Office of the Auditor General
CAYMAN ISLANDS

Improving Financial Accountability and Transparency: Budgeting

DECEMBER 2020

To help the public service spend wisely

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EXECUTIVE SUMMARY

The Cayman Islands Government (CIG or the Government) spent more than $707 million in 2019 on public services such as education, health care, national security, regulating industries and promoting the country, and on capital projects such as infrastructure and maintenance. The Cayman Islands is a tax-free jurisdiction, but CIG collects revenues to fund its services. These are mainly charges to the public (known as coercive revenues), such as import duties. In 2019, CIG collected a total of $862 million in revenues, of which $796 million (92 per cent) were coercive revenues.[1]

Budgeting, forecasting, monitoring and reporting are key financial processes in all organisations. The approved budget is a statement of intent about the planned use of public monies and is a vital control mechanism. Modern budgeting needs to better support performance management by integrating known financial outcomes with frequent re-forecasting of the budget and analysis of performance trends.[2]

Since 2001, the *Public Management and Finance Law* (PMFL) has provided the legislative framework for the budgeting, financial management and financial reporting activities of the entire public sector across the Cayman Islands. The PMFL has been amended 12 times since it was first introduced. Major changes were made in 2004 when it was amended to introduce accrual accounting, devolve financial functions to individual entities and Statutory Authorities and Government Companies (SAGCs), and introduce a system of output budgeting and reporting to fund and report on the detailed programmes and activities of core government. In 2017, the PMFL was further revised to change the financial year end to 31 December (from 30 June) and move to a two-year budgeting cycle.

In 2013, the Office of the Auditor General (OAG) published *Restoring Financial Accountability: A Time for Change?,* which concluded that the objectives of the PMFL had not been achieved and made a number of observations in relation to budgeting.[3] In our 2017 report *Major Capital Projects Follow Up*, we reported that the approvals processes for budgets and major capital projects were not aligned and better transparency was needed in relation to capital allocations and that budgets needed to better take account of the multi-year nature of capital projects.[4] We made a total of nine recommendations in relation to the budget framework and process in these two reports. Throughout this report we provide an update on the implementation of these recommendations and Appendix 2 provides a summary.

[1] Figures are based on the unaudited consolidated Entire Public Sector (EPS) financial statements of the Cayman Islands Government for the year ended 31 December 2019.
[2] *Improving Budgeting: Modernising the Cycle*, Chartered Institute of Public Finance and Accountancy, 2008
[3] *Restoring Financial Accountability: A Time for Change?* Office of the Auditor General Cayman Islands, June 2013
[4] *Major Capital Projects Follow Up*, Office of the Auditor General, October 2017

The OAG carried out a performance audit aimed at improving financial accountability and transparency. The overall objective of the audit was to assess how transparent and accountable the budgeting and financial reporting frameworks of CIG are. Specifically, we aimed to answer the following audit questions:

- Does CIG have an effective and transparent budgeting process?
- How effective is CIG at financial management and reporting?
- How well does CIG monitor, measure, and report on financial performance and long-term financial sustainability?

This report is one in a series of three and focuses on the first audit question above, about the budgeting process. It covers the progress made in updating the PMFL and the budgeting framework and processes since our 2013 and 2017 reports. The OAG plans to publish separate reports covering the other two audit questions.

The audit work was carried out prior to the COVID–19 pandemic, which has resulted in additional expenditure and significant changes to the 2020 budget. However, the findings, conclusions and recommendations in the report remain very relevant in the current circumstances.

KEY MESSAGES

The Government's budgeting and reporting framework has been in place since 2001 and has been amended a number of times since then, which has resulted in some improvements to the process. However, limited progress has been made in addressing the concerns raised in our 2013 and 2017 reports with none implemented as at the end of October 2020. Overall the budget process is not effective or transparent and there is scope for significantly more change to further simplify it to improve transparency and accountability.

Budget framework and policy

The budgeting framework is intended to be based on the New Zealand model, which is an outcomes-based approach. The Government sets Strategic Broad Outcomes (SBOs) and specific outcomes in its Strategic Policy Statement (SPS), which is prepared in the first phase of the budget process. However, the remainder of the budgeting framework is based on outputs. The budget documents specify a range of output measures but these are a mix of inputs, processes and outputs and it is difficult to determine how they will contribute to the SBOs. We found that there is no clear link between the output measures and the budgets established.

The Government has started to review and simplify the budget process, but it needs to do much more. In 2017, the PMFL was amended to enable the preparation and approval of budgets for two successive financial years from 2018 (covering 2018 and 2019), which aimed to reduce the amount of time that elected officials and civil servants devoted to the process. In early 2018, the Government established the Performance Budgeting and Reporting Working Group to develop and implement some major changes in the budgeting framework. However, we have been told that the group was put on hold awaiting the outcome of this audit and this group has therefore not yet met.

Budget scrutiny and transparency

Budget documents are too long and are not user friendly, which limits their transparency. The 2018–19 budget was over 2,700 pages and the 2020–21 budget documents are even longer, at over 3,000 pages. The budget documents are significantly longer than those of many other jurisdictions; for example, they are six times longer than those of Bermuda, which is a similar-sized jurisdiction. Providing more information does not necessarily improve transparency; too much information can make it difficult for readers to understand the Government's spending programme.

Budget estimates

There is scope for the Government to significantly improve its approach to budgeting for both expenditure and revenue.

Budget setting for recurring operating expenditure does not adequately take into account economic and socio–economic factors such as inflation, Gross Domestic Product growth, population growth and demographic factors that may affect estimated costs or the demand for services. It is also not clear if all legislative and policy commitments are adequately factored into budgets.

In 2017, we reported that there was a lack of alignment between the approvals processes for capital projects and budgets, and that the multi-year nature of capital projects was not clearly reflected in budgets.[5] We also reported that the Government did not have a long–term infrastructure investment plan to inform capital investment decisions. This is still the case.

The Government sets expenditure budgets that are below estimated revenue, to ensure that it accumulates surpluses or at least breaks even. This approach is prudent. However, in recent years the Government has collected significantly more revenues than it budgeted for – around $100 million a year (12–13 per cent more than budgeted for).[6] By the end of 2019 the Government had accumulated a surplus of around $617 million. It used some of this surplus to pay off debt in 2019. This accumulated

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[5] *Major Capital Projects Follow-Up*, Office of the Auditor General, October 2017

[6] In 2016-17 the revenue collected was $101 million (12 per cent) more than that budgeted for; in 2018 it was $90 million (13 per cent) more than budgeted for; and in 2019 it was $112 million (16 per cent) more than budget for. The 2018 and 2019 figures are based on draft EPS financial statements.

surplus will help the Government withstand the economic shock from the COVID–19 pandemic in 2020, which will result in significantly reduced revenue and increased expenditure in the short term.

It is important that budget estimates for revenues, operating expenditure and capital projects are as realistic and accurate as possible to ensure financial sustainability for the medium to longer term.

Budget changes

Budgets are tabled and debated in the Legislative Assembly, providing transparency as regards the initial budget. However, we found that changes made to the budget after its initial approval need to be more timely and transparent. For example, Cabinet may approve budget changes in exceptional circumstances, a mechanism that is used regularly, but the Legislative Assembly is not always informed of changes to budgets in a timely manner as is required by the PMFL.

Supplementary budgets are used to bring the final budget in line with actual expenditure. Historically these were not presented to the Legislative Assembly promptly, with multiple supplementary budgets being tabled at the same time and often years after the financial year to which they relate. We found that the tabling of supplementary budgets has improved in recent years.

KEY RECOMMENDATIONS

We acknowledge that changing the budget process is not easy and may take a number of years to complete. This report makes a number of recommendations that are aimed at improving the issues identified above to increase transparency and accountability and simplify the budget-setting process. Some of the recommendations are more straightforward than others and can be implemented relatively easily; some are more complex and will require careful planning. We encourage the Government to take a phased approach to introducing these recommendations.

The shift to outcomes-based approach is fundamental and we acknowledge that this will take longer to achieve. We therefore encourage the Government to implement Recommendation 1, which is aimed at shifting to an outcomes-based approach in time for the 2024–25 budget.

Most of our other recommendations are aimed at simplifying the budget process, documents and making them more transparent. These can be achieved more quickly and we encourage the Government to implement these recommendations for the next budget cycle for 2022–23. Appendix 3 provides a summary of all recommendations but these include the following:

- Amending the budgeting (and financial reporting) framework to remove the requirement to budget and account for executive and entity transactions separately.
- Convening the Performance Budgeting and Reporting Review Group as soon as possible to start the review and simplification of the budget framework and process.
- Reducing the volume of information in budget documents.

- Improving budget estimates by ensuring that they include assumptions for price and pay inflation, factor in the potential financial consequences of increases in demand for services, include multi-year budgets for capital projects, and update budgets based on up-to-date information.
- Improving the timeliness and transparency of budget approvals and changes.

We note that in October 2020, the Ministry of Finance and Economic Development (MFED) published its strategic plan for 2021 to 2025. This plan includes four strategic objectives for MFED over the five-year period. One of the strategic objectives is to 'strengthen Government's managing for results environment and culture', which has a specific action to modernise the budget system for the 2022–2023 budget.

GLOSSARY OF TERMS AND ABBREVIATIONS

Appropriation	The authorisation given by lawmakers (namely, in the Cayman Islands, the Legislative Assembly) for government to spend public funds, borrow money or take other actions covered by the financial management framework. When passed, appropriation laws contain the details of financial limits set by the lawmakers.
Budget Statement (BS)	A key budget document under the *Public Management and Finance Law* (PMFL), in which the Chief Officer of a ministry or portfolio lays out the expected outputs, the ownership performance targets, and equity investments or withdrawals in respect of the core government entity.
Coercive revenues	Revenues based on the Government's inherent powers to charge those within its jurisdiction; or revenues earned by core government using the coercive power of the state and for which no direct exchange of services occurs.
Core government	Ministries, portfolios and independent offices of the Cayman Islands Government. Ministries, portfolios and independent offices are referred to as core government entities.
Entire public sector (EPS)	Core government and all statutory authorities and government companies (SAGCs).
Entity transactions	Financial transactions and account balances that are within the control of a core government entity or SAGC.
Equity injection	Funding, usually in cash, which the Government (as ultimate parent) provides to any one of the public entities (being a subsidiary). The purpose for which it is provided (usually either operational subsidy or capital asset acquisition) may or may not be explicit in the appropriation law, but is usually discussed in the Budget Statement or Ownership Agreement of the recipient entity.
Exceptional circumstances	An event that occurs during a financial year that: (a) is beyond the control of the Cabinet; (b) could not have been reasonably anticipated at the time of enactment of the appropriation law for that financial year; (c) has an economic or social impact that is significant enough to necessitate executive financial transactions different from those planned for that financial year; and (d) requires the executive financial transactions to be entered into within a timescale that makes compliance with the procedure established by section 12 (of the PMFL) impractical.

Executive transactions	Financial transactions that are under the direct legal responsibility of Ministers, being administered by core government entities on their behalf (in contrast with entity transactions, which are under the direct legal responsibility of the heads of public entities, e.g. Chief Officers or Chief Executive Officers). These include coercive revenues, transfer payments, executive assets and debts (and the related financing expenses). Examples of executive assets are infrastructure, heritage assets and other assets that are generally for the welfare of the entire country, in contrast with assets for the specific use of public entities to deliver their services (such as a hospital building). Other kinds of executive transactions are defined separately.
Net lending	The amount of borrowing, less the repayment of principal during a specific period.
Non-governmental output supplier (NGS)	An entity not owned by the Government that has been identified and contracted to deliver outputs through a Purchase Agreement, for example, overseas hospitals, sports associations and private schools.
Outputs (detailed)	Services delivered by public entities or other organisations that are paid for (purchased) by the Government (as Cabinet).
Output groups	Several outputs put together to form one appropriation line.
Ownership Agreement (OA)	A key budget document under the PMFL, which specifies SAGC ownership performance targets (SAGC outputs are documented in Purchase Agreements). Other required information includes strategic goals and objectives, forecast financial statements, and equity investments or withdrawals, dividends, loans and guarantees from the Government.
Plan and Estimates (P&E)	A key budget document under the PMFL, presented by the Minister of Finance to the Legislative Assembly. It summarises the specific outcomes that Cabinet is seeking to influence, specifies appropriation lines to be included in the appropriation bill, and presents forecast financial statements. The P&E also explains how the outcomes, forecast financial statements and appropriation lines link with the Strategic Policy Statement (SPS).
Public entity	Any one of the entities responsible for separate financial accountability and reporting in the Cayman Islands Government (i.e. a ministry, portfolio, independent office, statutory authority or government company).
Purchase Agreement (PA)	A key budget document under the PMFL in which each SAGC lays out the outputs to be delivered by it or a non-governmental output supplier. (Outputs of core government entities are documented in the Budget Statement).
Statutory Authorities and	Any one of the entities owned by the Government that are not in core government. Statutory authorities have been created by specific laws (e.g., the

Government Companies (SAGCs)	Water Authority was created under the *Water Authority Law*), while government companies have been organised under the *Companies Law* (i.e., similar to any company operating and present in the Cayman Islands, such as the Cayman Islands Stock Exchange Ltd.).
Strategic Policy Statement (SPS)	A key budget document under the PMFL. The SPS is prepared first and lays out, among other things, the Government's broad and specific outcomes, economic forecasts and core government financial targets, and how they comply with the principles of responsible financial management, the total amount of executive expenses and the approximate amounts allocated to each Cabinet member, including the Offices of the Auditor General and Ombudsman.
Supplementary appropriations	Appropriations approved by the Legislative Assembly after the original appropriation law was approved, to increase or decrease the amounts authorised for one or more budget lines
Transfer payments	A classification of government expenditure that is usually a benefit given by government to individuals or entities without the expectation of a good or service in return. For example, social assistance payments are made without the expectation of a corresponding good or service.

INTRODUCTION

1. Governments across the world set budgets that plan how their available resources (revenues) are to be used to deliver public services. These budgets are generally approved by the legislature and enacted through laws. It is therefore essential that the information provided in budget documents is easily accessible, easy to understand, timely and reliable to ensure effective scrutiny that governments are held to account for actual results.

2. The COVID-19 pandemic in 2020 has resulted in significant additional expenditures to combat the disease and on measures to prop up and rebuild the economy and its people. These exceptional expenditures and unplanned changes mean that good budgeting and financial management are more important than ever. Our audit was carried out prior to the pandemic but the findings, conclusions and recommendations could not be more relevant.

3. The Cayman Islands Government (CIG) is made up of 13 core government entities, Judicial Administration and three independent offices, one of which is the Office of the Auditor General (OAG).[7] For the purposes of budgeting and accounting these 17 bodies are collectively called core government. CIG also wholly owns 25 Statutory Authorities and Government Companies (SAGCs). Core government and SAGCs together constitute the entire public sector (EPS). Each core government entity, independent office and SAGC is an individual reporting entity.

THE BUDGETING PROCESS IS SET OUT IN THE PUBLIC MANAGEMENT AND FINANCE LAW

4. The Government's budgeting framework is prescribed by the *Public Management and Finance Law* (PMFL). The PMFL was first enacted in 2001, replacing the *Public Finance and Audit Law*. The PMFL covers the entire budget process, the powers and limitations of different entities and officials, and reporting requirements. It also provides for an internal audit services for government headed by a Director of Internal Audit, and independent audit of all core government entities, independent offices and SAGCs by the Auditor General.[8]

[7] Core government entities include Ministries, Portfolios, Judicial Administration and three independent offices, including the Office of the Auditor General, Office of the Ombudsman, Office of the Director of Public Prosecutions. In May 2019, CIG created the Ministry of International Trade, Investment, Aviation and Maritime Affairs. In January 2020, an additional independent office, the Office of the Police Commissioner (known as The Royal Cayman Islands Police Service) was created.
[8] The Office of the Auditor General is subject to independent audit by a private firm of accountants (currently Baker Tilly).

5. After the introduction of the PMFL in 2001, the Government embarked on a financial management initiative, which resulted in the adoption of many (but not all) features of the public finance model in New Zealand. This initiative also led to the PMFL being amended in 2004 to:
   - introduce a system of output budgeting and reporting, linked to government activities and programmes with defined measures for each;
   - decentralise the finance function by establishing each ministry, portfolio and office as separate reporting entities (prior to this, core government was a single reporting entity); and
   - budget, account for and report entity and executive transactions separately.[9]

6. The PMFL requires a budget to be prepared. From 2018, a 'budget period' consists of two financial years.[10] The PMFL specifies five phases in preparing the budget; this requires that five different budget documents are prepared to support the development of an appropriation bill and appropriation law (Exhibit 1). The five budget documents include the Strategic Policy Statement (SPS), the Budget Statements (BS), the Purchase Agreements (PA), the Ownership Agreements (OA) and the Plan and Estimates (P&E). The PMFL also specifies that a budget timetable is required by 1 April and further indicates who is responsible for preparing, reviewing and approving the budget information at each of the stages.[11]

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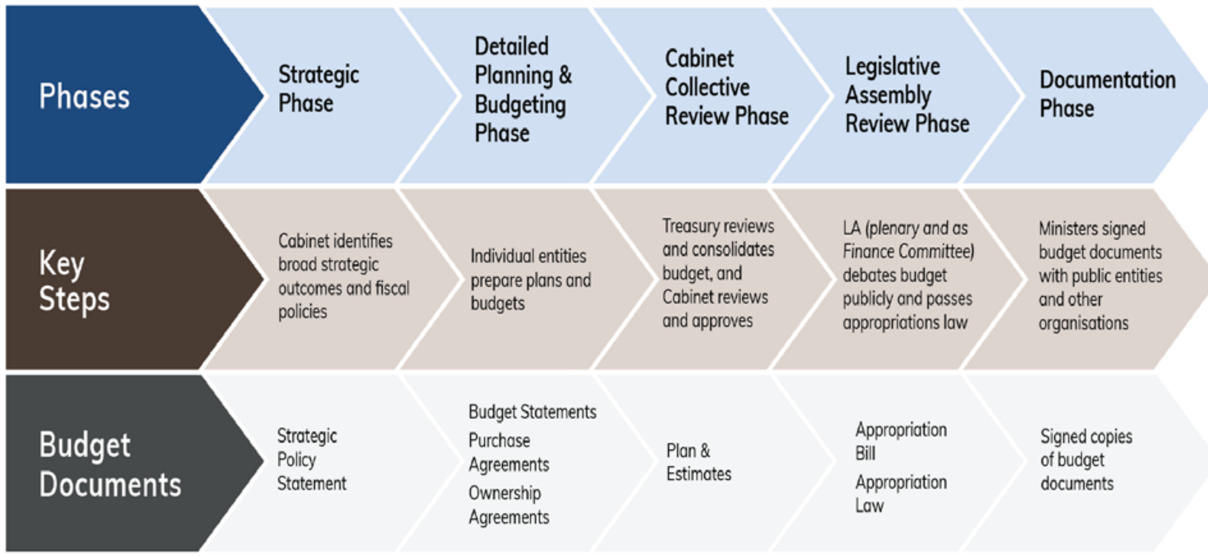
[9] See the Glossary for definitions of entity and executive transactions.
[10] Prior to 2016–17, each budget period was for a single year ended 30 June. From 2016–17, the financial year changed to the period ending 31 December. The period 2016–17 was a transition year and covered an 18-month period from 1 July 2016 to 31 December 2017. From 2018, financial years run from 1 January to 31 December.
[11] This is the case unless it is an election year (in which case the date is defined as two months after the date of the general election).

Exhibit 1 – The five phases of the budget process



Source: OAG analysis of PMFL sections 17 to 22.

ABOUT THE AUDIT

7. The last time that the OAG reported on the Government's approach to budgeting, financial management and reporting was in 2013. Our 2017 report *Major Capital Projects Follow Up* also highlighted some weaknesses in the budgeting process. We carried out this audit to review the progress of the Government's improvement in budgeting since then.

8. The overall objective of this audit was to assess how effective CIG is at budgeting, financial management and reporting to enhance transparency, accountability and long-term financial sustainability. The audit approach for the audit was system–oriented, and the audit sought to answer the following audit questions:

   - Does CIG have an effective and transparent budgeting process?
   - How effective is CIG at financial management and reporting?
   - How well does CIG monitor, measure, and report on financial performance and long-term financial sustainability?

9. In May 2020, the OAG decided to report on each of these three issues separately under a series of reports on improving financial accountability and transparency. This report focuses on the budgeting process (the first audit question) and makes recommendations aimed at improving the budgeting framework and process. The OAG will publish two further reports in this series covering financial management and reporting and long–term financial sustainability.

10. The audit focused on the Ministry of Finance and Economic Development (MFED) and its coordination role over the entire public sector. The audit covers the five-year period from 2014–15 to 2019.[12] Where appropriate we also reviewed and commented on the 2020–2021 budget documents. The approach to the audit included:

- Conducting interviews with key stakeholders, including MFED staff.
- Reviewing documents, including legislation, guidance, budget documents, and performance expectations for significant government programmes.
- Analysing financial and performance information.
- Assessing CIG's implementation of previous audit recommendations and its specific steps to improve the transparency of the budget process.

11. More information about the audit, including audit criteria, approach and methodology, can be found in Appendix 1 of this report.

12. The report is divided into four sections:

- Budget Framework and Process
- Budget Scrutiny and Transparency
- Budget Estimates
- Budget Changes.

[12] The audit covers five financial years: 2014–15 and 2015–16 covered 1 July to 30 June; the financial year 2016–17 covered the 18-month period from 1 July 2016 to 31 December 2017; and the financial years 2018 and 2019 covered the calendar year from 1 January to 31 December.

BUDGET FRAMEWORK AND PROCESS

13. The Organization for Economic Co-operation and Development (OECD) states that "The budget is a central policy document of government, showing how annual and multi-annual objectives will be prioritized and achieved . . . the budget aims to turn plans and aspirations into reality. More than this, the budget is a contract between citizens and state, showing how resources are raised and allocated for the delivery of public services."[13]

14. It is important therefore that the budget process is planned in such a way that budget documents clearly demonstrate the alignment between the Government's strategy and priorities and its funding.

THE STRATEGIC POLICY STATEMENT SETS THE FISCAL STRATEGY AND PRIORITIES

15. The budget process begins when the Cabinet produces a Strategic Policy Statement (SPS) as part of the Strategic phase. The PMFL requires that the SPS be presented to the Legislative Assembly by a Cabinet Minister by 1 May (in the year before a two-year budget period starts).[14] Through the SPS, the Government establishes the Strategic Broad Outcomes (SBOs), sets out its fiscal strategy for the coming three years and sets clear, high–level fiscal parameters, including revenue and expenditure targets for core government and the profits expected from SAGCs. [15]

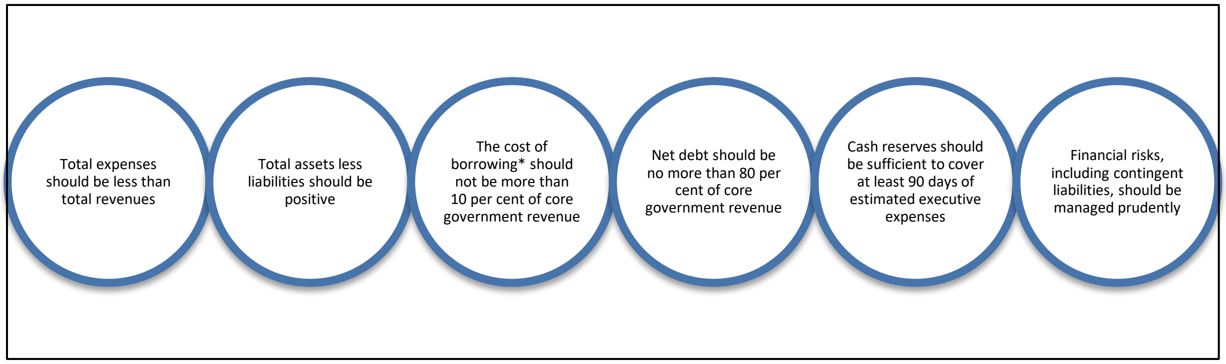
16. The SPSs include the following information as required by the PMFL:

- SBOs and specific outcomes;
- economic forecasts for the next three years;
- total financial targets for core government, including revenue, expenses, surpluses/deficits, borrowings, net worth and cash flow information;[16]

[13] *Recommendation of the Council on Budgetary Governance*, Public Governance and Territorial Development Directorate, OECD, 18 February 2015.
[14] In October 2020 the *Legislative Assembly (Management) Act* was passed, which changed the status of the Legislative Assembly to a separate entity and renamed it Parliament. It was brought into force on 3 December 2020. All references in the report are to Legislative Assembly as that was the body in place at the time of the audit and drafting the report; where appropriate, recommendations refer to the Parliament.
[15] The Government also uses the term 'broad strategic outcomes' as well as 'strategic broad outcomes 'in its SPS. The term used in the PMFL is 'broad outcomes' (section 23).
[16] Indicators for prudent financial management were introduced as part of the Framework for Fiscal Responsibility (FFR) that was agreed between the Cayman Islands Government and the UK Government in November 2011 and incorporated into the 2012 amendment of the PMFL (Schedule 6).

- an explanation of how the financial targets accord with the principles of responsible financial management (Exhibit 2);[17] and
- the total amount of appropriation planned for each Minister or equivalent, as well as core government equity investments, executive assets and loans.

Exhibit 2 – Principles of responsible financial management



*Note: * The cost of borrowing is calculated for each financial year as the sum of interest, other debt servicing expenses and principal repayments*

Source: OAG analysis of PMFL sections 17 to 22.

17. Since 2014–15, the Government has also committed to meeting the following fiscal guidelines in its SPS:
    - no new borrowing;
    - no new fees or taxes levied on the public; and
    - compliance with principles of responsible financial management and the Framework for Fiscal Responsibility.

18. In preparing the SPS for 2020–2021, the Government changed the process slightly to require more detailed information from entities than previously. We understand that this was because the Government wanted to have more detailed information to inform its decision making when developing the SPS, rather than waiting until the detailed planning and budgeting phase for this information.

[17] We will report on the achievement of the financial targets in our second report on *Financial Management and Reporting*.

THE BUDGET FRAMEWORK FOCUSES ON OUTPUTS RATHER THAN ON OUTCOMES

19. In 2013, we reported that the links between the SPS and outcomes desired by the Government and the outputs included in the budget statements were unclear and disjointed. This is still the case. Despite the Government setting Strategic Broad Outcomes (SBOs) and specific outcomes in the SPS, the budgeting framework is focused on outputs and core government entities and SAGCs are funded for the outputs that they deliver. Delivering outputs will not necessarily lead to the achievement of improved outcomes.

20. It is important that money and other resources are directed towards achieving the Government's strategic priorities and outcomes; and that appropriate measures are put in place to demonstrate the progress towards achieving these.

21. During the second budgeting phase - Detailed Planning and Budgeting - each public entity prepares detailed budget information in the context of the approved SPS. This information forms the following three budget documents, which are later summarised in the draft bill for an Appropriation Law:
    - A budget statement (BS) is prepared by each core government entity.
    - An ownership agreement (OA) is prepared by each SAGC.
    - A purchase agreement (PA) is also prepared by each core government entity for the outputs it administers that are planned to be purchased by Cabinet from SAGCs and non-governmental suppliers of outputs (NGS).

THE SPECIFIC OUTCOMES LINKED TO THE STRATEGIC BROAD OUTCOMES IN THE STRATEGIC POLICY STATEMENT ARE ACTUALLY OUTPUTS AND ACTIVITIES

22. The Government outlined eight SBOs in its SPS for 2018–19, which provide strategic direction for the other budgeting phases and cover a wide range of sectors including the economy, health and education.[18] The SPS also sets out specific outcomes for each SBO. Exhibit 3 provides a summary of the eight SBOs for 2018–2019 and the first three specific outcomes for each in the order they were presented.

[18] The SPS for 2020–21 has the same eight Strategic Broad Outcomes but the specific outcomes for each are different.

Exhibit 3 – Strategic Broad Outcomes and examples of specific outcomes in the 2018–19 SPS

Strategic Broad Outcome	Specific Outcomes
SBO 1: A Strong Economy to Help Families and Businesses	• Increase support to Cayman finance • Implement a new National Tourism Plan • Complete improvements to the airport
SBO 2: Achieving Full employment – Jobs for All Caymanians	• Create a new Human Resources Department • Increase transparency and fairness of work permit and immigration • Implement changes to job advertising requirements
SBO 3: The Best Education Opportunities for All Our Children	• Complete new John Gray High School • Extend use of technology in schools • Improve and expand primary school facilities
SBO 4: Reducing Crime and Fear of Crime	• Invest in more, better-trained frontline police officers • Develop and implement programme for young people at-risk • Reduce recidivism by improving rehabilitation and employment support
SBO 5: Access to Quality, Affordable Healthcare	• Extend partnership arrangement between health providers • Utilise new procurement process to reduce drug and equipment cost • Review and put forward needed changes in health insurance regulations
SBO 6: Stronger Communities and Support for the Most Vulnerable	• Advance changes needed under the Disabilities Law • Implement the immediate priorities in the Older Person's Policy • Reform social assistance programmes and agencies delivering them
SBO 7: Ensuring Caymanians Benefit from a Healthy Environment	• Implement Integrated Solid Waste Management Strategy • Continue to ensure the beach access is maintained • Purchase more land than to safeguard beach access and to create public parks and open spaces
SBO 8: Stable, Effective and Accountable Government	• Implement E-Government Programme • Enhance the security of data and systems across Government • Create and implement a cross-government efficiency programme, building on Project Future

Source: SPS 2018–19

23. Our review of the SPS has found that while the SBOs are written as high–level outcomes it is not clear how the Government expects to achieve these. The SPS specifies a set of specific outcomes for each SBO, but these are generally worded as a list of activities or projects rather than outcomes. It is not, therefore, clear how the delivery of these activities and projects will contribute to the overall SBO. This, in turn, will make it difficult for core government entities and SAGCs to demonstrate how their activities contribute to outcomes.

24. For example, the specific outcomes set for SBO 3: The Best Education Opportunities for All Our Children focus on improving facilities that do not in themselves contribute to a better education. It would be better to set specific outcomes that relate to educational attainment such as increasing the overall level of educational achievement levels of school children, reducing the gap in educational attainment between the highest and lowest performers, and improving the Cayman Islands' standing when benchmarking internationally.

25. We also found that the SPS is not always clear about what the Government expects for each of the SBOs, including what success looks like or setting target levels of achievement. For example, SBO 2: Achieving Full Employment – Jobs for All Caymanians – has a clear target for zero unemployment. However, one of the specific outcomes set for SBO 1: A Strong Economy to Help Families and Businesses is the completion of improvements to the airport. However, this is an activity, not an outcome. It would be better to specify what outcomes the Government expects to achieve from investment in improving the airport. These outcomes might include increasing the proportion of stayover tourists arriving by air or increasing the contribution tourism makes to the overall economy.

IT IS NOT CLEAR HOW AGREED OUTPUTS CONTRIBUTE TO OUTCOMES

26. The PMFL requires that core government entities' Budget Statements and SAGCs' Purchase Agreements include detailed information on outputs, including the SBO to which they relate. However, our analysis of the Budget Statements and Purchase Agreements has found that it is difficult to see a clear link between the outputs and the SBOs. Exhibit 4 highlights some of the weaknesses we found, including unsuitable performance indicators; a lack of, or weak, linkages between outcomes and indicators; and a focus on operational activities rather than on the outcome or contribution to be made to the SBOs.

Exhibit 4 – Examples of weaknesses in the link between SBOs and output measures set for core government entities and SAGCs

Public body	Strategic Broad Outcome	Output	Some key output measures	Alignment of output measures to SBO
Judicial Administration Core government entity (Budget Statement)	Reducing Crime and the Fear of Crime	JUD 2: Collection of Revenue 2018: $0.6m 2019: $0.6m	Number of receipts issued: 18,000–24,000 100% quality measures targeted for: • Amount receipted equates to funds received • Judicial Financial Stamp applied to original receipt • Funds received in JEMS posted to IRIS.	Output measures are operational activities and detailed controls. It is not clear how issuing receipts or posting to a software system contribute to the SBO of reducing crime and the fear of crime.
Tourist Attraction Board SAGC (Purchase Agreement)	A Strong Economy to Help Families and Businesses	TBD1: Management of Pedro St. James National Historical Site 2018: $0.9m 2019: $0.9m	• Number of historical material and artefacts preserved: 190-200 • Number of historical buildings and memorials maintained: 4 • Number of social events organised: 25-40 • Collections and exhibits arranged/maintained: 3 • Hours of administration of Visitor Centre and Gift Shop: 3,000-3,100 • Hours of inspection and maintenance of landscaping: 1,750-2,000	Output measures are a mix of activities and management and maintenance of assets. The output measures relate to the tourism sector, which is one of the Government's economic priorities. However, it is not clear how these output measures will specifically contribute to the SBO of a strong economy to help families and businesses.
Cayman Finance Non-governmental supplier of outputs (Purchase Agreement)	A Strong Economy to Help Families and Businesses	CF 1: International Relations 2018: $0.3m 2019: $0.3m	• Number of research projects: 1 • Number of international industry stakeholders meetings: 8-15	Output measures are operational activities. It is not clear how a research project and stakeholder meetings will directly contribute to the economy.

Source: OAG analysis of 2018–2019 Budget Statements and Purchase Agreements

BUDGET STATEMENTS FOR CORE GOVERNMENT ARE INCONSISTENT AND NOT USER-FRIENDLY

27. Core government entities' Budget Statements are expected to provide information about the entity and its operations, including details about the outputs it proposes to deliver for the budget period. In particular, section 43 of the PMFL outlines that the Budget Statements should include:
    - details of the outputs it proposes to deliver to Cabinet;
    - the nature and scope of their activities;

- strategic goals and objectives for the current year and the next two years (called strategic ownership goals on actual budget statements);
- ownership performance targets, composed of 22 financial indicators such as ratios, details of capital expenditures and entity risk; and
- forecast financial statements, and details of the proposed capital activities.

28. The Budget Statements provide some useful information about the entity, but overall they are not consistent across core government entities. However, in our view, some of the information required by the PMFL does not add significant value for budget users and decision-makers, such as ownership performance targets and forecast financial statements. This is discussed later in the Budget Scrutiny and Transparency chapter.

INFORMATION INCLUDED ON THE NATURE AND SCOPE OF ACTIVITIES IS NOT CONSISTENT ACROSS ENTITIES

29. Core government entities include information about the departments within the entity in the nature and the scope section of their Budget Statements. However, we found that the information presented was not consistent. Some entities provide a lot of detail and others do not provide enough information for a sufficient understanding of the entity. For example, MFED's Budget Statement for 2018–19 included a whole page about the Central Procurement Office but less information was provided on the Customs Department, which is a more complex department.

30. We also found that key changes to the organisational structure of an entity, such as departments being moved out or new departments being created was not always included. For example, the Cabinet Office's Budget Statement did not mention that the UK Office was transferred into it in 2018 or that in the same year, a new department – the Department of Internal Communication and Engagement – was created. This information may be excluded because the budgets focus on outputs, but it is essential for budget users and decision-makers, as it allows them to understand what inputs are needed for the entity to deliver outputs and achieve outcomes.

THE QUALITY OF STRATEGIC GOALS AND OBJECTIVES VARIES

31. The Budget Statements are expected to include the entity's strategic goals and objectives for the three–year planning horizon, and align the activities and projects of the entity to its outputs and financial budget. However, we found that most activities and projects are not aligned to outputs and financial budgets. This makes it difficult to see how the entity's operations are contributing to the Government's Strategic Broad Outcomes.

32. We found that there was scope for improvement in the setting of strategic goals and objectives. For example:

- The quality of strategic goals and objectives varies. Some are well written; for example, the Ministry of Commerce, Planning and Infrastructure has clear goals and objectives but has no targets set.
- Structural changes are not consistently included as goals and objectives by entities. We found that Portfolio of the Civil Service had included the creation of the Legislative Assembly as an independent core government entity as a strategic goal. However, our review of the 2018–2019 budget statements found that although one of the specific outcomes in the SPS was to create a new Human Resources Department, the Ministry of Human Resources and Immigration's (now Ministry of Employment and Border Control) did not include this as a strategic ownership goal in its Budget Statement. This is despite the establishment of the National Human Resources Department being included as an output (MHA 2) and specific funding being allocated for this.
- Many strategic goals were generic. For example, the Ministry of Health, Environment, Culture and Housing's 2018–19 goals for the Mosquito Research and Control Unit (MRCU) state that they will be achieved by improving the efficiency and effectiveness of the MRCU through a restructuring of the organisation. However, the goals do not state how this will be achieved or what this improved efficiency or effectiveness will look like.
- Some goals were expressed in terms of functions, which make performance measurement and improvement difficult. For example, the Cabinet Office has an objective to represent and protect the interest of the Government and the people of the Cayman Islands. However, there were no outcome measures in place to demonstrate how this would be achieved.
- Generally, goals and objectives should be strategic (customer focused and outcomes oriented) rather than operational (measures of activity). However, we found a number of examples of goals and objectives that were operational. For example, the Ministry of Community Affairs had set goals on the recruitment and training of shelter managers and foster families, and to maintain employee performance.
- Almost all of the goals and objectives did not have measures and for those that have measures, the measures were not clear. For example, the Ministry of District Administration, Tourism and Transport included a goal to plan for the development and enhancement of airports and seaports, but it is not clear how this goal will be measured.

THE PLAN AND ESTIMATES NEEDS TO PROVIDE BETTER INFORMATION FOR BUDGET SCRUTINY AND DECISION MAKING

33. The Ministry of Finance and Economic Development (MFED) collates information from the Budget Statement (BS), Ownership Agreements (OA) and Purchase Agreements (PA) and consolidates this into the Plan and Estimates (P&E). The P&E also includes information that is not presented elsewhere, such as executive financial transactions. The PMFL requires that the P&E includes the following information:
    - a summary of the specific outcomes and the plans to achieve them;
    - information on output groups, transfer payment categories, other executive expenses, equity investment, capital withdrawals, capital expenditure on executive assets, disposals of executive assets, loans and legislative measures;
    - an explanation of how the specific outcomes relate to the SPS;
    - forecast financial statements for the EPS and the core government (discussed in the Budget Scrutiny and Transparency chapter);
    - an explanation of how core government forecast financial statements align with the financial targets in the SPS and the principles of responsible financial management; and
    - a schedule of appropriations.

34. To ensure that the P&E is useful to decision–makers, it needs to include basic information to help users understand the budget amount requested and what it is intended to be used for.

THE PLAN AND ESTIMATES DOES NOT SET OUT THE HOW THE GOVERNMENT PLANS TO ACHIEVE SPECIFIC OUTCOMES

35. The PMFL requires that the Government outlines in the P&E the manner in which it intends to achieve specific outcomes. We found that this is not being done as specific outcomes are merely repeated in the P&E with no links to the budget. The P&E provides some financial commentary but does not make clear how outcomes link with action plans in the wider public sector. Without this information, it is difficult to establish how budget line items (outputs, transfer payments, investments and other appropriation lines) and the Strategic Broad Outcomes, specific outcomes and entities' strategic ownership goals fit together.

THE PLAN AND ESTIMATES COULD BE IMPROVED BY PROVIDING BETTER INFORMATION ON SUBSIDIES AND BUDGETS FOR DEMAND-LED SERVICES

36. The Government provides subsidies to some SAGCs to deliver essential public services. This is reasonable, but it is important for decision–makers to understand the value and nature of such

subsidies. It is also essential for decision–makers to have sufficient information to understand the budgets needed to deliver demand-led services such as social assistance programmes.

37. Our review of the P&E for 2018–2019 (and 2020–2021) identified some important information that was not included which could have helped decision–makers and could have improved transparency. These include the following examples:

    - The Government provides funding to Cayman Airways Ltd. (CAL), the national airline, which is a Government–owned company. CAL's operations are funded through two outputs: CAL 1 – strategic domestic air services, which specifies the agreed outputs as a mix of one–way flights between the three domestic islands covering a range of passenger numbers; and CAL 2 – strategic tourism, regional and core air services, which specifies nine United States and regional gateways to be served and a range of passenger numbers. For each of the financial years 2018 and 2019, the appropriations were $3.1 million for CAL 1 and $14.9 million for CAL 2. However, the budget documents do not specify if all (or only some) flights provided by CAL throughout the year are being purchased; what the level of subsidy (if any) is for flights; or what the consequences are if the agreed number of flights is not delivered.
    - The Government provides social assistance payments to indigent families through transfer payments TP 41 and TP 43. The combined budgets for TP 41 and TP 43 were $8.9 million in 2018 and $10.1 million in 2019. We found that the explanatory information in the P&E provided the target number of individuals to be assisted, along with prior year information but there was no information on maximum assistance payments.

Recommendation 1: The Government should amend the budgeting framework to shift the focus to an outcomes–based approach. In doing this, it should ensure that:

(a) The Government's Strategic Broad Outcomes and specific outcomes in the Strategic Policy Statement are clearly aligned.

(b) Specific outcomes in the Strategic Policy Statement are clearly focused on outcomes rather than activities, projects or outputs.

(c) Success measures for Strategic Broad Outcomes and specific outcomes are identified that allow for performance monitoring and reporting on their achievement.

(d) Public entities' strategic ownership goals clearly link with Government's Strategic Broad Outcomes and specific outcomes.

(e) Budgets clearly align with the Strategic Broad Outcomes and specific outcomes.

(f) The Plan & Estimates clearly demonstrates to decision makers the subsidies to SAGCs and budgets for demand–led services and how these will contribute to the Strategic Broad Outcomes.

BUDGETING FOR EXECUTIVE AND ENTITY TRANSACTIONS SEPARATELY REDUCES TRANSPARENCY

38. As reported earlier, CIG adopted the New Zealand model in 2004. The current version of the New Zealand model separately identifies entity and executive financial transactions but they are budgeted and accounted for together. However, CIG applies this differently from New Zealand. In 2004, the PMFL was amended to introduce the requirement to distinguish between entity and executive transactions. Chief Officers of core government entities are directly responsible for entity transactions. Ministers or equivalent are legally responsible for executive transactions although in practice these are administered by the relevant core government entity.

39. In 2013, we reported that managing and classifying executive and entity transactions separately adds unnecessary complexity as each core government entity is required to keep two sets of financial records. We also raised concerns that this approach created risks for governance and accountability as executive transactions may not be subject to the same controls as entity transactions and the lines of accountability between Ministers and Officers were sometimes blurred in relation to executive transactions. We recommended that the Government remove the entity-executive split in the budgeting and accounting framework. This has not yet happened.

40. Executive transactions account for significant amounts, including the majority of revenues and around 15 per cent of total government expenses. Executive transactions are collected and incurred by a wide range of core government entities and include the following:[19]
    - Coercive revenues (93 per cent of core government revenues) that relate to a range of charges to citizens and businesses, for example import duties.
    - Executive expenses, which include transfer payments such as social assistance and scholarships (4.0 per cent of all government expenses), support for non–governmental suppliers of outputs (4.2 per cent), other executive expenses, including salaries of constitutional officers, and contributions to international organisations (1.2 per cent), and finance costs (3.6 per cent).

41. Core government entities produce information on executive transactions that they administer, including coercive revenues, executive expenses, and debt. However, core government entities' budgets include only the costs of administering government programmes and activities. They do not include estimated costs of the executive transactions. Executive transactions are budgeted for (and reported) at the EPS level and only appear in the Plan and Estimates (P&E). Budgeting (and accounting) for executive and entity transactions separately makes it difficult for budget users and decision–makers to have a complete picture of the planned cost of all of the Government's programmes and activities and the revenues available to pay for these.

[19] The percentages presented here are based on the figures on page 384 of the Plan & Estimates for the EPS 2018 budget year.

42. The separation of executive and entity transactions also means that the direct cost of government programmes and administering them are not joined up in the P&E. The current approach is complex and disjointed, which affects both preparers and users of budget information. For example, to understand the entire budgeted costs for social assistance programmes, which are administered by the Needs Assessment Unit, budget users need to review two separate budget document and extract the relevant information to identify the total proposed budget and form a view on its reasonableness. Budget users need to review the P&E and identify the relevant appropriation lines for social assistance programmes listed under the Minister of Community Affairs and then review the Budget Statement for the Ministry of Community Affairs and determine which outputs relate to the cost of administering social assistance programmes. Budget users must ensure that they have identified the related outputs and output groups. It would be much simpler and more transparent to present all of this information together in budget documents so that users and decision–makers could see the full cost of government programmes and activities.

43. The executive – entity split also leads to inconsistent budgeting for (and reporting of) physical assets and depreciation costs for core government entities. While most government buildings, such as schools, are entity assets, the land that they are located on is usually an executive asset. This means that the total value of a government asset is not budgeted for (or reported) together except at the EPS level.

Recommendation 2: The Government should amend the budgeting (and financial reporting) framework to remove the requirement to budget and account for executive and entity transactions separately.

THE SYSTEM IN PLACE FOR PREPARING BUDGETS IS OVERLY COMPLEX AND CUMBERSOME

44. The Treasury Department, within MFED, requires that public entities provide information as part of the budget process. However, there is scope to improve both the information and the format in which it is requested.

45. MFED provides budget templates to Chief Financial Officers (CFOs). The templates include two Excel spreadsheets and a Word document. However, the templates are often provided shortly before budget submissions are due, which means that many CFOs have developed their own ‘shadow’ templates to complete the necessary work in advance of the submission date. This approach causes duplication of effort and creates risks of errors.

46. The process for preparing entity budget submissions is based on a series of Excel spreadsheets that are not integrated or easy to use. The two Excel spreadsheets are not linked (through the use of formulae or hyperlinks) and information therefore has to be entered separately into each of them. The same information also has to be manually entered into Word documents as part of the budget submission. This approach creates significant duplication of effort and increases the risk of errors.

47. Instead of using Excel spreadsheets and Word documents, MFED should consider whether shifting to a bespoke budgeting package would be a more efficient way of preparing budgets.

Recommendation 3: The Ministry of Finance and Economic Development should update and simplify the process for preparing and submitting budgets by:

- **(a) Amending the budget templates to ensure that information needs to be entered only once to reduce duplication of effort and the risk of errors.**
- **(b) Issuing templates well in advance of the date budget submissions are due.**
- **(c) Providing sufficient guidance and training on how to complete budget templates.**

CHANGES ARE PLANNED TO SIMPLIFY THE BUDGET FRAMEWORK BUT PROGRESS HAS BEEN SLOW

48. In January 2014, MFED established a committee to review the PMFL, including responding to some of the recommendations that we made in 2013. In February 2015, the committee issued its report to the Minister of Finance and Economic Development. The report contained a number of recommendations to improve and simplify the budgeting process. Some of these recommendations were actioned in 2015 (5 recommendations implemented) and 2017 (9 implemented) when the PMFL was amended; these included the shift to multi–year budgeting. However, a number of recommendations were not implemented at that time, including the following:
    - Abolishing the distinction between entity and executive financial transactions.
    - Implementing multi–year capital budgeting.
    - Implementing input budgeting (and discarding output budgeting).

49. In early 2018, MFED established a new group – the Performance Budgeting and Reporting Working Group – to develop and implement major changes in the budgeting framework. The terms of reference for the group include the three recommendations above, that were not previously implemented, and the following additional issues:
    - Implementing input budgeting accompanied by measurable performance targets (outcomes).
    - Simplifying budget documents, including the content of the SPS.

50. This will be a major step in further simplifying the budget process. The group was originally intended to start work in May 2018. However, we were told that the group was put on hold awaiting our audit report and has therefore not yet met. It is important that this group start meeting as soon as possible.

51. We noted that the group's members are mostly senior officials in government, including the Auditor General and the terms of reference stated that the group would meet weekly. This may not be the best use of senior officials' time. It is important therefore that the group is appropriately supported to ensure that it is able to deliver the outcomes within a reasonable timeframe.

52. In October 2020, MFED published its strategic plan for the five-year period 2021 to 2025. The plan includes a strategic objective to 'strengthen Government's managing for results environment and culture', which includes a specific action to modernise the budget system for the 2022–2023 budget.

53. We found that limited progress has been made in implementing the recommendations that we made in 2013 and 2017. However, we acknowledge that changing the budget process is not easy; it will take time to develop, discuss and agree potential solutions to these issues, and some may take a number of years to complete. We therefore encourage the Government to take a phased approach to introducing changes and implementing the recommendations that we make in this report.

Recommendation 4: The Government should convene the Performance Budgeting and Reporting Working Group as soon as possible to start the review and simplification of the budget framework and process. In doing this, it should also:

- **(a) Widen its remit to cover all of the recommendations made in this report.**
- **(b) Ensure that the Group is supported by an operational task force to carry out the work and provide proposals for consideration.**
- **(c) Set out a plan for each of the areas to be covered to ensure that that they are completed within a reasonable timescale and any inter-dependencies are adequately considered.**

BUDGET SCRUTINY AND TRANSPARENCY

54. A wide range of stakeholders use budget documents, including public servants, elected representatives and the general public. The budget process and budget documents therefore need to be as transparent and user–friendly as possible to ensure that all users are able to use these effectively for their own purposes. Elected representatives have a duty to scrutinise the budget proposed and vote on the bill for an appropriations law. Publishing draft and final approved budgets and holding public hearings and debates on the budget are essential to ensuring transparency.

THE FINANCE COMMITTEE SCRUTINISES BUDGET DOCUMENTS PRIOR TO APPROVAL

55. In phase 3 of the budget process – the Cabinet Collective Review phase – the Cabinet is required to review the budget documents (Budget Statements, Ownership Agreements and Purchase Agreements) to ensure that they have been prepared in accordance with the PMFL. The Cabinet is also required to arrange for the preparation of the Plan & Estimates (P&E) in line with the requirements set out in the PMFL and ensure that it aligns with the SPS.

56. In the fourth phase of the budget process – the Legislative Assembly Review phase – the P&E is debated in the Legislative Assembly by the Finance Committee (made up of all Members of the Legislative Assembly and chaired by the Minister of Finance). The Budget Statements, Ownership Agreements and Purchase Agreements are also tabled in the Legislative Assembly and used by the members during the budget scrutiny process. The Finance Committee scrutinises the proposed budget, calls public servants and other witnesses to answer queries and makes amendments as necessary. The level of scrutiny by the Legislative Assembly and its Finance Committee depends upon the information in the P&E (and other budget documents) and it is therefore important that it includes the right information to inform decision making.

57. The budget process concludes with the Documentation phase when the Cabinet agrees the Budget Statements, Ownership Agreements and Purchase Agreements and they are signed by Ministers (on behalf of the Government). These are then used to inform the Appropriations Law.

58. Each of the five budget documents should then be made available to the public on the Government's website. However, we noted that while His Excellency the Governor gave assent into law to the 2018–19 budget documents on 27 November 2017, the budget documents were not posted on the websites of the Legislative Assembly and MFED until 15 March 2018. This means that there was a time lag of more than three months after the law received assent before it was made publicly available. This has continued for the 2020–21 budget. The Finance Committee debated the 2020–21 budget documents in November and December 2019, which resulted in some changes being made to budgets, prior to them being approved. The Finance Committee's report was tabled

in the Legislative Assembly on 5th December 2019 and made public on the Legislative Assembly's website. However, the final signed budget documents were not tabled in the Legislative Assembly or posted on MFED's website until mid-October 2020, 11 months later (and ten months after the start of the financial year). These delays in publishing the final approved budgets reduces transparency. We understand that the reason for the delays was waiting for all of the budget documents to be signed by the respective ministers, core government entities, SAGCs and non-governmental output suppliers. However, it is important that the final approved budget documents are made public as soon as possible.

Recommendation 5: The Government should ensure that the final budget documents that are approved by the Parliament are made publicly available as soon as possible, and no more than month after approval to improve transparency.

BUDGET DOCUMENTS ARE TOO LONG WHICH REDUCES THEIR TRANSPARENCY

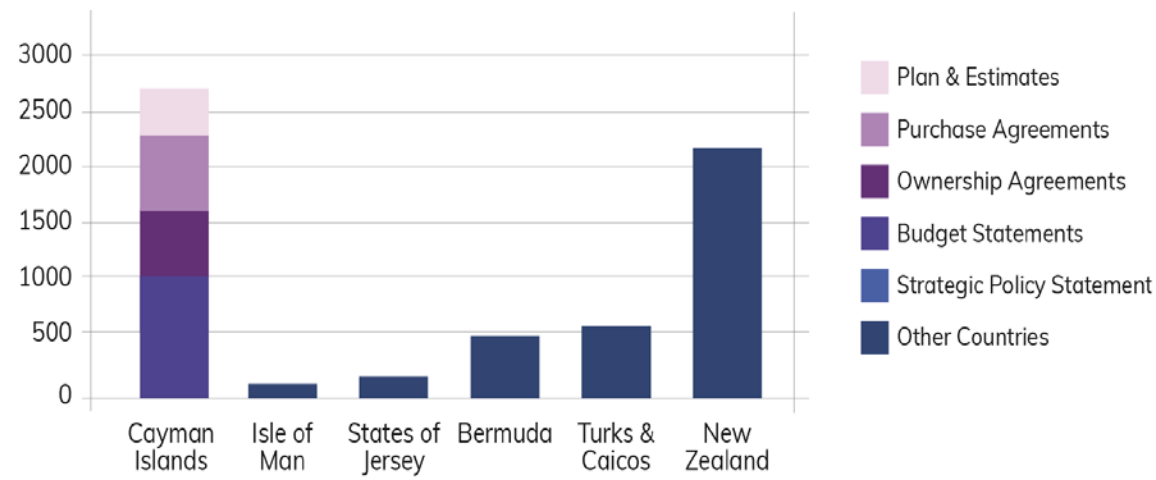
59. The 2017 amendment to the PMFL shifted from an annual budget to a two-year budgeting cycle and changed the financial year–end to 31 December. The first two-year budget was for 2018–19. The shift to a two–year budget effectively halved the budget documents number of pages, as the budget is the same length but now covers two financial years rather than one. However, the budget documents are still too long. Our review of the five different documents – the SPS, Budget Statements (BS), Ownership Agreements (OA), Purchase Agreements (PA) and Plan and Estimates (P&E) for 2018–2019 found that they are more than 2,700 pages long.

60. These documents contain much of the same information but it is not always easy to track allocations through the various documents. In 2017, we highlighted that various budget documents for 2016–17 reported different capital allocations for the Ministry of Health, Environment, Culture and Housing.[20] We reviewed subsequent budget documents for the same ministry and capital projects and found that the presentation of capital budgets had improved for 2018–19. However, in the most recent budget documents for 2020–21, we again found inconsistencies in the allocations presented for the major capital projects.

[20] *Major Capital Projects Follow Up*, Office of the Auditor General, October 2017, paragraphs 64 to 68

61. We compared the 2018–19 budget documents to those in five other jurisdictions (Isle of Man, States of Jersey, Bermuda, Turks and Caicos Islands and New Zealand).[21,22] Exhibit 5 shows that the Cayman Islands' budget has the most pages, with significantly more than all of the jurisdictions with which it was compared. For example, the Cayman Islands' budget has six times as many pages as Bermuda's, which is a UK Overseas Territory with a similar–sized population to the Cayman Islands. Our review of Bermuda's budget document found that it was similar to the P&E in the Cayman Islands. New Zealand is a unitary (centralised) government, and we would expect its budget documents to be longer to cover all of its government activities. However, this was not the case; the Cayman Islands' budget was around 600 pages longer than New Zealand's. The 2020-21 budget is even longer at more than 3,000 pages.

Exhibit 5 – Number of pages of the budget documents of the Cayman Islands and of selected jurisdictions



Source: OAG analysis of budget documents

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[21] The jurisdictions include two UK Overseas Territories (Bermuda has a population comparable to the Cayman Islands at 64,027; the Turks and Caicos Islands are smaller with a population of 41,369), two UK Crown Dependencies (Jersey with a population of 106,800 and the Isle of Man with a population of 83,314), and New Zealand, which has a population of around 5 million. (Population information obtained from Wikipedia).

[22] The latest budgets for each of the jurisdictions at the time of the analysis were used: Isle of Man (2019), States of Jersey (2019), Bermuda (2018–2019), Turks and Caicos Islands (2017–18) and New Zealand (2018–19). Each of the five jurisdictions' budgets are for one year only.

62. The volume of information published in the budget documents is driven by the PMFL requirements for five different budget documents. These budget documents include significant detail that does not necessarily aid decision–makers and users in understanding the budget documents, including the following:
    - Detailed information on outputs is included in the Budget Statement and Purchase Agreement and duplicated in the P&E as output groups.
    - The Budget Statements and Ownership Agreements includes fully budgeted financial statements including notes on the financial statements for each entity and SAGC.

THE BUDGET DOCUMENTS CONTAIN TOO MUCH INFORMATION ON OUTPUTS

63. Detailed information on outputs is included in three budget documents: the Budget Statement (for core government entities) and Purchase Agreement (for SAGCs) contain detailed outputs, which are consolidated into 'output groups' in the P&E. Additional information on outputs is also included in summaries and sections in financial statement forecasts and appropriations. Overall, information on outputs accounted for 1,170 pages (of 2,700 pages) in the 2018–19 budget documents.

64. The PMFL states that core government entities' Budget Statements and SAGCs' Purchase Agreements should include a range of information for each output, including a description, the quantity, the quality, delivery dates, the place of delivery, the price to be paid, evidence of the delivery to be provided and the payment schedule. Additional information on outputs is then included in the P&E as output groups.

65. In many cases, entities provide key services to the public (referred to as outputs in the budget process) that are funded by the Government. However, many of the outputs are operational metrics, which may be useful management information for monitoring entities' and SAGCs' performance and for future financial planning and budgeting, but it is not clear why it needs to be included in budget documents and may be of limited value for decision–makers and budget users.

66. For example, the Ministry of Health, Environment, Culture and Housing's Budget Statement for 2018–19 included budgets of $1.4 million to deliver output MHE 1 - administrative services for the Minister and $420,000 for MHE 7 - monitor the performance of SAGCs and Non-Governmental Output Suppliers. The budget statement outlines 17 metrics for MHE 1 and 14 metrics for MHE 7. The same budget statement also includes a budget of $0.39 million for the Department of Environment Health to deliver output EVH 17 - environment health monitoring services. This output has 24 metrics across quantity, quality, timeliness and location criteria. It is not clear why this level of detail is needed or how it useful for budget scrutiny. It would be more useful to provide information on what is being 'purchased', the outcome that is being targeted, and more importantly how that specific outcome contributes to the SBO.

Recommendation 6: The Government should reduce the number of output metrics in budget documents, specifically in entity Budget Statements and Statutory Authorities and Government Companies' Purchase Agreements.

FORECAST FINANCIAL STATEMENTS AND OWNERSHIP TARGETS PROVIDE USEFUL MANAGEMENT INFORMATION BUT ARE UNNECESSARY FOR BUDGET SCRUTINY

67. The PMFL requires that core government entities (in their Budget Statements) and SAGCs (in their Ownership Agreements) prepare forecast financial statements as part of the budget process. These should include the four financial statements, additional statements as required for fair presentation, accounting policies and a statement of responsibility together with comparative estimated actual figures of the previous financial year. While not required, entities present further additional notes, similar to those presented in the audited financial statements.

68. Our review of budget documents found that the forecast financial statements make up a significant number of pages and there is scope to significantly reduce the amount of financial information provided in the Budget Statements and Ownership Agreements in the following ways:

- Reduce the financial statements to require only the statement of financial performance and key balances from the statement of financial position, which will provide relevant information on the liquidity (for example, cash) and net value of assets.
- Highlight key items such as expenditure on inputs and balances, instead of presenting detailed notes. This high–level information could include a breakdown of expenses between payroll and other expenses, as well as information in relation to fixed and intangible assets such as additions (or capital expenditure) and year–end balances.

69. The PMFL also requires that consolidated forecast financial statements are included for the Entire Public Sector (EPS) and core government within the P&E, which accounted for around 100 pages in the 2018-19 P&E. The forecast financial statements provide some useful information for budget users, such as the net assets, national debt, surplus or deficit for the year, and cash flows. This information is needed to assess the Government's overall financial health. However, the information could be reduced and simplified in the following ways:

- presenting EPS and core government forecast information alongside each other, which would aid comparison and reduce the volume of pages;
- reducing the level of detail of financial performance and cash flows; for example, month–by–month information (we acknowledge that information is required as part of the FFR but there is scope to reduce the detailed information presented);
- removing information that is not useful for budgeting, such as aging accounts receivable, and full roll–forward of property, plant and equipment; and

- avoiding the duplication of information presented elsewhere in the P&E, such as the details of transfer payments, other executive expenses and other appropriation lines that directly relate to lines in the forecast financial statements (providing references instead of repeating information).

Recommendation 7: The Government should reduce the volume of information in budget documents by:

(a) Removing the requirement for forecast financial statements in the Budget Statements and Ownership Agreements and limit this to high–level information that is essential for budget scrutiny and transparency.

(b) Presenting forecast financial statements differently in the Plan and Estimates to reduce the volume of pages and duplicated information.

PERFORMANCE TARGETS AND RISK INFORMATION INCLUDED IN BUDGET DOCUMENTS ARE OF LIMITED VALUE

70. The PMFL requires that core government entities and SAGCs include ownership performance targets in their Budget Statements and Ownership Agreements. However, we found that these performance targets are generally inputs, such as human capital and physical capital measures, rather than outputs or outcomes. Similar to the output metrics, these measures may provide useful management information but they do not add value to the budget scrutiny process. We found a number of weaknesses in the information including the following:

- Some of the ownership performance targets duplicate information that is included elsewhere in the budget documents, for example, total assets.
- The physical capital measures presented, such as the ratio of asset replacement to total assets are not relevant to budget decision–making.
- Some measures are too granular for an ownership target such as the different measures of cash flows from each of the operating, investing and financing activities, as well as employee turnover.

71. The PMFL also requires that each entity's budget documents includes a risk matrix. However, the information included does not provide users with a good understanding of the risks or how they link to the budget, as none of the risks are quantified. The Government introduced a risk management framework in July 2019, which requires each entity to have a risk register in place. The introduction of this framework, once fully implemented, should provide assurances that risks are being identified and managed and may mean that information on risks is no longer needed in budget documents.

BUDGET ESTIMATES

72. Good quality budgets are essential for robust financial management and need to be informed by the best available information. The OECD states that governments need to 'promote the integrity and quality of budgetary forecasts, fiscal plans and budget implementation through rigorous quality assurance, including independent audit'.[23]

73. Budgets are not expected to be wholly accurate or to predict all situations, but they should allow strategic objectives to be achieved. Good quality budgets should be reasonable estimates, informed by the most up–to–date plans and based on sound assumptions. Budgets should be subject to scrutiny and should be challenged to ensure that they reflect the priorities of the elected government, that they are in line with current fiscal policies and that the amounts are based on good information.

74. Various types of budgeting are used by governments and other public sector bodies across the world, including the following:[24]
    - **Incremental budgeting**. The previous year's budget is carried forward to the next annual budget and adjusted for known factors such as legislative requirements, additional resources, service developments, anticipated price inflation and pay awards.
    - **Zero–based budgeting.** Operating budgets are prepared from a zero base; even though the organisation might be operating more or less as in previous years, the budgeting process assumes that it is starting anew.
    - **Priority–based budgeting.** This is a modification of zero-based budgeting; its focus is on identifying corporate priorities and allocating growth and savings accordingly.
    - **Performance or outcomes–based budgeting.** There is no single definition of this type of budgeting, but all sources state that the aim is to connect performance information with the allocation and management of resources. Performance budgets need to contain information on the following elements: inputs (measures in monetary terms); outputs (units of output); efficiency/productivity data (cost per activity); and effectiveness information (level of goal achievement).

75. The Cayman Islands Government adopts an incremental approach to budgeting that is based on outputs but it does not take account of some essential information, such as pay inflation, and it is not clear if efficiency savings are expected.

[23] *Recommendations of the Council on Budgetary Governance*, *Recommendation 10,* OECD, February 2015.
[24] Budgetary models, Chartered Institute of Public Finance and Accountancy (CIPFA)

ESTIMATES OF RECURRING OPERATING EXPENDITURES ARE NOT ROBUST

76. Budgeting for recurring expenditures that are necessary for day–to–day operations and service delivery requires complete, up–to–date and relevant information. Budgets should reflect the best estimates at the time of preparation and should factor in relevant information including cost drivers, unit costs of delivering services, the impact of laws and regulations, assumptions, and other socio–economic indicators. Good estimates of recurrent operating expenditure also depend on sound planning of how much the Government is expected to deliver for the budget period.

77. As outlined earlier, the Government uses an incremental approach to budgeting. The SPS sets out the macro– and socio–economic background and specifies the latest local and international statistics, including on population and demography, inflation, employment and tourism. However, these factors are not clearly reflected in the budgeted expenditure. For example, it is not clear if budget estimates are routinely adjusted upward for inflation, and the budget documents do not provide any information on the cost drivers or how they may affect future years. It is also not clear if budgets have inbuilt efficiency savings that entities and SAGCs are expected to make.

78. For the purposes of this audit, we pulled together published information on actual economic indicators over the seven years to 2019 (Exhibit 6).

Exhibit 6 – Economic indicators (actual), 2014–2019

Year	Inflation rates (Consumer Price Index)	Gross Domestic Product (GDP) growth rate at constant prices	Total Population	Annual growth in total population	Caymanian population (% of total population)	Annual growth in Caymanian population
2014	1.2%	2.7%	58,238	4.47%	33,447 (57%)	1.98%
2015	-2.3%	2.8%	60,413	3.74%	34,237 (57%)	2.36%
2016	-0.7%	3.2%	61,361	1.57%	34,113 (56%)	-0.36%
2017	2.0%	3.1%	63,415	3.35%	35,878 (57%)	5.17%
2018	3.8%	4.1%	65,813	3.78%	36,705 (56%)	2.31%
2019	5.7%	3.2%	69,914	6.23%	37,363 (53%)	1.79%

Source: Economics and Statistics Office

79. The SPS set out some of the key economic factors that are intended to inform economic forecasts and the budget process for the three years ahead. These include GDP, inflation (Consumer Price Index) and unemployment rate. However, it is not clear, how these economic indicators are then taken into account when preparing budget estimates.

IT IS NOT CLEAR HOW GOVERNMENT BUDGETS TAKE ACCOUNT OF INFLATION

80. Planning for and building in inflationary adjustments to budgets is important, as a small change in inflation can have a relatively large impact on government's spending power. Exhibit 6 shows that actual inflation rates were volatile over the period 2014 to 2019, ranging from – 2.3 per cent to 5.7 per cent.

81. The 2018–2019 SPS states that estimated inflation rates (CPI) for 2018 and 2019 were 2.3 per cent and 2.6 per cent respectively. In July 2017, MFED issued a memorandum to Chief Officers and Chief Financial Officers that provided guidance on the submission of budget estimates for 2018–2019. The memorandum stated that the operational expenditure allocations included assumptions in relation to increased costs for supplies and consumables driven by the required support for expanded programmes, but it did not mention any uplift for assumed inflation on supplies and consumables. It is not clear, therefore if the forecast inflation rates stated in the SPS flowed through to budget estimates.

82. As highlighted in Exhibit 6, inflation was actually higher in 2018 and 2019 than estimated in the SPS. For 2018, inflation was 3.8 per cent, compared to a forecast of 2.3 per cent; and in 2019, inflation was 5.7 per cent compared to a forecast of 2.6 per cent. The impact of inflation being much higher than forecast will have reduced the spending power of entities. For example, the supplies and consumables budget for 2019 may have been under–estimated by $3.1 million.[25]

83. In March 2019, MFED issued a memorandum asking core government entities to revise their budget forecasts for 2019 as a result of significant supplementary funding requests for 2019. The memorandum stated that forecast supplies and consumables budgets should be reduced to 2018 actual expenditure, with a few exceptions. Core government entities' original budget for supplies and consumables in 2019 was $101.8 million; while reported expenditure in 2018 was $93.5 million. Core government entities' reported actual expenditure on supplies and consumable in 2019 was $113.2 million; $11.4 million (11.2 per cent) more than the original budget.[26]

84. We found that the 2020–21 budgets take better account of inflation. The SPS for 2020–21 stated that the economic forecasts included inflation rates (CPI) of 2.2 per cent a year for each of the three years 2020 to 2022. The MFED memorandum for the 2020–21 budget submissions stated that the operating expenditure targets had assumed an annual growth factor of 2 per cent, with the exception of personnel costs. However, it is not clear why the assumed growth rate was set below the forecast inflation rate, particularly when the actual inflation rate in 2019 was 5.7 per cent.

[25] Under-estimate based on budget for supplies and consumables for core government entities as stated in the draft EPS financial statements for 2019.
[26] Figures quoted are from draft (unaudited) EPD financial statements for 2018 and 2019.

Recommendation 8: The Government should ensure that inflation is factored into budget estimates for recurring operational expenditure and that this is made clear to budget preparers, users and decision-makers.

THE GOVERNMENT DOES NOT PLAN OR BUDGET FOR PAY AWARDS

85. In 2018, the Government budgeted around $444.4 million on payroll costs (49 per cent of total government expenditure).[27] It is therefore important that budgets for payroll be as accurate as possible. Between 2008 and 2014, all civil service salaries were subject to a pay freeze. However, between 2014–15 and 2016–17 the Government started to pay stagnation awards to some staff. In July 2018 and January 2020, the Government awarded five per cent cost of living increases to all civil servants. This will have increased personnel costs by around $20.0 million and was not factored into budgets.

86. Historically, decisions to make pay awards have been made after budgets have been set rather than being planned for in advance as part of a government–wide pay strategy. By not planning for or building in pay awards the Government does not accurately present the full likely costs to decision–makers and budget users. This approach also puts pressure on individual entities to meet these additional costs from within their approved budget. This may mean that they have to reduce costs elsewhere or are unable to deliver the level of services and outputs that are specified in their Output Agreements or Purchase Agreements.

Recommendation 9: The Government should develop a pay strategy that sets out if and when pay awards will be given and where appropriate these are factored into budget estimates.

DEMAND FOR SERVICES NEEDS TO BE FACTORED IN TO BUDGET FORECASTS

87. The Gross Domestic Product (GDP) growth rate in Exhibit 6 represents the expansion of the economy; it increased year–on–year over the five years to 2018 and reduced in 2019. A growing economy is also one of the Government's Strategic Broad Outcomes. However, economic growth may also increase the demand for certain government services. For example, the creation of new businesses and the expansion of existing businesses may increase the need for business licences, work permits, and training, which will affect various government departments. It is important that forecasted growth in the economy is considered, to ensure that any demand–led expenditure budgets are as realistic as possible.

[27] This was based on personnel costs in the forecast consolidated EPS financial statements for the financial year 2018.

88. A growing population may also increase the demand for government services, which in turn may increase costs. Exhibit 6 shows that the total population of the Cayman Islands has been increasing year–on–year, growing by 20 per cent between 2014 and 2019. Over the same six–year period, the Caymanian population has also grown but at a slower rate, growing by 11.7 per cent since 2014. Some public services such as refuse collection are used by the entire population, while other services are for Caymanians only. It is important, therefore, that forecasted changes in the population are taken into account when budgeting, particularly over the medium to longer term. We acknowledge that the total population has reduced during 2020 as a result of the COVID-19 pandemic. The impact of this change will also need to be factored into forecasting the demand for and cost of delivering services.

89. As in many countries, the demography of the Caymanian population is changing; as people grow older there is likely to be higher demand for health and social services. Between 1999 and 2010 the number of persons aged 65 years and over increased by 36 per cent. In 2010, Caymanians aged 65 years and over represented 8.6 per cent of the Caymanian population; by 2019, this had increased to 13.2 per cent.[28]

90. The Government pays for the tertiary healthcare services of indigents, seamen and veterans that are treated outside the Health Services Authority both locally and overseas (budget line NGS 55). Our analysis of this budget over the five years from 2014–15 to 2019 shows that it has been significantly under–estimated annually. This has resulted in the approval of supplementary budgets each year that were significantly more than the original budget; ranging from 49.1 per cent to 177.3 per cent more (Exhibit 7). Exhibit 7 also shows that the final budget for tertiary healthcare has increased by 81.5 per cent over five years from $16.8 million in 2014–15 to $30.5 million in 2018; and reduced in 2019 to $24.9 million. Our review of the 2020 and 2021 budgets show that the original budgets for NGS 55 were $19.7 million and $17.6 million respectively. Although this is an improvement as the budgets are significantly more than prior years' original budgets, they are still less than the final budget needed in 2016–17 and 2019. The 2020 and 2021 budgets may therefore be insufficient to meet demand.

[28] These figures as re based on OAG analysis of age-segmented population statistics from the 2019 Compendium of Statistics.

Exhibit 7 – Budget for tertiary healthcare for indigents, seamen and veterans (2014-15 to 2021)

	2014-15	2015-16	2016-17*	2018	2019	2020	2021
Original Budget	$11.4m	$11.4m	$11.5m	$11.0m	$9.9m	$19.7m	$17.6m
Supplementary	$5.4m	$5.9m	$9.5m	$19.5m	$15m	(unknown)	(unknown)
Final	$16.8m	$17.3m	$21.0m	$30.5m	$24.9m	(unknown)	(unknown)

*Note: * Figures for 2016–17 were annualised (i.e., multiplied by 12/18) because 2016–17 was an 18–month period (while the other financial years were 12–month periods).*

Source: OAG analysis of original and supplementary budgets

IT IS NOT CLEAR IF LEGAL AND POLICY COMMITMENTS ARE ADEQUATELY FACTORED INTO BUDGETS

91. Budgets for recurrent operational expenditure also need to reflect the impact of new laws and regulations. In our report *Workforce Planning and Management in the Cayman Islands Government*, we reported that the *Older Persons Law 2016* set out additional requirements for the Department of Children and Family Services, but it was not clear if the need for additional resources or de–prioritisation of existing services was considered or factored into budgets.[29] We also found that the introduction of the *Public Authorities Law* has had an impact on some SAGCs. For example, the University College of the Cayman Islands (UCCI) was required to increase salary rates from 1 June 2019 to comply with the law, but the original budget for 2019 did not factor in these additional costs. The UCCI subsequently received some funding for this purpose but the funding was not enough to cover the entire cost of implementation.

[29] *Workforce Planning and Management in the Cayman Islands Government*, Office of the Auditor General, April 2018

Recommendation 10: The Government should improve its budget estimates for recurring operational expenditure by factoring in macro–economic forecasts that may affect planned service delivery levels, and the effects of new laws and regulations. It should state clearly in budget documents what factors have been used in their preparation, including any requirement for efficiency savings to be made.

THERE IS NO CLEAR LINK BETWEEN BUDGETS AND OUTPUTS

92. The Budget Statements, Purchase Agreements and Plan and Estimates provide detailed appropriation line items that specify output targets. However, we found that there was no clear link between the budgets set and the output targets.

93. Our analysis also showed that the unit prices of similar outputs were inconsistent, with no reason given. For example, most government entities include providing advice to Ministers as an output, but the unit price of providing this advice varies significantly across government. Exhibit 8 shows that the cost per hour of ministerial advice ranges from $88 to $1,019 across government. Furthermore, it shows that the unit costs vary significantly within ministries. For example, in the Ministry of Commerce, Planning and Infrastructure, two separate outputs are specified for ministerial advice – the unit cost of providing the services in planning (PLN 24) is $95 an hour but is significantly higher at the ministry level at $1,019 (MPA 1). The reason for this significant variation is not clear. We found that this wide range in unit costs has continued in the 2020–21 budget period. While the budget framework and process continues to focus on outputs we would urge government entities to review their approach to setting budgets for similar outputs to ensure that they can be compared.

Exhibit 8 – Budgeted price per hour for the output 'ministerial advice' for 2018

Entity	Code/Output	Min. Hours	Max. Hours	Budget Cost	Cost/hr for providing min hours	Cost/hr for providing max hours
Cabinet Office	**OTP 1** Advice and Assistance to the Premier and Administration of the Premier's Office	3,600	5,000	$698,955	$194	$140
MHECH	**MHE 3** Policy Advice to the Minister of Health, Environment, Culture and Housing	3,500	3,750	$1,122,981	$321	$299
MHRI	**MHA 1** Policy Advice to the Minister	3,000	3,500	$2,275,777	$759	$650
MCPI	**MPA 1** Ministerial Servicing and Policy Advice	2,500	4,000	$2,548,459	**$1,019**	$637
MCPI	**PLN 24** Policy Advice to the Minister	4,500	5,000	$428,139	$95	$86
MFED	**CUS 13** Policy Advice and Ministerial Services on Customs Matters	2,565	3,852	$340,381	$133	**$88**
MFSHA	**FIN 12** Policy Advice and Ministerial Servicing	4,420	4,420	$1,281,277	$290	$290
MFSHA	**NEM 2** Policy Advice and Ministerial Servicing	400	600	$135,447	$339	$226
POCS	**PCS 1** Policy advice and Support on Civil Service Matters	3,500	4,200	$952,854	$272	$227

Note: Other outputs to provide policy advice that are measured using other metrics (e.g., number of advice to be provided) were not used in the analysis because they are not comparable.

Source: OAG analysis of 2018–19 Budget Statements

Recommendation 11: The Ministry of Finance and Economic Development should ensure that the unit costs of similar outputs are costed consistently and core government entities should be able to explain any significant variances.

CAPITAL PROJECTS ARE NOT PROPERLY BUDGETED

94. The SPS for 2018–2019 (and 2020–2021) identify a number of capital projects as government priorities. These included the completion of the Owen Roberts International Airport (ORIA) Terminal redevelopment, developing a modern cruise dock and cargo port, George Town revitalisation, completing John Gray High School, a new court building, a long–term residential mental health facility, and implementing the Integrated Solid Waste Management Strategy. The Government plans to fund these projects in different ways: some are being funded with traditional capital funding (such as John Gray High School); some are being part–funded with SAGCs providing the remainder of funding (such as in the case of the ORIA Terminal redevelopment); and some are using alternative financing arrangements such as public–private partnerships (PPP) (for example, the integrated solid waste management facility).

95. In our 2017 report *Major Capital Projects Follow Up* we reported the following weaknesses in the budgeting process:

- The approval processes for budgets and major capital projects were not aligned, as budget documents did not show the full project costs for major capital projects even after Cabinet had approved that the project should proceed.
- The long–term financial consequences of capital investment decisions were not being factored into future budgets.
- The budgeting process did not meet the requirements for multi-year capital projects, as budget documents were for three years while projects could extend beyond that. In addition, the budgeting process did not allow for slippage in or rescheduling of capital projects, as capital budgets expired at the year-end. This meant that if a capital project were to slip or be rescheduled because of other commitments, the budget could be lost.

96. We made a total of 11 recommendations in the *Major Capital Projects Follow Up* report, including two focused on improving the budgeting process (see Appendix 2). The Government accepted the recommendations and agreed to implement them by 30 June 2018.

97. Since then, CIG has incorporated aligning the approval processes for budgets and major capital projects into the terms of reference of the Budget Review Group. In August 2019, the Government amended the PMFL to ensure that budgeted capital funds were usable after financial year ends, albeit limited to two–year budget periods. This partly addresses the recommendation to align the approvals processes for budgets, but not entirely, as budgets will still expire after two years.

98. We also made a recommendation to obtain expert advice to ensure that PPPs were properly managed. In response to this CIG issued PPP and Alternative Financing policies and procedures in July 2019. The policies and procedures clearly outline the roles and responsibilities of different stakeholders, as well as the relationships needed through the three broad phases (procurement, design and build, and operate and maintain). However, stakeholders need more guidance on how to execute their roles (as PPPs tend to require specialised skills), including on the issues to take into account when making decisions at different phases and how to estimate and incorporate whole-life costs.

99. In October 2020, a Government Minute was tabled in the Legislative Assembly providing a response to the Public Accounts Committee's report arising from the hearings on our 2017 report. However, the Government Minute did not provide an update on progress with implementing the OAG recommendations made in 2017 and it is not clear at the time of this report what action has been taken to implement the recommendations made. We will obtain an update and report on this in a future report on *Follow Up on past PAC Recommendations* in 2021.

ESTIMATES OF COERCIVE REVENUES NEED TO IMPROVE

100. The Government is expected to plan its expenditures to be within core government revenues.[30] Revenue estimates therefore need to be based on sound assumptions and information to allow the Government to plan how much it can spend over the budget period. If revenue estimates are too high, there may be deficits, but if estimates are too low then the Government may limit spending unnecessarily and/or delay the achievement of its objectives.

101. We have previously reported weaknesses in the arrangements, policies and procedures related to revenues. In our 2015 report *Collecting Government's Revenues*, we found that revenue concessions were managed poorly and we highlighted the risk that not all of the revenues that the Government is entitled to were being collected.[31] In our 2019 report *Customs in the Cayman Islands* we provided an update on revenue management and concluded that there had been very little progress in this area.[32] The audit opinion on the EPS consolidated financial statements up to 31 December 2017 also reported that poor controls for the management and reporting of coercive and other revenues continued to be one of the factors contributing to the adverse audit opinion.

102. Our analysis of budgeted compared with actual coercive revenues over the last five financial years shows that the total revenues collected were consistently higher than budgeted (Exhibit 9). In the last three years, the revenue collected was significantly more than budgeted, ranging between $90 million and $112 million (up to 16 per cent) more than forecast.

[30] *Public Management and Finance Law (2018 Revision) Section 14*
[31] *Collecting Government Revenues,* Office of the Auditor General, September 2015
[32] *Customs in the Cayman Islands*, Office of the Auditor General, May 2019

Exhibit 9 – Comparison of budgeted versus actual coercive revenues (2014–15 to 2019)

Year	Budgeted Coercive Revenues	Actual Coercive Revenues	Actual vs. Budgeted Coercive Revenues	
	KYD$ Millions	KYD$ Millions	KYD$ Millions	%
2014-15	625	637	12	2%
2015-16	628	673	45	7%
2016-17	852	953	101	12%
2018	691	*781	*90	13%
2019	683	*795	*112	16%

*Note: * The audits of the 2018 and 2019 EPS financial statements had not been completed at the time of this report. 2016–17 was an 18–month period.*

Source: OAG analysis of Plan & Estimates and EPS financial statements.

103. We understand that the Government received some large one–off revenues over this period, such as $22 million in revenues from the sale of the Ritz Carlton hotel, which may have been difficult to plan for. However, in our audit of the Customs Department we reported that the actual revenues generated by the Customs Department between 2013–14 and 2016–17 were significantly higher than the budgeted amount, between $10.4 million and $22.7 million (7–10 per cent) a year. As a result, we recommended that MFED ensure that the revenue budget includes reasonable forecasts and assumptions and that a clearly documented audit trail exists. The Government committed to establishing a Revenue Committee by June 2019 that will review and produce revenue estimates and also review the estimates against actuals every quarter to determine the need to update the estimates.[33] At the time of this report, the committee had not yet been established.

[33] Based on management responses to our recommendation in the Customs report, a Revenue Committee is to be established by the Treasury Department and composed of the Revenue Unit and the Customs and Border Control in respect of Customs duties, and will review separately prepared estimates from both organisations involved.

104. The collection of more revenues than had been forecast has contributed to the Government having an accumulated surplus of $405 million at the end of 2018. During 2019, the Government continued to accumulate an annual surplus; it used some of this to pay off some previous government borrowing (bullet bond) that was due in November 2019 and it ended the year with an accumulated surplus of $617 million.[34]

105. The COVID-19 pandemic has had a significant impact on the amount of coercive revenues that the Government has been able to collect in 2020. In October 2020, the Minister for Finance informed the Finance Committee of the Legislative Assembly that the estimated revenues for 2020 were $124.3 million less than originally budgeted. The pandemic has had a significant economic impact worldwide which makes it even more important that budget estimates for coercive revenues (and expenditure) are as accurate as possible and updated regularly.

Recommendation 12: The Government should ensure that estimates of coercive revenues are regularly reviewed and updated, as appropriate, based on up-to-date information.

[34] Accumulated surplus from draft EPS Financial Statements for 2018 and 2019

BUDGET CHANGES

106. Budgets by their nature are estimates and may need to be adjusted during the year due to changes in priorities or to unforeseen events. It is therefore important that the process for making in-year changes to budgets is as simple and transparent as possible. Changes to appropriations normally require legislative approval but it is important that the process provides flexibility so that 'virements' (transfers of amounts between different budgets) can be made during the year to allow for changes in plans.

BUDGET CHANGES ARE APPROVED IN TWO WAYS

107. The PMFL states that after a two–year appropriations law is enacted, any changes to the budget need to be enacted as supplementary appropriations. However, only budget increases need to be enacted. In practice, however, entities need to seek approval from the Portfolio of the Civil Service before re–allocating of funds between staff cost and other expenses if this affects the overall headcount.

108. When legislative budget changes are needed, they are approved in one of the following two ways:

- The Cabinet may approve budget changes for 'exceptional circumstances' (known as section 11(5) approvals). These budget changes although approved by the Cabinet are not in the public domain until a Cabinet Minister informs the Legislative Assembly. We have identified a number of areas for improvement in the use of section 11(5) approvals, which are discussed below.
- The Finance Committee of the Legislative Assembly may approves changes to budgets for any purpose (PMFL section 12). The PMFL states that these budget changes need to be approved by the Finance Committee, in public, before the expenditure is incurred.

109. In both circumstances the PMFL states that the budget changes must be included in a Supplementary Appropriations Bill and brought to the Legislative Assembly for approval by 31 March in the year following the financial year to which the transactions relate. In practice, however, some changes to the budget (i.e. section 11(5) approvals) are approved retrospectively, which reduces accountability and transparency.

'EXCEPTIONAL CIRCUMSTANCES' DO NOT ALWAYS MEET THE LEGAL DEFINITION AND ARE REPORTED LATE

110. The Cabinet can approve supplementary budgets arising from an 'exceptional circumstance', provided that the total amount authorised is no more than five per cent of the budgeted executive revenue for the financial year. The PMFL defines an 'exceptional circumstance' as an event that meets the following criteria:

- is beyond the control of the Cabinet;
- could not have been reasonably anticipated at the time of the enactment of the Appropriation Law for that financial year;
- has an economic or social impact that is significant enough to necessitate executive financial transactions different from those planned for the financial year; and
- requires the executive financial transaction to be entered into within in a timescale that makes compliance with the procedure established by section 12 impractical.

NOT ALL BUDGET CHANGES FOR 'EXCEPTIONAL CIRCUMSTANCES' MEET THE LEGAL DEFINITION

111. We reviewed 16 Ministerial statements made during the 2018–19 legislative year relating to budget changes arising from 'exceptional circumstances' in the 2016–17 and 2018 financial years. We found that only five of these statements included explanations on why the approved exceptional circumstance met the PMFL definition. Of these five, only one did so satisfactorily.

✓ The Ministry of Financial Services and Home Affairs' supplementary expenses in 2016–17 clearly met the definition of an 'exceptional circumstance'. The expense related to the country's action plan to address the effects of 'Paradise Papers' issues and heightened discussions with the European Union regarding the blacklist.

× We found that that an additional four appropriations met the definition of 'exceptional circumstance' but the Ministerial statements were not clear or explicit in demonstrating how the requirements were met, namely, statements relating to funding to correct the capital deficiency of the Cayman Islands National Insurance Company as required by its regulator, expenses in relation to migrants (which is a humanitarian commitment), the purchase of real properties, and non–routine payments (such as settlement of litigation).

112. We found that some section 11(5) approvals arose from ineffective planning or instances in which estimates could have been made better. These included the following:

- Funding of $1.27 million for the 2016 pay stagnation for the Cayman Islands Fire Service that was not included in the 2016–17 budget. The decision to pay a cost–of–living award was made by Cabinet in December 2016 although POCS started to collect estimates for this in April 2016. Although the Government had a pay freeze at this time, the Cabinet decided to give a pay award part–way through 2016–17. We do not believe that this example was beyond the control of the Cabinet. We reported earlier that pay awards are not usually factored in to the preparation of budgets.
- Expanding the National Community Enhancement Project more than once during the year 2016–17.
- Increasing the number of staff involved in Special Education Needs for 2016–17.

- New software required by the Portfolio of Legal Affairs to launch a new portal for Cayman Islands legislation.
- Various relief payments (transfer payments) administered by the Ministry of Community Affairs.
- Operating expenses, such as those belonging to the department supporting the Legislative Assembly.

Recommendation 13: The Government should ensure that all 'exceptional circumstances' approvals by Cabinet clearly satisfy the PMFL definition.

BUDGET CHANGES FOR 'EXCEPTIONAL CIRCUMSTANCES' ARE NOT REPORTED TO THE LEGISLATIVE ASSEMBLY IN A TIMELY MANNER WHICH LIMITS TRANSPARENCY

113. The PMFL requirement that the relevant Cabinet member make a statement in the Legislative Assembly at the next sitting about any appropriations for 'exceptional circumstances' is intended to provide transparency. However, this does not always happen in practice.

114. We reviewed 16 ministerial statements made during the 2018–19 legislative year relating to 2016–17 and 2018 financial years; almost all individual ministerial statements covered multiple section 11(5) approvals. We found that none of the statements for the 2016–17 budget that we examined was made in a timely manner as required by the PMFL.

115. We also noted that due to the way that sittings and meetings of the Legislative Assembly are scheduled, the Legislative Assembly may not be informed about budget changes until a few months after the change has been made.

Recommendation 14: The Government should ensure that the Parliament is informed about all budget changes that Cabinet has approved due to exceptional circumstances at the next sitting of the Parliament.

Recommendation 15: The Deputy Governor should discuss with the Parliament the introduction of a formal timetable of regular, scheduled meetings that includes dedicated time for scrutiny of original budgets and changes to these.

SOME IMPROVEMENTS HAVE BEEN MADE TO ALLOW IN–YEAR VIREMENTS THAT DO NOT REQUIRE FORMAL LEGISLATIVE APPROVAL

116. The PMFL prohibits funds from one appropriation line being spent on a different appropriation line or for a purpose outside the scope of that appropriation line. This means that appropriations cannot be transferred without formal approval. While this approach provides for proper budget scrutiny and transparency it reduces flexibility and means that a large number of budget changes have to be formally approved by the Legislative Assembly. Some of these budget changes may draw attention

away from budget increases that require more scrutiny. It is important that there is some flexibility within the process to allow virements between budgets that do not affect the overall position.

117. The PMFL requires budgets to be set for each appropriation item and restricts the use of any appropriation amount for a purpose outside of scope. This legal requirement is common in budgeting frameworks and is good practice to ensure that government entities comply with the legislative approvals.

118. The PMFL allows budgets to be moved around within output groups, so long as there is no increase in budget, without formal Legislative Assembly approval. However, to move budgets from one output group to another requires formal Cabinet and Legislative Assembly approval. Therefore the more output groups an entity has, the less flexibility it has to move its budget when priorities or demands change across services within a year.

119. We found that some improvements have been made in the 2020–2021 budget that will help to improve flexibility and the ability to make virements between budgets without formal Legislative Assembly approval. For example, the Ministry of Employment and Border Control (MEBC) reduced the number of output groups from seven to three between the 2018–19 and 2020–21 budget periods.[35] This reduction can be attributed to the transfer out of four output groups relating to the Royal Cayman Islands Police Service following the creation an independent Office of the Police Commissioner on 1 January 2020. In February 2019 Customs and Border Control (CBC) was created, which resulted in the former Customs Department being subsumed into MEBC's output group on border control. Each of the three output groups relates to separate government programmes and services i.e. advice, border control (CBC) and labour management (which includes Workforce Opportunities and Residency Cayman (WORC) and the Department of Labour and Pensions). The MEBC can therefore make budget virements within these output groups that contribute to the high–level programme but would need formal Legislative Assembly approval to transfer amounts from one programme's budget to another.

120. In 2016–17 the budget for the Needs Assessment Unit (NAU) had 22 separate appropriation lines for a range of individual transfer payments and Non-Governmental Output Suppliers. Our review of 2016–17 supplementary appropriations found that budget changes were made to eight line items that had to go through the full budget change and approval process (Exhibit 10).The overall impact of these budget changes was a decrease in budget of $100,000.

[35] Formerly the Ministry of Human Resources and Immigration, until the name change in 2019.

Exhibit 10 – Selected 2016–17 social assistance appropriations with budget changes

	Original	Budget Change
NGS 63: School Lunch and Uniform Programme	$0.2m	$0.01m
NGS 68: Rental accommodation for persons in need	$2.9m	+$0.8m
TP 41: Poor relief payments	$9.4m	-$0.8m
TP 43: Poor relief vouchers	$2.3m	+$0.9m
TP 47: Ex-Gratia Benefits to Seamen	$9.0m	-$0.6m
TP 48: Benefit Payments to Ex-Servicemen	$1.5m	-$0.2m
TP 50: Pre-school assistance	$0.2m	-$0.03m
TP 75: Needs assessment support	$0.1m	$0.2m

Source: OAG analysis of appropriations and budget changes

121. The 2020–21 budget for (NAU) has been simplified and has fewer appropriation lines, which consolidate similar benefits. For example, TP 41 and TP 43 have been consolidated into one line – TP 41 Permanent Financial Assistance; and six individual lines including NGS 63, NGS 68, TP 50 and TP 75 have been consolidated into TP 87 Temporary Financial Assistance. As highlighted in Exhibit 10, all of these former appropriation lines required formal approval for budget changes in 2016–17. This reduction in appropriation lines will provide greater flexibility for managing social assistance benefit payments and will significantly reduce the number of budget changes that need to go to the Legislative Assembly for formal approval.

Recommendation 16: The Government should reduce the number of output groups and appropriation line items to allow more in–year virement of budgets and ensure that only those budget changes that relate to key government priorities go to the Parliament for approval.

FORMAL APPROVAL OF BUDGET CHANGES NEEDS TO BE MORE TIMELY TO IMPROVE ACCOUNTABILITY AND TRANSPARENCY

122. The two processes outlined earlier (paragraph 108) allow for a degree of flexibility to re–align funds as plans evolve during the year. All budget changes are then brought together for formal discussion and budget changes are approved in a supplementary appropriations bill. However, this is not

required by law until three months after the financial year end.[36] The legislative framework therefore allows budget changes to be debated, scrutinised and approved after the event, that is, money that has already been spent is simply ratified. This approach significantly reduces the transparency and accountability of the budget.

123. Our review of supplementary appropriations found that they have historically been presented to and passed by the Legislative Assembly significantly later than the PMFL deadline. In September 2013, the Legislative Assembly passed supplementary budgets for 2009–10, 2010–11, 2011–12 and 2012–13 at the same time. In 2017, the Legislative Assembly passed supplementary budgets for the prior three years (2013–14, 2014–15 and 2015–16) at the same time. In September 2018, the Legislative Assembly passed the 2016–17 supplementary budget. Although the timeline for the approval of the 2016–17 supplementary budget was an improvement on previous supplementary approvals, we noted that the Legislative Assembly had met nine times beforehand during 2018. It is not clear why the Government waited until September before asking the Legislative Assembly to approve changes to the prior year's budget.

124. In 2018, for the first time the Government enacted a supplementary budget during the year to which it related. The PMFL was amended in 2019 to extend the deadline for introducing a supplementary appropriations bill to 31 March of the year following the budget year.

125. We found that, consistently, budget changes were for significant amounts and were widespread across government. The 2018 supplementary appropriations included several approvals totalling \$24.5 million, namely additional funding for healthcare for indigents, seamen and veterans. Other individually significant budget changes were equity injections to Cayman Airways Limited (\$7.5 million) and the Cayman Islands National Insurance Company (\$7.19 million), and the purchase of land (\$10.0 million), and property for the new court house (\$5.5 million).

Recommendation 17: The Deputy Governor should discuss with the Parliament arrangements for ensuring that the Supplementary Appropriations Bill is introduced in the Parliament in a timely manner, and at the latest within three months after the financial year end as required by legislation.

[36] In July 2019 the deadline for presenting supplementary appropriations bill was extended to 31 March of the year following the budget year

CONCLUSION

126. The *Public Management and Finance Law* sets out the budgeting framework and process. However, my view is that the budgeting process is overly complex and the legislative requirements result in budget documents being far too long, which actually reduces transparency rather than improve it. My Office previously reported on the budgeting process in 2013 and although there have been some changes since then, there is still much to do to simplify the budgeting process and improve the transparency of budget documents.

127. During 2020, we have experienced, alongside the rest of the world, the COVID–19 pandemic, which has resulted in world–wide recession. The Cayman Islands is not sheltered from this and it has adversely impacted on the Government's finances. We have seen, during 2020, that revenues have been lower than anticipated, expenditure has been higher in some areas and there continues to be additional spending to rebuild the economy in the longer term. Although the Government has built up reserves, which have allowed it to cope with the pandemic and the immediate impact of the corresponding economic shock, the pandemic has served as a reminder of the importance of a strong budgeting framework and robust budget estimates.

128. I have made 17 recommendations in this report that are aimed at simplifying the budgeting framework and process and should improve transparency and accountability. I acknowledge that changing the approach to budgeting is not easy and some things will take time. For example, my first recommendation of shifting to an outcomes–based approach is fundamental, but this will need to be planned properly before it can be implemented and will therefore take longer to achieve. I have suggested that the Government aim to shift to an outcomes–based budgeting approach for the 2024–25 budget cycle. In the meantime, the majority of my remaining recommendations should be able to be implemented in time for the next budget cycle in 2022–23 and will set the groundwork for a much simpler and more transparent budgeting framework.

129. One area that I have highlighted in this report is that more needs to be done to improve the timeliness and transparency of changes that are made to approved budgets. Historically, there have been significant time delays in seeking formal Legislative Assembly approval for some budget changes. Although this has improved in recent years, I believe there is scope to improve this further. However, this needs buy–in from politicians and a shift to more frequent and regular meetings of the Parliament. I strongly encourage officials and elected members of the Parliament to seize the opportunity to do this as the Parliament establishes itself as a new, independent entity.

130. The assistance and cooperation we received from officials in the Cayman Islands Government, particularly the Ministry of Finance and Economic Development, and SAGCs in all phases of the audit is gratefully acknowledged. Without their help, the audit could not have been completed.

Sue Winspear, CPFA
Auditor General
George Town, Grand Cayman
Cayman Islands

15th December 2020

APPENDIX 1 – ABOUT THE AUDIT

OBJECTIVE

1. The objective of this audit was to assess how effective the Cayman Islands Government (CIG) is at budgeting, to enhance transparency, accountability and long-term financial sustainability. It sought to answer the following audit question: Does CIG have an effective and transparent budgeting process?

CRITERIA

2. Audit criteria set out the expectations, or standards, against which an audit can assess observed performance in order to develop findings, make recommendations as appropriate, and conclude on audit objectives. We set the following criteria for this audit:
    1) There is a simple and transparent budgeting process.
    2) The budgeting framework is clearly linked to priorities and outcomes.
    3) Capital projects are properly budgeted for.
    4) Changes made to budgets are open, transparent and timely.
    5) Budgets are based on reasonable assumptions and forecasts.

AUDIT SCOPE AND APPROACH

3. The audit assessed progress made by the Government in improving the budgeting process and any remaining challenges. It focused on the Ministry of Finance and Economic Development (MFED) and its coordination role over the entire public sector, which it depends upon to collect data on accountability and transparency.

4. We assessed CIG's effectiveness by reviewing its implementation of audit recommendations and its specific steps to improve the transparency of government under the PMFL, including efforts toward an effective and transparent budget process.

5. The audit covered the five-year period from 2014–2015 through 2019.[37] We also reviewed 2020–21 budget documents, where appropriate to determine whether further improvements had been made.

[37] Note that financial years changed part-way through this period. Financial years 2014 – 2015 and 2015 -16 covered the 12 months 1 July to 30 June; financial year 2016 – 17 was a transitional year covering 18 months from 1 July 2016 to 31 December 2017; financial years 2018 and 2019 covered the 12 months from 1 January to 31 December.

6. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI). The approach to the audit included:
    - Conducting interviews with key stakeholders, including MFED staff.
    - Reviewing documents, including legislation, guidance, budget documents, staffing information, performance expectations for significant government programs.
    - Analysing budgeted financial and performance information.
    - Providing a draft report to relevant officials for review of factual accuracy.
    - Presenting a final report of the audit to the Parliament.

AUDIT STAFF

7. The audit was carried out under the direction of Angela Cullen, Deputy Auditor General (Performance Audit) and assisted by Julius Aurelio (Audit Manager) and a contracted professional consultant.

APPENDIX 2 – SUMMARY OF PREVIOUS OAG RECOMMENDATIONS ON THE BUDGET FRAMEWORK AND PROCESS

The following provides a summary of recommendations made by the OAG to simplify and improve the budgeting process in our 2013 and 2017 reports. As at October 2020 none of these recommendations had been implemented.

Note: The Public Accounts Committee of the Legislative Assembly tabled its report on Major Capital Projects Follow Up in September 2018. The Government responded to this in October 2020 when it tabled the Government Minute. However, the Government Minute did not provide an update on progress with implementing the OAG's recommendations. It is not therefore clear at this time of this report whether the two recommendations that related to improving the budget process for major capital projects (Recommendations 8 and 11 in the report) have been implemented.

Recommendation	Original CIG response	Implemented	Reference in this report
Restoring Financial Accountability: A Time for Change (June 2013)			
Simplify the budgeting framework by:			
• Focusing on key outputs, which are results focused.	The Government agreed with this recommendation but did not provide an implementation date.	**No**	Paragraphs 21–25
• Having better linkages between the budget and plans of the elected Government and the measurable outcomes it seeks to achieve.	The Government agreed with this recommendation, stating that appropriations should be focused on what the Parliament wants the	**No**	Paragraphs 33–34 and 86–87

	government of the day to spend their money on to achieve the broad outcomes. No date was provided for implementation.		
• Having output and outcome measures that are SMART (specific, measurable, achievable, reliable and time-bound).	The Government agreed that outputs were not written very well, too detailed and only had a tentative link to outcomes. No date was provided for implementing the recommendation.	**No**	Paragraphs 21–25
• Simplifying the budgeting and management of administrative costs (including finance and human resources) to be managed by service cost rather than outputs.	It is not clear whether Government agreed with this recommendation.	N/A	
The distinction of transactions and account balances between executive and entity should be removed.	The Government agreed with this recommendation but did not provide an implementation date.	**No**	Paragraphs 37–43
There should be a clear split of roles and responsibilities between the strategic planning/budget management function of government and the financial management, accounting and reporting functions.	The Government did not agree with this recommendation.	N/A	
Immediately commence a far reaching and comprehensive review of the Public Management and Finance Law and consider what kind of financial management, performance management and accountability reporting framework it needs.	The Government agreed with this recommendation but did not provide an implementation date.	**No**	Entire report

Major Capital Projects Follow Up (October 2017)			
Recommendation 8: The Government should ensure that its approval processes for budgets and major capital projects are aligned and that budget documents include complete and consistent information on capital investment decisions, including indicative capital and operational costs such as the implications of PPP projects. It should also ensure that the approval processes are taken into account when considering compliance with the FFR in the short, medium and long-terms.	The Government agreed with this recommendation and stated that it would be implemented by 30 June 2018.	**Partly**	Paragraphs 88–92
Recommendation 11: The Government should prepare and publish regular update reports on the progress of all major capital projects and capital investment. It is important that these update reports include robust financial information to inform the budgeting cycle.	The Government agreed with this recommendation and stated that it would be implemented by 31 December 2017 followed by 6 monthly updates.	**No**	Paragraphs 88–92

APPENDIX 3 – RECOMMENDATIONS

Recommendation	Management Response	Responsibility	Date of planned implementation
1. The Government should amend the budgeting framework to shift the focus to an outcomes–based approach. In doing this, it should ensure that: (a) The Government's Strategic Broad Outcomes and specific outcomes in the Strategic Policy Statement are clearly aligned. (b) Specific outcomes in the Strategic Policy Statement are clearly focused on outcomes rather than activities, projects or outputs. (c) Success measures for Strategic Broad Outcomes and specific outcomes are identified that allow for performance monitoring and reporting on their achievement.	Management agrees with this recommendation and formed the Budget and Reporting Working Group (the "Working Group") in early 2018 for this reason. However, Management placed this Working Group on hold when OAG advised (shortly after the establishment of the Working Group) that an audit would be conducted on Budget and Reporting in early 2018 – as Management considered it to be a more efficient approach to await the receipt of any additional recommendations from the audit, as opposed to the Working Group reviewing an initial set of recommendations, then a further review some time later of any additional recommendations. Management will reconvene the Working Group to commence (in January 2021) its consideration of the recommendations contained in this Report. This means the Working Group will undertake the review of the recommendations in this Report with the knowledge that there may be additional recommendations in future from the two future reports that will be forthcoming.	Financial Secretary and Accountant General	March 2023

Recommendation	Management Response	Responsibility	Date of planned implementation
(d) Public entities' strategic ownership goals clearly link with Government's Strategic Broad Outcomes and specific outcomes. (e) Budgets clearly align with the Strategic Broad Outcomes and specific outcomes. (f) The Plan & Estimates clearly demonstrates to decision makers the subsidies to Statutory Authorities and Government Companies and budgets for demand–led services and how these will contribute to the Strategic Broad Outcomes.	The Ministry of Finance has included specific plans to modernise the budget system as part of its Strategic Plan for 2021 to 2025.		
2. The Government should amend the budgeting (and financial reporting) framework to remove the requirement to budget and account for executive and entity transactions separately.	Amendments to the PMFL were drafted in August 2020 which partially address this change.	Financial Secretary and Accountant General	March 2023

Recommendation	Management Response	Responsibility	Date of planned implementation
3. The Ministry of Finance and Economic Development should update and simplify the process for preparing and submitting budgets by: (a) Amending the budget templates to ensure that information needs to be entered only once to reduce duplication of effort and the risk of errors. (b) Issuing templates well in advance of the date budget submissions are due. (c) Providing sufficient guidance and training on how to complete budget templates.	Management agrees with this recommendation and formed the Budget and Reporting Working Group (the “Working Group”) in early 2018 for this reason. However, Management placed this Working Group on hold when OAG advised (shortly after the establishment of the Working Group) that an audit would be conducted on Budget and Reporting in early 2018 – as Management considered it to be a more efficient approach to await the receipt of any additional recommendations from the audit, as opposed to the Working Group reviewing an initial set of recommendations, then a further review some time later of any additional recommendations. Management will reconvene the Working Group to commence (in January 2021) its consideration of the recommendations contained in this Report. This means the Working Group will undertake the review of the recommendations in this Report with the knowledge that there may be additional recommendations in future from the two future reports that will be forthcoming. The Ministry of Finance has included specific plans to modernise the budget system as part of its Strategic Plan for 2021 to 2025.	Financial Secretary and Accountant General	March 2023
4. The Government should convene the Performance Budgeting and	Management agrees with this recommendation and formed the Budget and Reporting Working Group (the “Working	Financial Secretary and	March 2023

Recommendation	Management Response	Responsibility	Date of planned implementation
Reporting Working Group as soon as possible to start the review and simplification of the budget framework and process. In doing this, it should also: (a) Widen its remit to cover all of the recommendations made in this report. (b) Ensure that the Group is supported by an operational task force to carry out the work and provide proposals for consideration. (c) Set out a plan for each of the areas to be covered to ensure that that they are completed within a reasonable timescale and any inter-dependencies are adequately considered.	Group") in early 2018 for this reason. However, Management placed this Working Group on hold when OAG advised (shortly after the establishment of the Working Group) that an audit would be conducted on Budget and Reporting in early 2018 – as Management considered it to be a more efficient approach to await the receipt of any additional recommendations from the audit, as opposed to the Working Group reviewing an initial set of recommendations, then a further review some time later of any additional recommendations. Management will reconvene the Working Group to commence (in January 2021) its consideration of the recommendations contained in this Report. This means the Working Group will undertake the review of the recommendations in this Report with the knowledge that there may be additional recommendations in future from the two future reports that will be forthcoming. The Ministry of Finance has included specific plans to modernise the budget system as part of its Strategic Plan for 2021 to 2025.	Accountant General	
5. The Government should ensure that the final budgets that are approved by the Parliament are made publicly available as soon as possible, and no more than month	It has always been the practice of Management to make the budget documents, as tabled on "Budget Day", available to the	Financial Secretary and Accountant General	While it is already the practice to share the budget

Recommendation	Management Response	Responsibility	Date of planned implementation
after approval to improve transparency.	public on the Government's website on the very same day as the budget is tabled in the Legislative Assembly/Parliament. Going forward, the Ministry will ensure that the final budget, as approved by Parliament, is made publically available as soon as possible after it has been approved by the Parliament.		documents that are tabled on Budget Day, going forward the Ministry will ensure the final budget approved by Parliament is made publically available as soon as possible after being approved by the Parliament.
6. The Government should reduce the number of output metrics in budget documents, specifically in entity Budget Statements and Statutory Authorities and Government Companies' Purchase Agreements.	Management agrees with this recommendation and formed the Budget and Reporting Working Group (the "Working Group") in early 2018 for this reason. However, Management placed this Working Group on hold when OAG advised (shortly after the establishment of the Working Group) that an audit would be conducted on Budget and Reporting in early 2018 – as Management considered it to be a more efficient approach to await the receipt of any additional recommendations from the audit, as opposed to the Working Group reviewing an	Financial Secretary and Accountant General	March 2023

Recommendation	Management Response	Responsibility	Date of planned implementation
	initial set of recommendations, then a further review some time later of any additional recommendations. Management will reconvene the Working Group to commence (in January 2021) its consideration of the recommendations contained in this Report. This means the Working Group will undertake the review of the recommendations in this Report with the knowledge that there may be additional recommendations in future from the two future reports that will be forthcoming. The Ministry of Finance has included specific plans to modernise the budget system as part of its Strategic Plan for 2021 to 2025.		
7. The Government should reduce the volume of information in budget documents by: (a) Removing the requirement for forecast financial statements in the Budget Statements and Ownership Agreements and limit this to high–level information that is essential for budget scrutiny and transparency.	Management agrees with this recommendation and formed the Budget and Reporting Working Group (the "Working Group") in early 2018 for this reason. However, Management placed this Working Group on hold when OAG advised (shortly after the establishment of the Working Group) that an audit would be conducted on Budget and Reporting in early 2018 – as Management considered it to be a more efficient approach to await the receipt of any additional recommendations from the audit, as opposed to the Working Group reviewing an	Financial Secretary and Accountant General	March 2023

Recommendation	Management Response	Responsibility	Date of planned implementation
(b) Presenting forecast financial statements differently in the Plan and Estimates to reduce the volume of pages and duplicated information.	initial set of recommendations, then a further review some time later of any additional recommendations. Management will reconvene the Working Group to commence (in January 2021) its consideration of the recommendations contained in this Report. This means the Working Group will undertake the review of the recommendations in this Report with the knowledge that there may be additional recommendations in future from the two future reports that will be forthcoming. The Ministry of Finance has included specific plans to modernise the budget system as part of its Strategic Plan for 2021 to 2025.		
8. The Government should ensure that inflation is factored into budget estimates for recurring operational expenditure and that this is made clear to budget preparers, users and decision–makers.	Management has always included inflation into budget estimates – See pages 4 to 13 of the 2020 Strategic Policy Statement. Users and decisions makers are advised of inflationary increases and inflation is factored into budget allocations. However, Government is still constrained to comply with the FFR and with ensuring value for money, so adjustments for inflation may not exactly match the inflation rate.	Ministry of Finance – based on information received from other Government agencies.	Currently in place (and has been done historically). Continuous improvement in communication is ongoing.

Recommendation	Management Response	Responsibility	Date of planned implementation
9. The Government should develop a pay strategy that sets out if and when pay awards will be given and where appropriate these are factored into budget estimates.	The PoCS agrees that it is advisable to formalise CIG's pay strategy so as to set out when pay awards will be given. In practice, PoCS regularly monitors the cumulative impact of inflation and seeks the budgetary wherewithal to address the cumulative impact on CIG's salary scale early in the budgetary process. However, policy decisions on whether or not to approve such awards and the quantum of the award, are taken much later in the process and often with the mandate that such awards be self-financing. Whilst it is fully accepted that this is not the preferred approach, it is worth noting that on a global basis of CIG's total HR expenditures, recent years' pay awards have been tolerated without exceeding CIG's total approved HR budget. PoCS monitors HR expenditures on a per Ministry/Portfolio basis as well as overall to CIG. In 2020, this analysis was further expanded to specifically monitor the monthly impact of the last approved but unfunded 5% COLA awarded in January 2020. The results confirm that while the current practice does exceed the budgetary tolerance levels for small entities, the vast majority of Ministries/Portfolios can absorb the increase without exceeding their annual approved personnel budgets and the	Chief Officer, Portfolio of the Civil Service	December 2021

Recommendation	Management Response	Responsibility	Date of planned implementation
	same is true for the core civil service personnel budgets on a whole. PoCS will seek to formalise its pay strategy to ensure this outcome continues when, during more lean times, CIG may not carry the same volume of funded vacancies which currently offset pay award decisions taken too late in the budgetary process to be incorporated into individual Ministry/Portfolio annual estimates.		
10. The Government should improve its budget estimates for recurring operational expenditure by factoring in macro–economic forecasts that may affect planned service delivery levels, and the effects of new laws and regulations. It should state clearly in the budget documents what factors have been used in their preparation, including any requirement for efficiency savings to be made.	The Government operates on a decentralised budget and financial management system, which allows each Ministry to budget independently to meet their individual needs. Each Ministry puts their proposed budgets forward in the Strategic Phase of the budget. This would take into account any budget changes expected from new laws and regulations. The current framework provides macro-economic forecasts through the Strategic Policy Statement and these forecasts are incorporated into each Ministry's budget allocation.	All agencies in Government – but the Ministry of Finance to place such matters in budget documentation.	Currently in place (and has been done historically). Continuous improvement is ongoing.
11. The Ministry of Finance and Economic Development should ensure that the unit costs of	The Government operates on a decentralised budget and financial management system, which allows each Ministry to	Financial Secretary and	March 2023

Recommendation	Management Response	Responsibility	Date of planned implementation
similar outputs are costed consistently and core government entities should be able to explain any significant variances.	budget independently to meet their individual needs. Individual Ministries may have unique costs which result in varying unit costs despite similar descriptions. However, with the planned transition to Outcome reporting this issue will be addressed.	Accountant General	
12. The Government should ensure that estimates of coercive revenues are regularly reviewed and updated, as appropriate, based on up–to–date information.	Management regularly reviews and updates revenue but we remain conservative in our forecasts. As a result of a few large (compared to CIGs total budgeted revenue) transactions (generally one-off in nature) in recent years, revenue estimates have varied significantly from actuals. However, Management is in agreement that estimates can be improved.	Accountant General	Currently in place and continuous improvements ongoing.
13. The Government should ensure that all 'exceptional circumstances' approvals by Cabinet clearly satisfy the PMFL definition.	In December 2016, Ministry of Finance proposed legislative changes to the definition of 'Exceptional Circumstances' to ensure it could only be used for truly exceptional circumstances. However, these changes were not approved. This issue will be raised with the Budget and Reporting Working Group to determine the best approach to address this recommendation.	Financial Secretary and Accountant General	March 2023
14. The Government should ensure that the Parliament is informed about all budget changes that Cabinet has approved due to	In 2019, Ministry of Finance introduced specific wording in the Recommendation section of all Cabinet Papers seeking Section 11(5) funding (i.e. funding for exceptional circumstances). This	Senior Assistant Financial Secretary	Introduced in mid-2019

Recommendation	Management Response	Responsibility	Date of planned implementation
exceptional circumstances at the next sitting of the Parliament.	wording committed the relevant Minister to making a statement at the next sitting of the Legislative Assembly.		
15. The Deputy Governor should discuss with the Parliament the introduction of a formal timetable of regular, scheduled meetings that includes dedicated time for scrutiny of original budgets and changes to these.	Management agrees in principle with this recommendation, but notes that this is a decision that rests with the Parliament. The Deputy Governor will discuss this with the Premier after the General Election in May 2021	Deputy Governor to advise incoming Premier / Parliament	Next Administration, post the General Elections in May 2021
16. The Government should reduce the number of output groups and appropriation line items to allow more in–year virement of budgets and ensure that only those budget changes that relate to key government priorities go to the Parliament for approval.	Management agrees with this recommendation.	Financial Secretary and Accountant General	March 2023 (to impact the 2024-2025 Budgets)
17. The Deputy Governor should discuss with the Parliament arrangements for ensuring that the Supplementary Appropriations Bill is introduced in the Parliament in a timely manner, and at the	Management accepts this recommendation as it promotes transparency and accountability and will always endeavour to abide with the 31 March deadline.	Deputy Governor to advise incoming Premier / Parliament	Next Administration, post the General Elections in May 2021

Recommendation	Management Response	Responsibility	Date of planned implementation
latest within three months after the financial year end as required by legislation.	Nonetheless, circumstances may arise, which make it difficult for Government to comply with this requirement. The Deputy Governor undertakes to discuss this recommendation with the Premier after the General Election in May 2021.		

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Complaints

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