* resulting from the effects of Hurricane Beryl on power and telecommunication services and slower-than-expected growth in visitor arrivals, respectively. For Non-Tax Revenue, the surplus relative to budget partly reflected the payout from Caribbean Catastrophe Risk Insurance Facility (CCRIF) due to Hurricane Beryl, while the better than budgeted Grants receipts reflected higher than programmed inflows from the CDB. The explanations provided for the deviations in revenue from budget for the April to August 2024 period were reasonable, having regard to the circumstances.

c. In keeping with my application of the 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 the Minister, no later than August 31, in every third year, to provide the Auditor General with a list of public bodies that the Minister wishes the Auditor General to consider for certification. The next request for certification is anticipated for August 2025.

d. A Public Private Partnership (PPP) involves only minimal Contingent Liabilities.

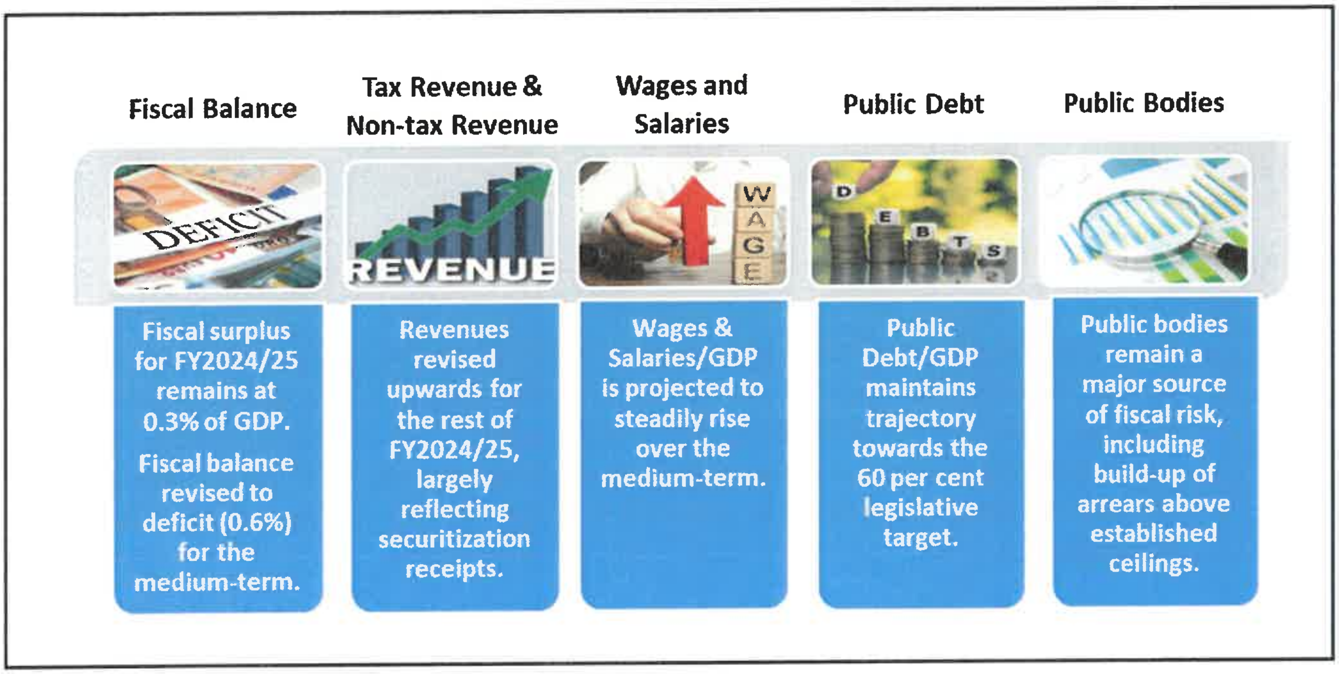
Arising from the impact of the COVID pandemic, four of five PPP concessionaires submitted claims to the GOJ under the Force Majeure clause and other sections of their respective PPP agreements. The FPP FY2024/25 February 2024 indicated that based on the recommendation from the Negotiating Team for the airports concession agreements, Cabinet approved a reduction in the Concession fee for Norman Manley International Airport (NMIA) from 60 per cent to 53 per cent of gross revenues effective in 2023 to the end of the concession period to facilitate the runway extension. However, the FPP FY2024/25 Interim Report highlighted that on June 24, 2024, Cabinet approved an adjustment to the commencement and completion dates for the 300-metre runway extension and the Runway End Safety Area Implementation works at the NMIA from the first quarter of 2024 and to be completed 36 months thereafter. However, given the new securitization of receivables arrangement associated with the airports' PPP concessionaire, we expected the FPP Interim Report to provide information regarding any potential risk to the Government.

My Recommendation

4. Inclusion of terms and conditions of the securitization transaction could enhance transparency of the FPP and clarify any concept of risk.

Pamela Monroe Ellis, FCCA, FCA
Auditor General

The Fiscal Management Strategy[2]



Fiscal and Primary Balances

5. The Fiscal Policy Paper Interim Report highlighted that the projected fiscal surplus for FY2024/25 remains unchanged, whereas for the medium term, the fiscal balance has been revised to a deficit of 0.6 per cent of GDP through to FY2027/28 **(Table 1)**. The Primary balance for FY2024/25 was revised upwards and thereafter revised downwards over the medium-term relative to February 2024, primarily reflecting the impact of increased Wages and Salaries as a per cent of GDP **(Table 2)**.

Table 1: Fiscal Balance (% GDP) - Original and Revised

	2020/21	2021/22	2022/23	2023/24 Est	2024/25 Proj	2025/26 Proj	2026/27 Proj	2027/28 Proj
FPP (Feb)	(3.1)	0.9	0.3	0.3	0.3	0.0	0.1	0.2
IFPP (Sept)	(3.1)	0.9	0.3	0.0	0.3	(0.6)	(0.6)	(0.6)

Source: MoFPS

[2] The FAA Act requires comparisons relative to original budget.

Table 2: Primary Balance (% GDP) - Original and Revised

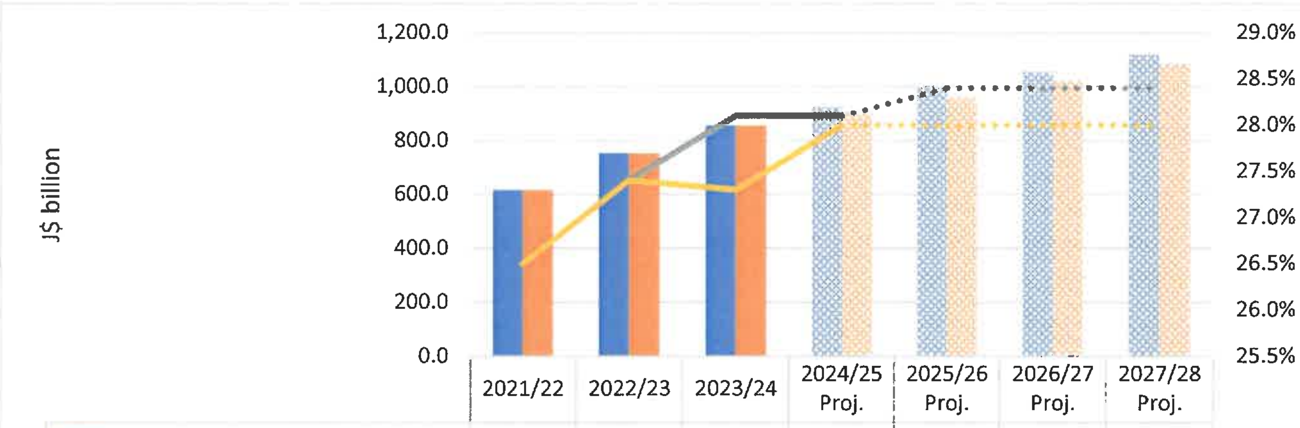
	2020/21	2021/22	2022/23	2023/24 Est	2024/25 Proj	2025/26 Proj	2026/27 Proj	2027/28 Proj
FPP (Feb)	3.5	6.8	5.8	6.0	5.6	4.9	4.5	4.3
IFPP (Sept)	3.5	6.8	5.8	5.7	6.0	4.3	3.8	3.4

Source: MoFPS

Tax Revenue

6. The FPP Interim Report revised Tax Revenue for FY2024/25 marginally downward to 28.0 per cent of GDP relative to 28.1 per cent in the FPP February 2024, reflecting the adverse impact of Hurricane Beryl on the Agricultural and Tourism sectors. The projected outturn, however, represents an improvement relative to the outturn of 27.3 per cent for FY2023/24 **(Chart 1)**. For the medium-term, Tax Revenue is projected to remain at 28.0 per cent of GDP through to FY2027/28.

Chart 1: Tax Revenue (% of GDP)



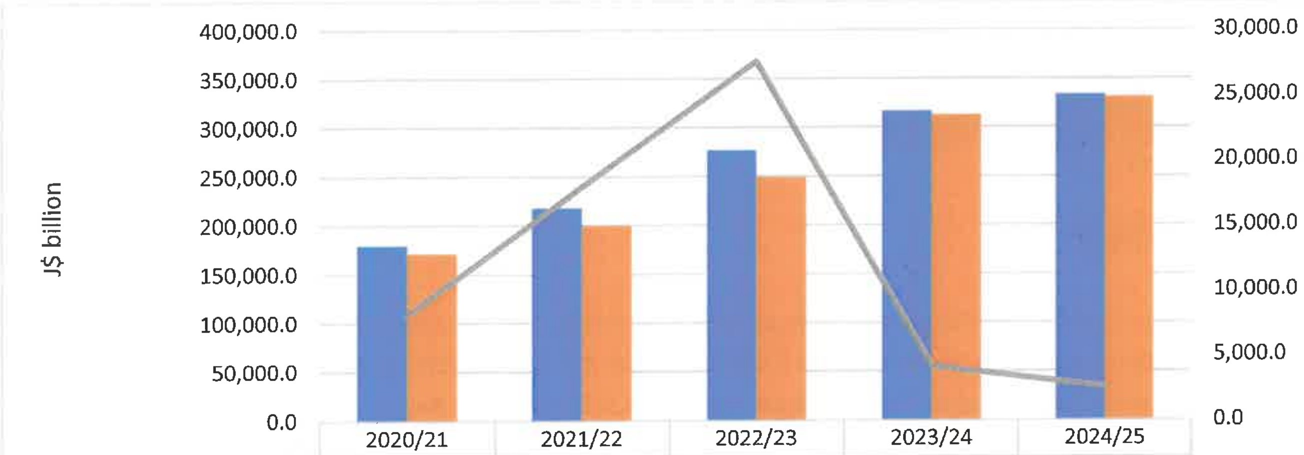
	2021/22	2022/23	2023/24	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.
Tax Revenue (Feb FPP)	616.4	752.8	856.4	924.4	996.2	1,056.5	1,120.5
Tax Revenue (Interim FPP)	616.4	752.8	856.4	905.1	962.9	1,023.9	1,085.5
Tax Revenue % of GDP (Feb FPP)	26.5%	27.4%	28.1%	28.1%	28.4%	28.4%	28.4%
Tax Revenue % of GDP (Interim FPP)	26.5%	27.4%	27.3%	28.0%	28.0%	28.0%	28.0%

Source: MOFPS

7. For April to August 2024, Tax Revenue exceeded Budget by 0.8 per cent, representing an increase of 5.2 per cent ($16.6 billion) over the outturn for the corresponding period in FY2023/24. Higher than budgeted Tax Revenue was attributed to continued improvements in domestic economic activities albeit at a slower pace, complemented by continued robustness in the labour market conditions. The outturn for April to August 2024 reflected positive performance from *Income and Profits* which exceeded Budget by 6.2 per cent ($5.8 billion), attributable primarily to above budget performances of Other Companies and Tax on Interest. However, Tax Revenue was tempered by a

1.6 per cent ($1.8 billion) shortfall in *Production and Consumption* due to Hurricane Beryl in July 2024. *International Trade* was 1.2 per cent ($1.5 billion) below target, reflecting lower travel tax inflows by 20.0 per cent ($3.0 billion) due to weaker visitor arrival, attributed to an unfavourable travel advisory during the period.

Chart 2: April to August Tax Revenue vs Budget



	2020/21	2021/22	2022/23	2023/24	2024/25
Tax Revenue Actual	179,738.2	218,033.3	277,017.6	316,935.1	333,568.0
Tax Revenue Budget	171,646.9	200,099.0	249,449.2	312,817.9	331,032.8
Variance	8,091.3	17,934.3	27,568.4	4,117.2	2,535.2

Source: MOFPS

Non-Tax Revenue

8. For April to August 2024, Non-Tax Revenue exceeded Budget by 23.4 per cent ($6.0 billion) and was 22.4 per cent ($5.8 billion) higher relative to the comparable period in FY2023/24. The positive performance was primarily attributable to a $4.2 billion payout from the Caribbean Catastrophe Risks Insurance Facility (CCRIF) following the passage of Hurricane Beryl which activated the Tropical Cyclone and excess rainfall policies. A dividend payment of $4.6 billion from Bank of Jamaica's profits for FY 2023/24 also contributed to the over-performance of Non-Tax Revenue which is projected to increase by 25.9 per cent largely based on expected inflows from the planned securitization of receivables transaction. The FPP FY2024/25 Interim report highlighted that the Non-Tax Revenue was revised to $162.1 billion for FY2024/25, reflecting additional flows of $33.2 billion from the securitization transaction, augmenting combined flows of $45.1 billion in the Tabled (February) and Approved (March) budgets. In response to our request for further information regarding the projected flows for FY2024/25 arising from the securitization transaction, the Ministry of Finance provided the table below, which indicated total expected inflows of $78.3 billion as follows:

Table 3: Projected inflows for Securitization of Revenue from NMIA for FY2024/25 (J$ billion)

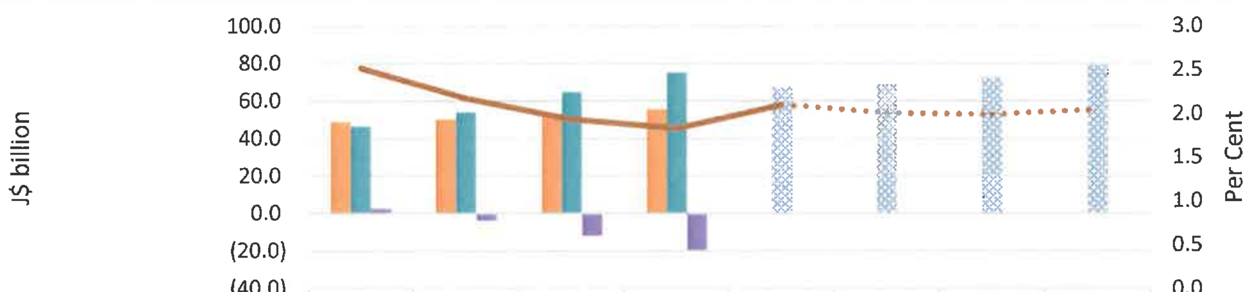
FY2024/25	Non-Tax Revenue	Remarks
Tabled Budget - February 2024	20.0	Initial projected inflows from securitization
Approved Budget - March 2024	25.1	Additional projected inflows
Additional Inflows - October 2024	33.2	Additional projected inflows
Estimated Total:	**78.3**	Final revised projected inflows for FY2024/25

Source: MoPFS

Capital Expenditure

9. The Fiscal Policy Paper Interim Report indicated that Capital Expenditure was 25.9 per cent ($19.5 billion) less than Budget for FY2023/24 **(Chart 3)**. The shortfall was attributed to slower-than-planned execution of projects, consistent with a 2.0 per cent decline in the Construction industry. Capital Spending is projected to account for 2.1 per cent of GDP at year-end FY2024/25 relative to 1.8 per cent in FY2023/24 and is expected to remain flat at 2.0 per cent over the medium-term. This represents a downward revision relative to the February FPP, whereby Capital Expenditure was expected to steadily increase to 2.8 per cent of GDP by FY2027/28.

Chart 3: Capital Expenditure for FY2020/21 to FY2027/28



	2020/21	2021/22	2022/23	2023/24	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.
Actual	49.2	50.5	53.2	55.9				
Budget	46.6	54.2	65.1	75.4	67.9	69.1	72.7	79.2
Deviation from Budget	2.6	(3.7)	(11.9)	(19.5)				
% of GDP	2.5	2.2	1.9	1.8	2.1	2.0	2.0	2.0

Actual Budget Deviation from Budget % of GDP

Source: MoFPS

10. For April to August 2024, Capital Expenditure was 8.1 per cent ($2.0 billion) below Budget, attributable to delays in project execution **(Table 4)**. Capital Expenditure accounted for 5.3 per cent

of Total Expenditure, an increase relative to the corresponding period of FY2023/24, but below FY2022/23 and the years prior.

Table 4: Capital Expenditure for April to August FY2020/21 to FY 2024/25 (J$ billion)

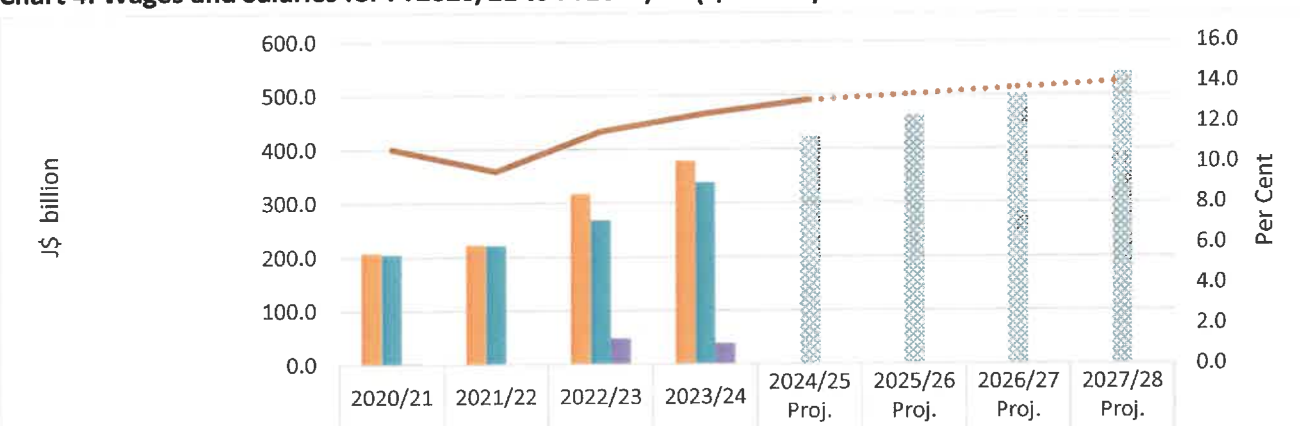
	2020/21	2021/22	2022/23	2023/24	2024/25
Actual	19.9	22.5	20.3	18.5	22.5
Budget	18.3	27.1	21.7	26.9	24.5
Deviation from Budget	1.7	(4.6)	(1.4)	(8.4)	(2.0)
Actual as a % of Total Expenditure	7.4	7.9	6.8	4.8	5.3

Source: MoFPS

Wages and Salaries

11. For FY2023/24, Wages and Salaries surpassed Budget by 11.7 per cent ($39.5 billion) which is consistent with the Public Sector Compensation Restructure. In line with this, Wages and Salaries accounted for 12.4 per cent of GDP for FY2023/24, up from 11.6 per cent in FY2022/23 **(Chart 4)**. The Interim FPP projects that this percentage will steadily increase to 14.0 per cent of GDP by the end of the medium-term in FY2027/28, which is a significant factor in the revised projection for the Fiscal balance for the medium-term.

Chart 4: Wages and Salaries for FY2020/21 to FY2027/28 (J$ billion)



	2020/21	2021/22	2022/23	2023/24	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.
Actual	208.0	222.5	317.9	378.2				
Budget	205.0	221.9	268.8	338.7	424.5	463.1	500.9	541.8
Deviation from Budget	3.0	0.6	49.1	39.5				
% of GDP	10.7	9.6	11.6	12.4	13.1	13.4	13.7	14.0

Source: MoFPS

12. For April to August 2024, Wages and Salaries exceeded Budget by 0.9 per cent ($1.5 billion) accounting for 41.0 per cent of Total Expenditure **(Table 5)**. The outturn in Wages and Salaries was 6.0 per cent ($9.9 billion) higher relative to the corresponding period in FY2023/24.

Table 5: Wages and Salaries for April to August FY2020/21 to FY2024/25 (J$ billion)

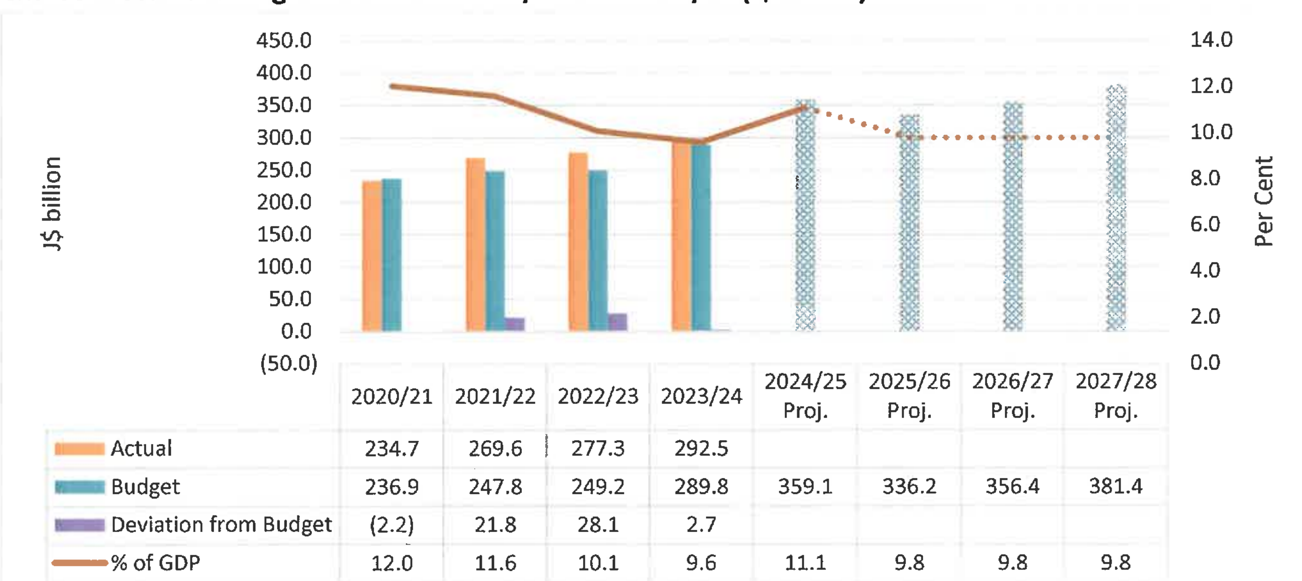
	2020/21	2021/22	2022/23	2023/24	2024/25
Actual	85.8	89.5	103.6	164.8	174.7
Budget	85.7	90.9	103.6	145.5	173.2
Deviation from Budget	0.1	(1.4)	0.0	19.2	1.5
Actual as a % of Total Expenditure	31.7	31.5	34.5	43.3	41.0

Source: MoFPS

Recurrent Programmes

13. For FY2023/24, Programmes expenditure marginally exceeded Budget by 0.9 per cent ($2.7 billion) which the Interim FPP attributed to procurement delays. For FY2024/25, Programmes expenditure is projected to account for 11.1 per cent of GDP and will decline over the medium-term, ending at 9.8 per cent of GDP in FY2027/28.

Chart 5: Recurrent Programmes for FY2020/21 to FY2027/28 (J$ billion)



Source: MoFPS

14. Programmes expenditure for April to August 2024 surpassed Budget by 0.8 per cent ($1.1 billion) **(Table 6)**. The Interim FPP attributed this excess spending to recovery costs associated with the

passage of Hurricane Beryl. Programmes spending accounted for 33.9 per cent of Total Expenditure, an increase relative to the corresponding period for FY2023/24.

Table 6: Programmes for April to August FY2020/21 to FY2024/25 (J$ billion)

	2020/21	2021/22	2022/23	2023/24	2024/25
Actual	104.8	107.3	109.9	117.6	144.3
Budget	104.5	113.6	106.2	120.3	143.2
Deviation from Budget	0.3	-6.3	3.6	-2.7	1.1
Actual as a % of Total Expenditure	38.6	37.8	36.6	30.9	33.9

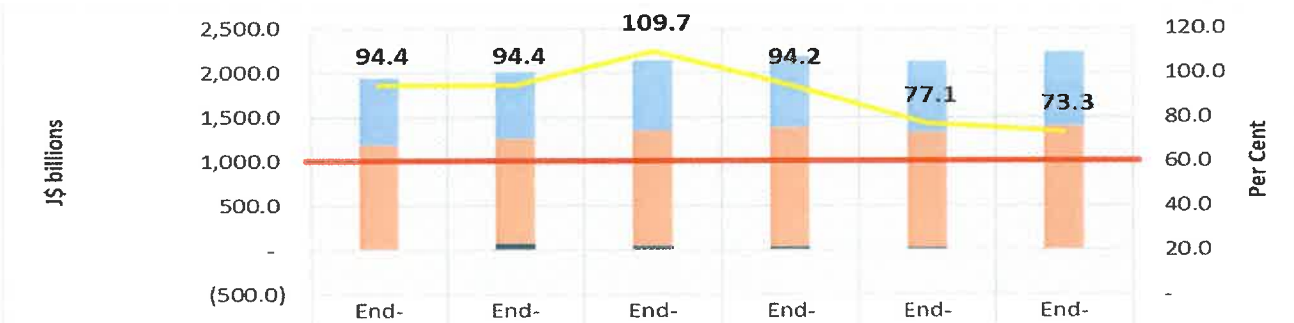
Source: MoFPS

Public Debt

15. The Interim Fiscal Policy Paper indicated that at end-March 2024, Jamaica's Public Debt Stock as a per cent of GDP was 73.3 per cent. This represents a decline of 3.8 percentage points from the 77.1 per cent recorded at end-March 2023 (**Chart 6**). The Fiscal Responsibility Statement for the FPP Interim Report indicated although the economy is expected to contract by 0.2 per cent for FY2024/25, down from the initially expected expansion of 1.8 per cent due to the adverse effects of Hurricane Beryl, the Government has made adjustments that will facilitate the continued downward trajectory of the public debt ratio to 60 per cent of GDP by FY2027/28.

16. The Total Public Debt Stock totalled $2,206.2 billion at end-August 2024, representing a 0.7 per cent decline relative to end-March 2023. The reduction was largely due to a fall in Central Government External Debt, partially offset by an increase in Domestic Debt. The outturn was consistent with the Government's medium-term debt management strategy to reduce foreign currency risk exposure in the debt portfolio by increasing the stock of Domestic Debt relative to External Debt.

Chart 6: Public Debt (% of GDP)



	End-March 2019	End-March 2020	End-March 2021	End-March 2022	End-March 2023	End-March 2024
Debt-GDP Target						
Domestic Debt	756.0	761.8	795.2	810.1	799.3	831.5
External Debt	1,172.8	1,185.0	1,295.3	1,345.8	1,299.9	1,395.6
Net Public Bodies	9.2	65.1	47.1	31.7	22.2	(5.1)
Debt (% of GDP)	94.4	94.4	109.7	94.2	77.1	73.3

Source: MoFPS

Fiscal Risk Assessment

17. The Fiscal Risk Statement (FRS) provided an update for the period April to August 2024, on the key sources of risk to the budget and medium-term projections, identified in the February 2024 Fiscal Policy Paper FY2024/25. Of note, the identification of such risks and appropriate risk mitigating strategies accords with the principles of prudent fiscal management which require the government budget to be based on reasonable revenue projections.

18. The FRS highlighted that due to the adverse effects of Hurricane Beryl, the economy is expected to contract by 0.2 per cent for 2024/25, down from the initially expected expansion of 1.8 per cent. Among the risks associated with contingent liabilities arising from the operations of public bodies, public private partnerships and natural disasters, with extensive discussion on climate-related fiscal risks. However, whereas the FPP Interim Report identified in several instances that Government conducted a securitization of receivables transaction which would boost Non-Tax Revenue, no details regarding the transaction were provided to enable identification of possible contingent risk and risk mitigating measures.

19. Whereas the FPP Interim Report highlighted that Non-Tax Revenues included flows related to the securitization of the portion of Norman Manley Airport revenue due to the Government of Jamaica, no details were provided regarding the precise nature of the transaction. However, information subsequently provided indicated that the securitization of the NMIA revenue was achieved through the issue of a US$480 million, 12-year, 6.75 per cent bond marketed to qualified institutional buyers only. The GOJ granted the Issuer the rights to 53.22 per cent of the revenue generated by the Norman Manley International Airport in exchange for the US$480 million that was raised through the bond issue. The Ministry of Finance indicated that a contingency of $2.4

billion was included in the First Supplementary Estimates for FY2024/25 under recurrent spending for the Ministry of Finance.

20. The FRS underscored the adverse impact of climate-related risks on the public finances through Government's response and recovery spending, on the tax base and revenues and ultimately, the deficit and debt levels. It further noted that climate change also created risks to long terms fiscal sustainability. Consistent with the principles of prudent fiscal management, the report indicated that the government has implemented or was in the process of implementing several strategies to reduce and manage the associated fiscal risks. Included among these was use of geographic information systems (GIS) in the mapping of hazards and of existing and proposed asset exposures; capacity building of Ministries, Departments and Agencies (MDAs) on climate-aware planning and the planned introduction of Climate Budget Tagging in budget preparation and reporting. The FRS also noted that the renewal of the parametric insurance coverage with the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF-SPC) for which the total coverage amounted to US$210.3 million. The availability of these financing sources and macro-fiscal risk mitigating strategies places the GOJ in a position to respond to natural disasters up to a medium severity.

Analysis of Public Bodies

21. The FPP FY2024/25 Interim Report indicated that the operations of public bodies pose a risk to the Central Government budget to the extent that these entities may not be able to service their debts or cover their operating expenses. However, there was no indication of the nature of the support, that is, whether loans or grants or whether the supports were one-off or recurring. This is in the context where over the years, some public bodies received recurring financial support (Grants) to supplement inadequate cash flows from their operations as highlighted in previous FPPs. In addition, a comparison of the budgeted expenditure to the actual expenditure for the review period was not included in the FPP Interim Report, which would aid in the assessment of budget credibility risk.

22. The FPP Interim report further highlighted that a build-up of domestic arrears by public bodies constituted a major fiscal risk, requiring continued monitoring within the established ceiling of $6,400.0 million. As at August 2024, total domestic arrears amounted to $7,500.0 million, exceeding the ceiling by $1,100.0 million (17.2 per cent). Three entities (Clarendon Alumina Production Limited (CAP), National Water Commission (NWC), and Urban Development Corporation (UDC)) exceeded their individual benchmark for arrears over 90 days. However, there was no indication of the magnitude of risk exposure as neither the ceiling for the individual entity nor a disaggregation of the actual domestic arrears were presented to enable comparison. Data provided by the MoFPS at our request showed that CAP and NWC were responsible for 96.4 per cent of the $7,500.0 million in arrears.

Public Private Partnerships

23. The Financial Administration and Audit (FAA) Act requires the Auditor General to determine whether a private public partnership (PPP) involves only minimal contingent liabilities accruing to the Government. Following the fallout from the COVID-19 pandemic, four of five PPP concessionaires submitted claims to the GOJ under the Force Majeure clause and other sections of their respective PPP agreements.

24. The recommended strategy for the two airport concessions was approved, including an extension of the concession period of 12 months for Sangster International Airport and a reduced concession fee for Norman Manley International Airport (NMIA) to facilitate the runway expansion and the implementation on the Runway End Safety Area. The FFP Interim Report indicated an updated commencement period for the runway expansion, being the third quarter of 2024, and to be completed 36 months thereafter. However, the FFP Interim Report did not disclose a quantification of the recommended strategy for the NMIA concession, to assess the potential impact over the life of the concession. For Jamaica North-South Highway, the claim is still under review, as they have not yet quantified the revenue loss.

Reasonableness of the Deviation of the Fiscal Indicators

25. Subsection (5)(d)(ii) of the FAA Act requires that the Minister compare the outcomes of the fiscal indicators with the targets for the previous financial year and gives the reasons for any deviations. Further, Section 48B (6) of the FAA Act requires the Auditor General to indicate whether the reasons given pursuant to subsection (5)(d)(ii) are reasonable having regard to the circumstances.

26. In this section, I have reviewed the explanations provided for April to August 2024, as provided in the FPP FY2024/25 Interim Report. 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 FPP FY2024/25 February Report indicated vis-à-vis the assumptions indicated in the FPP FY2024/25 Interim Report.

    b. A review of emerging risks discussed in the FPP FY2024/25 Interim Report and other Supplementary information after February 2024 FPP to determine if any risks have materialized or were excluded from initial projections; and

    c. Where possible, confirmation by the Ministry of Finance of the explanations with observed data for FY2023/24 (April to August 2024).

27. My comments on variances provided in **Table 7** relate only to material issues presented in the FPP FY2024/25 Interim Report and by the Ministry of Finance and Public Service.

Table 7: Summary of the Explanations for Major Fiscal Deviations for April - August 2024 relative to Budget

(J$ MILLION)	Provisional	Original Budget			FPP FY2024/25 Interim Explanation		
ITEM	April – August	April - August	Diff	Diff %	Prov. Outturn vs Original Budget	Audit Comments	Ministry's Response
TAX REVENUE							
Income & Profits							
Other Companies	20,235.8	18,145.8	2,090.0	11.5	Positively impacted by improved economic activity.	The explanation given is reasonable.	
Tax on Dividends	1,487.1	1,845.0	-357.8	-19.4	Due to the decline in dividend per shares.	The explanation given is reasonable.	
Other Individuals	2,216.4	2,087.4	129.0	6.2		No explanation provided.	
Tax on Interest	16,067.3	12,853.9	3,213.4	25.0	Reflects stronger growth in local currency deposits.	The explanation given is reasonable.	
Production & Consumption							
Other Licenses	1,014.0	606.2	407.9	67.3	Reflects higher than budgeted inflows from telecommunication licenses.		
Environmental Levy	476.7	412.3	64.4	15.6	Benefitted from continued stronger growth in manufacturing and mining & quarrying industries.		
Quarry Tax	115.4	12.3	103.1	837.8	Benefitted from the strong growth in manufacturing and mining & quarrying industries.	The explanation given is reasonable.	
Betting, Gaming and Lottery	3.289.8	3.951.0	-661.1	-16.7	Negatively affected by the disruption in power supply caused by hurricane Beryl.	The explanation given is reasonable.	

(J$ MILLION)	Provisional	Original Budget			FPP FY2024/25 Interim Explanation		
ITEM	April – August	April - August	Diff	Diff %	Prov. Outturn vs Original Budget	Audit Comments	Ministry's Response
Accommodation Tax	1,458.2	1,652.8	-194.5	-11.8	Slower pace in visitors' arrival.		
Telephone Call Tax	1,144.4	1,297.3	-152.9	-11.8	Negatively affected by the disruption in the power supply caused by hurricane Beryl.	The explanation given is reasonable	
International Trade							
Travel Tax	12,100.6	15,120.8	-3020.2	-20.0	Partly, it reflects a slower pace of growth in tourist arrivals.	The explanation given is reasonable.	
NON-TAX REVENUE	**31,939.0**	**25,891.8**	**6,047.2**	**23.4**	Reflects payout from CCRIF and dividend payment by BOJ.	The explanation given is reasonable.	
GRANTS	**3,491.2**	**2,339.9**	**1,151.3**	**49.2**	Higher than projected inflows from Caribbean Development Bank (CBD)	The explanation given is reasonable.	