EXAMINATION OF THE COMPONENTS OF THE FISCAL POLICY PAPER

WHICH WAS LAID BEFORE THE HOUSES OF PARLIAMENT

ON FEBRUARY 19, 2015

INDEPENDENT AUDITOR'S REPORT

THE AUDITOR GENERAL OF JAMAICA

FINANCIAL YEAR 2015/16

Auditor General of Jamaica

Auditor General's Department
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Jamaica, W.I.

March 2015

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

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Independent Audit Report

On the
Fiscal Policy Paper – 2015/16

1. I have examined the components of the Fiscal Policy Paper (FPP) laid by the Minister of Finance and Planning before the Houses of Parliament on February 19, 2015. The FPP comprises, as stipulated by the Financial Administration and Audit (FAA) Act: the Fiscal Responsibility statement, Macro-Economic Framework and Fiscal Management Strategy.

Responsibilities of the Minister of Finance

2. The Minister of Finance and Planning is responsible for the FPP, including the underlying conventions and assumptions on which the principles of prudent fiscal management are based. Section 48B(2) of the FAA Act provides that:

   "*Upon presentation of the annual Estimates of Revenue and Expenditure, the Minister shall lay before both Houses of Parliament -*

   a) a Fiscal Policy Paper containing the information indicated in the Third Schedule and setting out, in accordance with this section–

      i. a Fiscal Responsibility Statement;

      ii. a Macroeconomic Framework; and

      iii. *a Fiscal Management Strategy*"

3. Section 48B (3-5) provides that the Macroeconomic Framework is to present an overview of the state of the economy, and an assessment of the prospects for economic growth, including medium-term projections for the main macroeconomic variables. The Fiscal Responsibility Statement should specify the levels of fiscal balance and debt that are prudent in the opinion of the Minister, the proposed fiscal-policy measures, and a declaration that the Minister will adhere to the principles of prudent fiscal management. The Fiscal Management Strategy must provide an assessment of the current and projected finances of the Government, outline plans and policies for economic development, and explain how such plans and policies conform to the Fiscal Responsibility Statement.

4. The FAA Act outlines fiscal targets for which the Minister of Finance and Planning should take appropriate measures to achieve. These fiscal targets, which were repealed and replaced with new fiscal measures in the FAA (Amendment) Act 2014 are outlined in Section 48C as follows:

   a) To attain a fiscal balance, as a percentage of gross domestic product, as at the end of the financial year ending on 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;

b) To reduce the public debt to sixty per cent or less of the gross domestic product by the end of the financial year ending on March 31, 2026 and maintain or improve the ratio thereafter;
c) To reduce the ratio of wages paid by the Government as a proportion of the gross domestic product to nine per cent or less by the end of the financial year ending on March 31, 2016, and maintain or improve the ratio thereafter;
d) 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);
e) To ensure that no deviation is recorded in the notional account until the fiscal accounts for the financial year in question have been finalized.

5. All fiscal targets listed above with the exception of (c) which relates to wages have been deferred to come into operation on the 1st of April 2017, as per the FAA (Amendment) Act 2015. Consequently, the Minister does not have any legislative obligation to achieve the other fiscal targets between April 1, 2014 and March 31, 2017.

6. Section 48B(5)(d)(ii) of the FAA Act requires the Minister to compare the outcome of the fiscal indicators with the targets established for the previous financial year and give reason for any deviations.

Responsibilities of the Auditor General

7. My responsibility, as set out in section 48B(6) of the FAA Act, is 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;

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

    c) pursuant to [her] application of criteria prescribed pursuant to regulations made under section 50 (1), there are any 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;

    d) a public private partnership involves only minimal contingent liabilities accruing to the Government.

8. The FAA (Amendment) Act 2015 provides for the deferral of subsection 48B(6)(c) until April 1, 2017. This fiscal target requires the Auditor General to certify Public Bodies which are deemed of a commercial nature, and therefore would not be included in the specified public sector.

9. I conducted my examination in accordance with 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 Financial Information* issued by the International Auditing Standard Board. These standards require that I comply with ethical requirements and plan and perform the engagement to obtain sufficient and appropriate evidence to base my opinion in line with the criteria, which are established in section 48D of the FAA Act.

Methodology

10. The examination included:
    - review of the provisions of the FAA Act;
    - review of the Fiscal Policy Paper for financial years (FYs) 2014/15 (April and September 2014) and 2015/16 (February 2015);
    - review of evidence and clarifications on the FPP provided by the Ministry of Finance and Planning;
    - reviews of publications from external sources;
    - obtaining representations from the Ministry of Finance; and
    - performing such other procedures considered necessary in the circumstances.

11. I did not comment on the merit of the Finance Minister's fiscal strategy. My comments are restricted to the requirement as stated in section 48B(6) of the FAA Act.

Limitation of Scope

12. **The law requires that the Auditor General reviews and reports on the Fiscal Policy Paper two weeks after it is tabled in the Houses of Parliament. This requirement makes it necessary that there is robust collaboration and a communication mechanism between the Ministry of Finance and the Auditor General to facilitate the timely, proper and complete review of the FPP. The reduction in the legislative timeline was expected to be facilitated by the provision of additional resources to the AuGD. Unfortunately, the approval to facilitate the engagement of the requisite skill set and competence was not provided within a timeframe to permit availability of staff for involvement in the audit process. This has had a significant impact on the depth of the review of the FPP and all related documents within the legislative timeframe of two weeks.**

13. **Further, in order to provide the Standing Finance Committee with a report within the legislative timeframe, the MoFP must provide the Auditor General with a draft before the report is tabled. It is neither practicable nor advisable to restrict the audit of a complex, sensitive and high risk area to ten days, without the requisite resources and support from the Ministry of Finance. This will have serious implications for the audit outcome and quality. I was not provided with a copy of the FPP until it was tabled on February 19, 2015.**

14. **Information was requested from the MoFP with respect to the PPP arrangements by way of letter dated February 6, 2015. The MoFP did not respond until February 26, 2015. The short time-frame of two days (to Monday March 2, 2015) did not allow me to conduct a meaningful analysis for comment in this FPP. Consequently, I have not conducted any review of the proposed PPP arrangements.**

Basis for Comments

15. Section 48D(d) requires that "expenditure is to be managed in a manner that is consistent with the level of revenue generated, so as to achieve the desired fiscal outcomes." Further, the Act specifies the applicable fiscal target for wages to be achieved by financial year ending March 31, 2015. The FPP has acknowledged, with its projection, that the legislative target for wage to be 9 per cent of GDP may not be achieved by March 31, 2015. This is compounded by the uncertainty surrounding the current wage negotiations.

16. The lack of pertinent information from the Ministry affected my assessment of the reasonableness of the variances between established targets and the outcome of the fiscal indicators. The MoFP did not submit to me, as promised, an addendum that should provide the following information, but has not been acted upon: (i) scenario analysis based on the perceived fiscal risks, and, (ii) quantification of the growth and cost savings measures. My review of the 2015/16 FPP revealed that, although some fiscal risks were mentioned therein, they were not quantified or reflected in the projections. Consequently, it was not clear to me as to what extent deviations, such as underperformance of revenue, were due to forecast errors, deviations from assumptions, or unforeseen events/shocks.

17. The Ministry of Finance provided an explanation of what constitute minimal contingent liabilities for PPPs. These are PPPs for which the Government does not provide a debt guarantee, a price guarantee or a demand guarantee. Also in such a PPP the termination clauses or any default provision does not imply a transfer of liabilities to the Government in the case of Operator Default. Instead the Termination clause provides that the Government will retender the Concession and get a new operator to be Concessionaire. This new Concessionaire will take over the debt of the previous operator. Hence, my assessment requires a review of the relevant PPP contracts.

18. The FPP identified three Public Private Partnerships (PPPs) which are currently in progress, namely Normal Manley International Airport (NMIA), Kingston Container Terminal (KCT), and Jamaica Railway Corporation (JRC). The Ministry of Finance has indicated that PPP contracts for NMIA and KCT will be finalised by March 2016. The MoFP did not provide me with any information pertaining to JRC. I have not yet conducted a review and analysis of the proposed PPP arrangements.

Comments

19. On the basis of the limitations arising from the deferral of the fiscal targets outlined above in **paragraph 4 (a), (b), (d), and (e)**, I do not provide a comment on whether the FPP FY 2014/15 complies with the fiscal management principles stated in section 48D (a-c) of the FAA Act.

20. I consider the effect of the matter mentioned in **paragraph 15** above, to be a departure from the fiscal management principle stated in section 48D (d) and the fiscal target set out in section 48C(c) of the FAA Act.

21. On the basis of the deficiencies indicated at **paragraph 16** above, I have provided limited comments on the explanations provided by the Minster for the variances between established targets and the outcome of the fiscal indicators. These comments may be found in Part B of this Report at **paragraphs 42 to 47.**

22. On the basis of the limitation indicated in **paragraphs 17 and 18** above, I cannot provide a comment, at this time, on whether the proposed public private partnership arrangements involve only minimal contingent liabilities accruing to the Government.

Compliance with Third Schedule of the FAA Act

23. My review revealed that the content of the FPP FY 2015/16 is in keeping with the requirements of the Third Schedule of the FAA Act. The FPP FY 2015/16 has included the minimum content under the Fiscal Responsibility Statement and Macroeconomic Framework components. In addition, the Fiscal Management Strategy contains the minimum requirements in keeping with the Third schedule of the FAA Act.

Recommendations

24. The MoFP has stated its concern regarding public disclosure of market sensitive assumptions. In that regard, I propose that the Ministry provides the Auditor General's Department with an addendum to the FPP, which provides the following information: (i) scenario analysis based on the perceived fiscal risks; (ii) quantification of the growth and cost savings measures; and (iii) the major assumption underlying the preparation of the FPP. This will aid in the assessment of the variances between the fiscal targets and the outturns, as well as the explanations provided by the Ministry. The MoFP has failed to act upon my recommendations pertaining to the provision of information on the perceived fiscal risk and quantification on the growth and cost saving majors.

25. The Ministry should assess the compliance measures to be undertaken by Tax Administration Jamaica and Jamaica Custom Agency intended to attain the revenue target, and factor this into the revenue projections, in light of the consistent revenue shortfall.

26. The Ministry should explain in future FPPs the reasons why step-up compliance actions did not lead to the expected revenue increases that were initially targeted; and to clarify the measures that will be undertaken in order to overcome the difficulties in achieving the revenue targets from step-up compliance.

Pamela Monroe Ellis, FCCA, FCA, CISA
Auditor General

Part A: Principles of Prudent Fiscal Management

Criterion A: Total [public] debt is to be reduced to, and thereafter maintained at, a prudent and sustainable level.

Related Target: To reduce the public debt to sixty per cent or less of the gross domestic product by the end of the financial year March 31, 2026 and maintain or improve the ratio thereafter. The applicability of the debt to GDP target has been delayed to take effect from April 1, 2017.

Total Public Debt

27. The stock of Public Debt is budgeted to decrease to J$2,049,100.4mn in FY 2015/16, which represent a reduction 1.1 per cent ($22,922.6mn), when compared to the estimate for the period ending March 31, 2015. The projected total debt comprises; domestic debt of $1,033,838.8mn and external debt of $1,015,261.6mn. Further, the FPP FY 2015/16 projects that the debt to GDP ratio will continue to decrease over the medium term, from an estimated 131.6 per cent in FY 2014/15 to 98.5 per cent in FY 2018/19.

28. However, although the debt/GDP projection is trending downward over the medium term, the Government continues to encountered challenges in the achievement of the targets. Tables 1 to 3 show that the projections for debt to GDP have been adjusted upward in each succeeding fiscal year. The projections in FPP FY 2014/15 represent an average adjustment of 10 percentage points higher than the projections contained in the FPP FY 2013/14. While the projection for FY 2016/17, as contained in FPP FY 2015/16, was slightly higher (by 1 per cent) than the corresponding projection contained in the FPP 2014/15.

Table 1: Debt/GDP Projections from FY 2013/14 FPP

Fiscal Year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Total Debt (J$M)	1,570,368	1,662,270	1,812,635	1,889,712	1,984,049	2,067,218	2,143,136
Debt/GDP Ratio (%)	128.3	131.5	134.1	126.7	119.6	112.0	104.7

Source: Ministry of Finance

Table 2: Debt/GDP Projections from FY 2014/15 FPP

Fiscal Year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Total Debt (J$M)	1,570,268	1,662,270	1,812,635	1,946,005	2,090,410	2,188,370	2,253,047
Debt/GDP Ratio (%)	128.3	131.5	135.6	131.9	129.3	122.7	114.5

Source: Ministry of Finance

Table 3: Debt/GDP Projections from FY 2015/16 FPP (February 2015)

Fiscal Year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Total Debt (J$M)	1,570,268	1,662,270	1,812,635	1,946,005	2,072,023	2,049,100	2,120,594
Debt/GDP Ratio (%)	128.3	131.5	135.6	131.9	131.6	121.3	115.7

Source: Ministry of Finance

Criterion B: Fiscal risks are to be managed prudently with particular reference to their quality and level.

Related Target: The Act did not specify a related target for this criterion.

Fiscal Risk

29. The management of fiscal risks is critical to managing the growth of the public debt and other economic variables. Examples of fiscal risks include: contingent liabilities, natural disasters, interest rate risk, as well as the risk to elements of expenditure and revenue over the medium term. The FPP identifies the key sources of fiscal risks. [See Box 3(a), Part III, Page 41 of the FPP]. However, because of the uncertainties in the timing and amount for fiscal risks, GOJ may not, or inadequately, provide for them in the budget. If the risks do materialise, they could significantly reduce revenue and/or increase expenditure, and possibly resulting in increased debt levels.

30. I recommended in my 2014/15 FPP report, that "The Ministry of Finance should take the necessary steps to ensure that future FPPs incorporate the performance of the key fiscal risks. This will indicate what fiscal risks have materialized during the previous financial year, and the associated cost." However, the effect of the fiscal risks has still not been fully quantified, for example with the aid of scenario analysis, or comprehensively explained in the 2015/16 FPP.

31. The Ministry however intimated in the FPP, that there is currently a multilateral support for consultant engagement for the evaluation and quantification of the main fiscal risks and strengthening of the fiscal responsibility framework, which has been extended to September 2015.

Criterion C: Borrowings are to be geared toward investment activities that support productivity and economic growth

Related Target: The Act did not specify a related target for this criterion.

32. The Ministry has not established specific targets for this principle. However, the Ministry provided a definition for **'**investment activities that support productivity and economic growth': **"***this means expenditure which seeks to enhance the country's economic capacity. Examples of this would relate to investments in physical infrastructure, transportation rehabilitation, and education-and-health."*

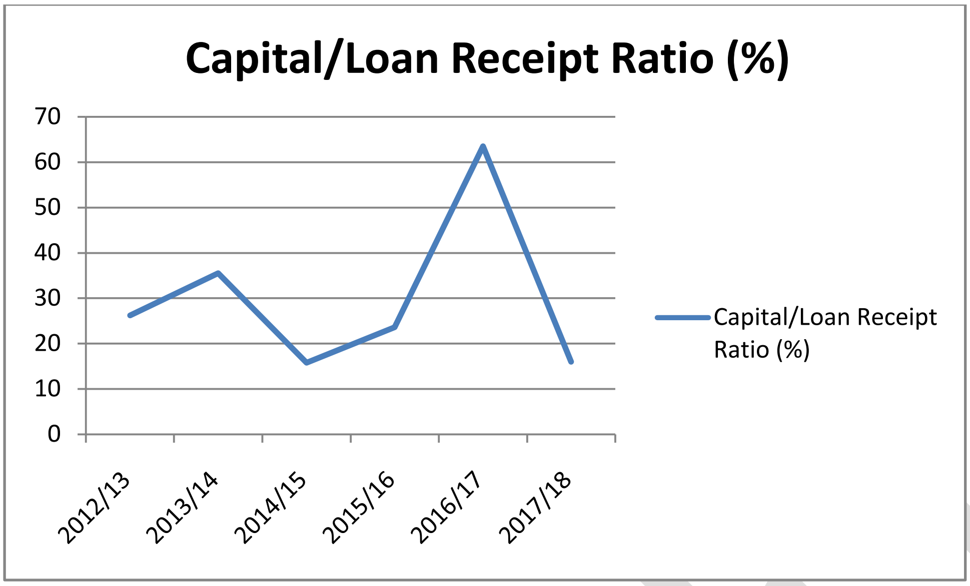
33. The ministry further states that *"The investments activities of the GOJ that support productivity and economic growth are usually contained in the Capital Budget."* Our analysis shows that capital spending is budgeted to increase steadily over the medium, although the actual outturn has been consistently less than projected over the years (Table 3). This is in keeping with the government expenditure containment measures as a result of lower revenue outturn. However, our analysis further shows that capital expenditure as a percentage of loan receipts is projected to increase to 23.6 per cent in FY 2015/16 compared to 15.8 per cent in FY 2014/15, and further projected to significantly increase to 63.5 per cent in FY 2016/17. The increase ratio in FY 2016/17 is primarily influenced by a significant reduction in projected loan receipts during the period. The loans receipts show volatility over the years, which is largely consistent with the expected loan amortization in the respective fiscal years.

Table 4: Use of Central Government Borrowing

Fiscal Year	2012/13 (J$ million)	2013/14 (J$ million)	2014/15 (J$ million)	2015/16 (J$ million)	2016/17 (J$ million)	2017/18 (J$ million)
Loan Receipts	144,347.1	93,527.5	163,423.2	128,930.1	50,980.1	221,505.6
Capital	37,757.9	36,988.8	25,807.9	30,409.0	32,395.0	35,338.4
Capital/Loan Receipt Ratio (%)	26.2	35.5	15.8	23.6	63.5	16.0
Capital: Budget less actual	1,735.1	7,713.0	8,820.2			

Source: FPP FY 2015/16

Figure 1: Capital to loan receipt ratio (%) for FYs 2012/13 to 2017/18



Source: Ministry of Finance

Criterion D: Expenditure is to be managed in a manner that is consistent with the level of revenue generated, so as to achieve the desired fiscal outcomes.

RELATED TARGETS: 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 on March 31, 2016 [FAA Act, Section 48C (c)]

To ensure that neither the Appropriation Act nor any Supplementary Estimates of Revenue and Expenditure for any financial year will cause the fiscal balance to be attained pursuant to paragraph (a) [FAA Act, Section 48C(1)(d)]. This target has been delayed to take effect with effect from April 1, 2017

34. The main factors that impact on this principle, vis-à-vis the identified targets, include Tax Revenue, Wages & Salaries, Interest Costs, Programme Expenditure, and Capital Expenditure.

Tax Revenue

35. For FY 2015/16, tax revenue of $411,882.3mn, which accounts for approximately 89.9 per cent of total revenue and grants, is budgeted to grow by 9.0 per cent ($34,005.1mn) over the estimate for FY 2014/15.

36. As with FPP FY 2014/15, this year's (2015/16) FPP highlighted the expected impact of stepped up compliance activities of the tax revenue forecast. "These compliance activities are forecast to bolster tax revenue flows by about $8,023.4mn (0.5 per cent of GDP). The budgeted increase in tax revenue is also predicated on a projected 7.3% growth in nominal income in FY 2015/16, as well as movements in other macroeconomic variables." However, **Table 5** shows that the tax revenue targets have not been achieved in the last seven years.

Table 5: Tax Revenue – Budgeted vs. Actual

Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Tax Revenue Budget J$M	265,071.6	291,674.5	287,211.3	308,215.3	335,625.1	360,517.6	384,286.0
Tax Revenue Actual J$M	246,216.6	265,860.2	279,874.2	289,882.2	319,764.9	343,836.1	377,877.2*
Variance J$M	-18,855.00	-25,814.30	-7,337.10	-18,333.10	-15,860.20	16.681.5	-6,408.8
Variance %	-7.11%	-8.85%	-2.55%	-5.95%	-4.73%	-4.63%	-1.7%

*Estimate

Source: Ministry of Finance

Wages & Salaries

37. The 2015/16 FPP projects that the wages and salaries will be $165,229.4mn in FY 2015/16, which represents an increase of 4.1 per cent over the estimate for FY 2014/15. Wages and salaries is expected to be 9.8 per cent of GDP, compared to 10.1 per cent of GDP for the estimate in FY 2014/15. The projection of 9.8 for FY 2015/16 is outside of the legislative target of 9.0 per cent. Although the projections have been adjusted upward in each succeeding FPP for the last three years, the outturns have been trending downward. The FPP FY 2015/16 has acknowledged, with this projection, that the legislative target will be missed; further it is difficult to ascertain the likelihood of achieving the adjusted target, given the uncertainty surrounding the current wage negotiations.

Table 6: Wages/GDP Projections 2013/14 to 2018/19

Fiscal Years	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Wages (J$M)	147,381.8	156,361.7	158,758.6	165,229.4	165,521.9	180,170.2	196,059.2
Wages/GDP Ratio (%)	11.0	10.7	10.1	9.8	9.0	9.0	9.0

Source: FPP FY 2015/16

Interest Cost

38. The FPP projected interest cost of $131,614.4mn for FY 2015/16, which represents an increase of 2.2 per cent compared with the figure for the previous year. Interest cost

as a percentage of GDP, is estimated to be 7.8 per cent in FY 2015/16 compared to 8.2 per cent in FY 2014/15.

Recurrent Programme Expenditure

39. The recurrent programmes expenditure is budgeted to be $135,735.3mn, a 21.3 per cent increase over the estimated spending for the previous fiscal year. Recurrent programme is projected to be 8.0 per cent of GDP in 2015/16.

Capital Expenditure

40. The capital expenditure projection for FY 2015/16 is $30,409.0mn, which is 17.8 per cent more than the estimated expenditure in FY 2014/15. This represents a decrease from the 1.6 per cent of GDP outturn in FY 2014/15 to 1.8 per cent of GDP projected for FY 2015/16.

Primary Balance

41. The government continues to maintain a primary surplus target of 7.5 per cent of GDP over the medium term in keeping with the terms of the IMF Extended Fund Facilities. See **Table 7** below.

Table 7: Medium Term Trend for Primary Surplus

Primary Balance as per:	2011/2012 Provision	2012/2013 Provision	2013/2014 Provision	2014/2015 Projection	2015/2016 Projection
2014/15 FPP (% of GDP)	3.1	5.4	7.5	7.5	7.5
2015/16 FPP (% of GDP)	-	5.3	7.6	7.7	7.5

Source: FPP

Fiscal Balance

The Central Government registered a fiscal deficit of 0.5 per cent of GDP (-$7,446.0mn) for FY 2015/16 compared to the budgeted surplus of 0.1 per cent of GDP ($1,737.6mn). The FPP projects that there will also be a fiscal deficit of 0.3 per cent (-$4,886.9mn) in FY 2015/16, and thereafter, a fiscal surplus each year over the medium term.

Part B: Reasonableness of Deviation of Fiscal Indicators

42. Subsection (5)(d)(ii) of the FAA Act requires the Minister to compare the outcome of the fiscal indicators with the targets for the previous financial year and give reason for any deviations.

43. 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.

44. I have reviewed the explanations provided in the FPP, as shown in **Table 8**. In making a determination regarding the reasonableness of the explanations provided by the Minister, I applied the following criteria:

- whether initial projections considered fiscal risks; and
- my ability to confirm the Minister's explanation with observed data.

45. My review of the 2015/16 FPPs revealed that, though some fiscal risks were mentioned therein, they were not quantified or reflected in the projections. Consequently, it was not clear to what extent deviations, such as underperformance of revenue, were due to forecast errors, deviations from assumptions, or unforeseen events/shocks. Given the Ministry's concern about public disclosure of market sensitive information, I recommended in my previous report on the FPP "that the Ministry provides the Auditor General's Department with an addendum to the FPP, which provides the following information: (i) sensitivity analysis based on the perceived fiscal risks, and (ii) quantification of the growth and cost savings measures. This will aid in the assessment of the variances between the fiscal targets and the outturns, as well as the explanation provided by the ministry." This has not been forthcoming.

46. The Ministry however intimated in the FPP, that there is currently a multilateral support for consultant engagement for the evaluation and quantification of the main fiscal risks and strengthening of the fiscal responsibility framework, which has been extended to September 2015.

47. With regards to my comments in **Table 8** below, I accept that some of the explanations provided by the Minister are reasonable. However, I did not comment on some variances for the following reasons:

- the 2015/16 FPP failed to factor the fiscal risks in the projections, consequently, the reasonableness of some variances were harder to assess; and
- the lack of information in the FPP and from the MOFP.

Table 8: Comments on the Explanations for the Fiscal Deviations for 2014-15 (April – December 2014)
(in millions of Jamaica dollars)

	Prov	Budget					
Item	**Apr - Dec**	**Apr - Dec**	**Diff**	**Diff %**	**GOJ's Explanation as Stated in FPP FY 2015-16**	**Audit Comments**	**Ministry's Response**
Revenue & Grants	**287,181.7**	**297,056.4**	**-9,874.7**	**-3.3%**			
Tax Revenue	258,610.9	268,316.5	-9,705.6	-3.6%	Lower than expected collections from Production & Consumption and Income & Profit taxes greatly impacted tax revenue outturn for the period... The shortfalls arose largely from:		
					• Lower than budgeted collections from administrative/compliance activities;	Again, as with the last five years, administrative/ compliance measures have under-performed, which may indicate that the Ministry is too optimistic with this measure.	
					• Larger than programmed decline in imports;	The expectation was for decline in import (partly through import substitution for example), and so tax revenue would be lost. However, we needed this assumption to be provided at the beginning of the fiscal year for 2014/15 and for projections for the (lost) revenue from the declining import. We were not otherwise provided with the assumption on imports.	The AGD did not make this request about import assumptions so we did not provide it.
					• Increase payment of refunds;	Payments of refund were programme into FY 2014/15 projection at $1.0bn per month (effectively $9.0 bn for April to Dec 2014). The Actual payment of	

						withholding tax for the same was reported to be $8.5bn. Some of the arrears projection were not quantified.	
					• Lower than programmed inflation;	The outturn for inflation was lower than programmed	
					• Less than programmed economic growth; and	The estimated growth rate for review period is less than the forecast rate.	
Income and Profit	73,501.9	76,855.4	-3,353.5	-4.4%	Shortfalls in Other Companies/Corporate and Other Individuals/Self-Employed outweighed over-performance in PAYE and Withholding tax on interest.		
					PAYE receipt from Central Government represents approximately 60% of the overall increase in PAYE over last year, mainly due to the decision of the MoFP to have the Accountant General's department pay statutory deductions directly to the TAJ for those MDAs that were previously provided with gross salary payment.	As part of the public financial management reform, instructions were given (seen in FPP FY 2014/15) for the payment of all Government statutory deductions to be made by the Accountant General and transferred directly to TAJ, which means that this should have been programmed into the projections. Therefore, this should not have been given as a reason for the performance targets.	Notwithstanding the fact that it was factored into the projections, the reference in the FPP is to provide the factor(s) behind the increase over FY 13/14.
					Collection from Other Companies during the period was less than budgeted due to lower quarterly declarations by several companies likely due to anticipated benefits from the Fiscal Incentive Regime introduced in January 2014. Less than targeted flows from administrative efforts, and lower than programmed growth in	The Ministry is making an assumption about the likely impact of the Fiscal Incentive Regime.	The full picture on the performance for CIT will not be known before companies file their final returns in March 2015. In the absence of this, the tax authorities have identified potential loopholes in the Fiscal Incentives

					nominal income also negatively impacted the performance.		Regime that companies could exploit.
					Similar to Corporate taxes, the underperformance in Other Individuals resulted largely from less than budgeted collections from administrative efforts and lower than programmed growth in nominal income.	Comments made above on compliance/ administrative measures.	
Production and Consumption	87,051.8	93,659.1	-6,607.3	-7.1%	While the number of items surpassed budget, these were outweighed by shortfall in other tax types such as GCT, SCT, Betting, Gaming & Lottery (BGL) and the Minimum Business Tax (MBT).		
GCT (local)	45,492.3	50,873.1	-5,380.8	-10.6%	The shortfall in GCT was mainly due to: i. Higher than usual pay-out of GCT refund resulting in lower than budgeted net revenue outturn; ii. Lower than expected GCT revenue from government purchases due to (a) implementation lags related to the state of readiness of several MDAs and key suppliers, and (b) expenditure containment measures; iii. Lower than expected increase in nominal income.	Although the payment of GCT on government purchases was anticipated, it appears that the state of readiness of some MDAs was not properly assessed and so was not factored into the performance target, which it should have.	The MOFP notes that the policy was announced in April 2014 and that collection was to start in June (Customs) and July (TAJ).The expectation was for the Tax Authorities and the MDAs to make the necessary arrangements for the collection of the tax. Forecasters cannot be held responsible for administrative matters.
SCT	7,110.7	8,790.8	-1,680.1	-19.1%	The negative outturn was impacted by the suspension of refining operations at the state-owned Petrojam oil refinery for maintenance work for approximately two months.	The maintenance work done on the Petrojam oil refinery ought to have been programmed into the projections if it was anticipated.	Overall there was no loss in revenue due to the suspension of refining at PetroJam as what was lost on the local side was made up from the international

							side.
Betting, Gaming & Lottery	1,931.9	2,601.0	-669.1	-25.7%	The shortfall emanated largely from the lower than expected receipts arising from legislative changes for the sector.	We find it difficult to assess the impact of the legislative changes in the performance target.	
Education Tax	14,194.2	13676.4	517.8	3.8%	The increase over budget was impacted by the same factors the resulted in higher PAYE collections (increased employment and compliance)	Similar to comments for PAYE	As above
SCT (Imports)	23,127.3	20492.7	2,634.6	12.9%	A significant contributor to the increase was collection of $1,100 mn from the JUTC related to the importation f buses and spare parts. Also contributing to the better performance was the increase in importation of refined petroleum and petroleum products, consequent on the closure of Petrojam refinery during August and September.	Similar to comment for SCT (local)	As above
Custom Duty	20,301.0	21,624.2	-1,323.2	-6.1%	In addition to the sharper than budgeted reduction in imports, Custom Duty and GCT were also impacted by lower than programmed collections from compliance/administrative improvements. The reduction of certain duty rates, including on motor vehicles, led to a larger than expected narrowing of the tax base as the lower duty rates were not accompanied by the expected increases in import volumes.		
GCT (Import)	44,259.6	45,588.5	-1,329.0	-2.9%		Comments made above on compliance/ administrative measures.	

Capital Expenditure	18,287.6	26,554.3	-8,266.7	-31.1%	This reduction reflected a slower pace of project implementation and restraint in government spending. Among the projects experiencing under-execution relative to budget are the Major Infrastructure Development Project (MIDP), rural Road Rehabilitation Project and the KMR Drainage Project.	This is usually a priority line for expenditure containment measures, as has been the case over the years.	
Loan Receipts	**139,211.3**	**83,493.1**	**55,718.2**	**66.7%**			
Domestic	25,540.6	35,744.9	-10,204.3	-28.5%	The GOJ borrowing needs from the domestic market were less than initially planned due to better than programmed fiscal deficit and additional external receipts.		
External	113,670.6	47,748.2	65,922.4	138.1%	Increase due largely to: • US$800mn raised on the international capital market in July 2014, compared to the budgeted amount of US$250mn; and • Unprogrammed receipt of US$140mn from the IMF for budgetary support. Loans from bilateral/multilateral agencies for capital programmes were less than budgeted due to the slower pace of project execution.	With respect to the receipt from the IMF, this ought to have been programmed since the GOJ has a facility with the IMF.	Normally under IMF programs, their proceeds go to the central bank. However, in light of the Multilateral (IBRD/IDB) financing not coming in as was programmed, before the third quarter, the IMF agreed to provide their loan funds to the Central Government accounts. It should be noted that since those receipts, the IMF has resumed sending their loan proceeds to the central bank.
Project Loans	5,816.1	10,529.2	-4,713.1	-44.8%			
Other	107,854.5	37,219.0	70,635.5	189.8%			

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