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PRESS RELEASE

The Government needs to do more to future-proof its finances.

The report, *Improving Financial Accountability and Transparency: Long-Term Financial Sustainability*, was issued today by the Office of the Auditor General (OAG).

The report is the third in a series on improving financial accountability and transparency and focuses on long-term financial sustainability. The report stresses the need for the Cayman Islands Government to adopt a more strategic approach to managing public finances in the longer term.

Sue Winspear, Auditor General, says, “Over the six-year period 2018 to 2023 the Government reported financial surpluses each year except for the two years of the COVID-19 pandemic. However, it is worrying that public sector spending increased at double the rate of revenues over the same six-year period, reaching over \$1.3 billion in 2023. This is unsustainable in the long term and raises critical questions about the Government's ability to meet future financial commitments.”

The report highlights the significant strain placed on government finances by rising healthcare expenditures and public sector pay costs.

Ms Winspear says, “Government expenditure on healthcare increased by 74 per cent over the six years to 2023, and now accounts for nearly a quarter of government expenditure. In addition, the population is growing. I have also estimated that within the next ten years, 29 per cent of Caymanians could be aged 65 or over. These population changes will further increase healthcare, and social welfare, costs in the longer term.” The Auditor General adds, “I am disappointed that there continues to be poor budgeting for tertiary healthcare. Despite highlighting this in 2020, significant overspending continues, requiring annual supplementary budgets.”

The Auditor General says, “Public sector pay increased more than 50 per cent over the six years, rising to \$650 million in 2023. Some of the increase is because of pay awards to better align salaries with the cost of living. The size of the public sector has grown by around 20 per cent over this period, which also accounts for some of the increase. Another reason for the increase is the cost of implementing Section 47 of the *Public Authorities Act* (PAA) but the total cost of implementing this is unclear. I have previously recommended that Government estimate and fund the cost of implementing the PAA and that they develop a pay strategy for the entire public sector and factor this into its budgets but neither has been actioned.”

The report identifies several risks and cost pressures that threaten the long-term financial sustainability of the Government. One of the risks highlighted is the financial implications of legislation, policies and strategies.

The Auditor General says, “I am concerned that the Parliament and decision-makers may have incomplete information on the financial implications of legislation and policies before approving them. While some financial information may be provided to Cabinet when considering draft legislation, bills presented to Parliament do not include financial implications.” Ms. Winspear continues, “I am pleased to note that the Government has published some long-term strategies and plans but the cost of implementing these is unclear. Because of this, it is unlikely that they are adequately funded or incorporated into budgets. This lack of clear financial planning could lead to financial pressures in the future or policies not being implemented.”

The report states that Government debt has increased significantly since 2021 and it has significant post-retirement liabilities.

The Auditor General says, “Government’s debt level and other long-term liabilities are rising and this will affect its financial sustainability and may affect its ability to deliver public services in the medium to longer term.” Ms. Winspear continues, “Government significantly reduced its debt levels in the 10 years to 2021. However, since then debt more than doubled to \$453 million by the end of 2023. The Government also plans to borrow a further \$150 million to pay for capital and infrastructure projects, such as schools. This could put strain on future finances. This could mean that future Governments may need to prioritise repaying debt and liabilities over delivering services and other policies and programmes in the longer term.” The Auditor General adds, “In addition, the Government has significant long-term liabilities for civil servants’ pensions and post-retirement healthcare insurance, totalling around \$2.7 billion. The Government will need to pay these liabilities over the short, medium and long terms. This needs to be carefully managed and planned for.”

The report states that while the Government plans its finances over the short and medium term, it does not sufficiently plan for its longer-term financial sustainability.

The Auditor General says, “The Government plans for and reports on finances for three years ahead. However, it does not do this for the longer term. Transparent financial reporting on long-term sustainability is crucial to maintaining public trust and ensuring that the Cayman Islands remains on a solid financial footing for years to come. Decisions made now may have serious financial consequences in the longer term. I have recommended that the Government start to publicly demonstrate and report that it is financially sustainable in the longer term.”

More information about the report can be obtained by contacting Sue Winspear at (345) 938-3201 or Angela Cullen, Deputy Auditor General (Performance Audit) at (345) 922-3220.

This report and the original OAG reports on which this report is based are available at www.auditorgeneral.gov.ky.

Notes to the editor:

1. The audit assessed the Government’s approach to planning for, monitoring and reporting on its long-term financial sustainability. The audit covered the period 2018 to 2023 and assessed the Strategic Policy Statement (SPS) and budget documents for 2024–2026. See Appendix 1 of the report for more detail on the audit.
2. The report is the third in the series *Improving Financial Accountability and Transparency*. The first report on *Improving Financial Accountability and Transparency: Budgeting* was published in December 2020. The second report *Improving Financial Accountability and Transparency: Financial Management and Reporting* was published in May 2021. Both reports can be found on the OAG’s website.
3. Some of the financial data used has limitations. The audit used financial information from the consolidated financial statements for the entire public sector (EPS). This has limitations and is not wholly reliable. The EPS financial statements

between 2018 and 2020 received an adverse audit opinion, and the financial statements for 2021 onwards were unaudited at the time of drafting this report. The audit also used information from the Government's unaudited quarterly financial reports.