Cayman Islands Government

STRATEGIC POLICY STATEMENT

2014-15

FOREWORD

Section 23 of the Public Management and Finance Law (2013 Revision) ("PMFL"), requires that the Strategic Policy Statement ("SPS") for the next financial year, be presented to the Legislative Assembly by a member of Cabinet, not later than the 1st December in each year.

The purpose of the SPS is to outline the Government's medium-term fiscal plans and policy priorities and also to establish the framework which will guide the development of the 2014/15 Budget which will take effect on 1 July 2014. This SPS highlights this Government's commitment to manage public finances in order to achieve compliance with all six Principles of Responsible Financial Management by 30th June 2016, as required by the Framework for Fiscal Responsibility.

The PMFL requires that the SPS provide:

- Economic forecasts for the current financial year and for the next two financial years;
- A total financial target for the Core Government for the next financial year and for each of the following two financial years, relating to revenues, expenses, borrowings, net worth and cash reserves;
- An explanation of how the Core Government forecast financial statements accord with the principles of responsible financial management;
- The total amount of Executive expenses for each financial year;
- The approximate amount of executive expenses allocated to each Minister, Official Member, the Office of the Complaints Commissioner, the Office of the Information Commissioner, the Office of the Director of Public Prosecutions and the Audit Office for each financial year;
- The total amount of Core Government Equity Investments, Acquisition of other Executive Assets, and Loans for each financial year; and
- A summary of the Broad Outcomes, the Specific Outcomes, and the links between them, that the Government intends to achieve in the next financial year and for at least the following two financial years.

The current financial year ends on 30th June 2014, and is referred to in this document as FY 2013/14. This SPS pertains to FY 2014/15, and the following two financial years 2015/16 and 2016/17.

Financial Year and Fiscal Year are used interchangeably in this document.

The information herein is based on year-to-date actual results and the professional judgement of staff in the Ministry of Finance and Economic Development, using the most recent information available on economic conditions, fiscal performance and estimated outturn. The information takes into account, to the fullest extent possible, all Government decisions made up to 8th November 2013, and all other known circumstances that may have a material effect on the economic and fiscal outlook.

The forward looking information provided in this document is based on a number of factors and assumptions. Forward looking financial statements carry an element of inherent risk and uncertainty. As a result, actual results may differ from those forecasted.

Dates on which the Forecasts and Information were finalised

Economic Data	24 October 2013
Economic Forecasts	24 October 2013
Fiscal Data	30 October 2013
Fiscal Forecasts	30 October 2013
Text	14 November 2013

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MESSAGE FROM THE HONOURABLE PREMIER

I am pleased to present the 2014/15 Strategic Policy Statement (SPS) of the Cayman Islands Government. This document outlines the Government's plan for public finances over the next three fiscal years, covering the period: 1st July 2014 to 30th June 2017.

In August 2013, my Government developed a four year fiscal strategy to restore the public finances of the Cayman Islands to sustainable levels. Consistent with that plan, this SPS further outlines the Government's commitment to good governance, fiscal prudence and effective management of public finances.

Great achievements are usually born out of great sacrifice. This plan does not promise lavish programs or huge grants to all and sundry. What it promises, is a stable future that can be achieved through hard work, perseverance and short- term sacrifices so that our children can have a better tomorrow.

With this plan, the Government is poised to achieve full compliance with all Principles of Responsible Financial Management by the legislated deadline of 30th June 2016. This is possible by making reductions to expenditure, generating healthy operating surpluses, building cash reserves and paying down public sector debt.

The Government's plan continues to be one where the public sector largely plays the role of facilitator to a private sector that will drive sustainable economic growth. To this end, over the short to medium term, no new Revenue Measures are proposed apart from the previously announced intention to introduce, effective January 2014, a fee with respect to Directors of Hedge Funds. Such certainty arising from an absence of new Revenue Measures, will allow businesses to retain important capital with which they can expand operations, and create additional jobs.

Our citizens deserve an environment conducive to sustained economic growth. The plan outlined in this document is responsible, compliant and offers the hope and a promise of prosperity for our present and future generations.

Sincerely,

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Honourable Alden McLaughlin, MBE, JP
Premier and Minister of Home and Community Affairs

14th November 2013

Statement of Responsibility

The forecast financial statements presented in the SPS have been prepared in accordance with the Public Management and Finance Law (2013 Revision). They report the forecast financial transactions for the Core Government and the Entire Public Sector for the next three financial years.

The forecast financial statements were prepared by the Ministry of Finance and Economic Development on the basis of the economic and financial information available. The Ministry used its best professional judgement in preparing these forecast statements.

The forecast financial statements incorporate the fiscal and economic implications of all Government decisions and circumstances as at 8th November 2013.

We accept responsibility for the accuracy and integrity of the financial information in these forecast financial statements and their compliance with the Public Management and Finance Law (2013 Revision).

To the best of our knowledge, these forecast financial statements are:

(a) complete and reliable;
(b) fairly reflect the forecast financial position as at 30th June 2014, 2015, 2016 and 2017, and performance for the financial years ending 30 June 2014, 2015, 2016 and 2017;
(c) include all policy decisions and other circumstances that have, or may have, a material effect on the forecast statements; and
(d) comply with generally accepted accounting practices.

Honourable Marco Archer
Minister of Finance and Economic Development
14th November 2013

Mr. Kenneth Jefferson, JP
Financial Secretary
14th November 2013

Overview

The Government remains committed to getting the country back on course. Through sound financial management, as outlined in the 'Medium Term Fiscal Strategy 2013-17 ("MTFS"),' this Strategic Policy Statement expands on the fiscal strategies outlined in the MTFS, and demonstrates the Government's continued commitment to fiscal prudence.

Overall economic growth in the Cayman Islands is forecast to increase to 1.7% and 1.9% in the years ending 30th June 2015 and 2016 respectively. Thereafter, growth is expected to jump to 2.4% by the year ending 30th June 2017.

With the projected increase in demand for goods and services locally, higher inflation rates and lower unemployment are expected.

This fiscal plan shows the Government achieving increasing operating surpluses over the next three years. Over the corresponding period, the Government will also significantly increase its cash reserves and reduce its outstanding debt. This will be achieved by honouring the commitment to no new long-term borrowing.

In an effort to build the Government's cash reserves in the short to medium term, the purchase of Property, Plant and Equipment will be restricted to an average of $30.3 million annually. Resulting from increased operating surplus and restrained capital expenditures, core Government cash balances are expected to improve to $420.7 million by 30th June 2017.

The current Government's primary fiscal and policy objectives include:

- Continued commitment to prudent and transparent fiscal management with the key objective of complying with all principles of responsible financial management defined in the PMFL by 2015/16;
- Preparing Caymanians to compete in the workforce, through appropriate education and training programmes;
- Developing and modernising our infrastructure; and
- Facilitating private sector economic growth.

Table 1- Summary of the Main Economic and Fiscal Forecasts

	2013/14 Budgeted	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Economic (Percentages)				
Real GDP	1.5	1.7	1.9	2.4
Consumer Price Index (Inflation)	2.2	2.3	2.5	2.5
Unemployment Rate	6.0	5.7	5.2	4.7
Fiscal ($ millions)				
Net Operating Surplus	100.3	123.5	139.0	148.7
Closing Bank Account Balances	163.0	240.1	338.1	420.7
Government Debt	548.9	523.5	503.5	468.6

ECONOMIC OUTLOOK

Introduction

The domestic economy continued to recover in 2012 following the initial emergence from recession in 2011. Moderate growth is expected for 2013, conditional on the upturn of domestic private sector investments amidst a weaker global economy. This section presents the forecasts for FY 2014/15 to FY 2016/17 and their major assumptions along with a review of the domestic and global economic performance in 2012 and the first six months of 2013.

World Economic Performance and Forecasts[1]

Global growth in 2012 was estimated to have slowed to 3.2 percent following the 3.9 percent recorded in 2011. This performance resulted from lacklustre growth of the advanced economies, particularly the Euro zone regional economy had been beset with severe fiscal imbalances of a few member countries. Gross domestic product (GDP) of the advanced economies slowed to 1.5 percent in 2012 as compared to 1.7 percent in 2011.

For 2013, growth of global economic output is expected to be lower at 2.9 percent, as the advanced economies including the United States of America (USA) are projected to show a weaker aggregate growth of 1.2 percent.

Growth in the USA ameliorated from 1.8 percent in 2011 to 2.8 percent in 2012 on the back of a growing robustness in investment; however, it was a slowdown from two years ago due to the remaining effects of the financial crisis, fiscal consolidation and weak external markets on other components of aggregate demand. GDP growth is projected to be slower at 1.6 percent in 2013, improving to 2.6 percent in 2014.

In 2012, the rest of the advanced economies generally posted weaker economic performance except for Japan. The Euro area shrunk by 0.6 percent, mainly due to the impact of the sovereign debt crisis in periphery countries. Germany weakened with growth of 0.9 percent while Italy, Spain, Netherlands, Belgium, Greece, Portugal, Finland, Cyprus and Slovenia declined. Recessionary economic condition is projected to persist for the Euro area in 2013, declining by 0.4 percent.

[1] This assessment is based on the World Economic Outlook (International Monetary Fund, October 2013).

In the United Kingdom (UK), growth has been relatively low and trending downwards, from 1.1 percent in 2011 to 0.2 percent in 2012. Over the medium-term, private sector growth is expected to increasingly lead the recovery as fiscal consolidation continues. GDP growth in 2013 is forecasted at 1.4 percent.

Emerging and developing economies posted strong economic growth of 4.9 percent in 2012, albeit lower than a year ago, supported by strong domestic demand. China, the largest Asian economy led the region with a 7.7 percent GDP growth. Emerging and developing economies are expected to remain upbeat with output growth of 4.5 percent in 2013.

Table 1: Comparative Macroeconomic Forecasts (%)

				Forecasts	
	2010	**2011**	**2012***	**2013**	**2014**
Real GDP growth (%)					
Cayman Islands	(2.9)	0.9	1.6	1.4	1.6
United States	2.4	1.8	2.8	1.6	2.6
World	5.1	3.9	3.2	2.9	3.6
Consumer Prices Inflation (%)					
Cayman Islands	0.3	1.3	1.2	2.1	2.2
United States	1.6	3.1	2.1	1.4	1.5
Advanced economies	1.5	2.7	2.0	1.4	1.8
Unemployment Rate (%)					
Cayman Islands	6.2	6.3	6.2	6.1	5.8
United States	9.6	9.0	8.1	7.6	7.4
Advanced economies	8.3	7.9	8.0	8.1	8.0
Current account of the Balance of Payments (% of GDP)					
Cayman Islands	(17.1)	(18.2)	(18.1)	(19.1)	(18.9)
United States	(3.0)	(3.1)	(2.7)	(2.7)	(2.8)
Advanced economies	0.0	(0.2)	(0.1)	0.1	0.2

*Cayman Islands GDP and current account data for 2011 are actuals; for 2012, these are estimates based on indicators.
Sources: IMF World Economic Outlook (October 2013) for the United States and global data; Cayman Islands Government, Economic and Statistics Office for the Cayman Islands data.

The Cayman Islands' Economic Performance and Forecasts for FY 2013/14

Output (GDP) Growth. In 2012, the local economy was estimated to have expanded anew by 1.6 percent, following its emergence from recession in 2011 with a 0.9 percent growth.

Expansion in economic activity was strongest in the following sectors: construction, wholesale and retail trade, hotels and restaurants, financing and insurance services, and transport, storage and communication. For the first half of 2013, GDP growth was estimated at 0.9 percent as all the main sectors excluding wholesale and retail trade and government services recorded positive growth.

In 2011, the curtailment of demand caused a double-digit decline in construction indicators (total value of building permits and project approvals). Construction activity in 2012 increased for the first time in four years by an estimated 6.7 percent. The growth estimate is supported by increases in imported building materials partly due to duty-free concessions from a building incentive scheme. During the first half of 2013, the value of building permits increased by 4.6 percent, while the value of building intentions doubled.

Wholesale and retail trade activity was estimated to have increased in 2012 by 3.5 percent as indicated by the growth in imports of consumer and intermediate goods adjusted for inflation. For the first half of 2013, merchandise imports fell by 0.5 percent to $371.2 million, reflecting a 3.2 percent reduction in non-fuel imports which offset the positive movement of fuel imports by 1.3 percent.

Value added of the hotels and restaurants sector in 2012 was estimated to have increased by 3.3 percent as a result of higher quantity of stay-over visitors by 4.1 percent. For the first six months of 2013, stay-over arrivals increased at 6.1 percent while cruise visitors declined by 9.8 percent as compared to the same period a year ago.

Transportation, storage and communication sectors rose in 2012 by 2.8 percent bolstered by growth in stay-over tourism and cruise visitors coupled with higher volume of cargo transportation and marginal expansion in telecommunication activities.

In 2012, the financing and insurance services sector which accounted for approximately 42.3 percent of GDP was estimated to have expanded by 2.0 percent compared to 0.1 percent a year ago. Value added from insurance services rose by 5.6 percent as gross premiums increased while net claims declined. Financing services improved by 1.1 percent based on higher earned interest in the local banking sector.

Financial services indicators continued to turn in a mixed performance during the first two quarters of 2013: moderate growth of 3.1 percent was recorded for mutual funds registration, however, this growth emanated from a newly regulated category 'master fund' which expanded by 41.4 percent. Other upward performances were insurance licenses (2.5%) and new company registrations (0.1%). In contrast, bank and trust companies, and stock exchange listings, declined. Domestic credit fell by 3.0 percent as compared to the first half of 2012. This resulted as credit to the private sector fell by 2.6 percent and followed by a 6.1 percent decline in public sector borrowings.

Value added of government services grew 1.1 percent in 2012 due to the combined effects of higher staff levels (by 41 persons) and a roll-back of the cost of living adjustment in 2012. However, for the first six months of 2013, government services declined due to a reduction of civil service personnel.

In 2012, real estate, renting and business activities was estimated to have declined by 0.7 percent, as both business services and real estate activities were affected by low registration of companies and property transfers. The value of property transfers as at June 2013 spiked by 67.0 percent following an unusual amount of high valued properties traded during the period a year ago.

Based on the first six months data, GDP growth forecast for 2013 is revised downwards to 1.4 percent from the 2.0 percent forecasted earlier in the year, mainly due to the weaker than expected financial services indicators, slower than anticipated implementation of private sector construction projects and slow wholesale and retail activities. The revised GDP growth the FY 2013/14 is now placed at 1.5 percent.

Inflation. Domestic inflation was recorded at 1.2 percent in 2012 as the cost of clothing and footwear, food and non-alcoholic beverages, and alcohol and tobacco, picked up. The latter is mainly a result of the higher local duty implemented starting September 2012. The average inflation for the first half of 2013 is 2.0 percent influenced by higher prices for food and non-alcohol beverages, alcohol and tobacco, clothing and footwear, household equipment, and miscellaneous goods and services. Average inflation is forecasted to remain at 2.1 percent for the calendar year 2013. The inflation forecast for FY 2013/14 is placed at 2.2 percent, based on the anticipated higher global prices of non-oil commodities, and marginally higher inflation forecast for the US.

Employment. In 2012, labour market indicators improved in general as a higher population size and improved labor participation rate led to an increase in the labour force by 3.2 percent to reach 38,811. There was a 4.7 percent increase in work permits to 20,789. Employment growth accelerated to 3.2 percent with 36,401 persons employed supported by the commencement of a handful of construction projects. The unemployment rate improved modestly to 6.2 percent; however Caymanian unemployment rate rose to 10.5 percent from 9.8 percent in 2011 despite a growth in employment by 3.3 percent in 2012.

Work permits for the first half of 2013 were higher by 2.3 percent. Conditional on a modest GDP growth in 2013, the unemployment rate is forecast to improve slightly to 6.0 percent. The resulting forecast unemployment rate for FY 2013/14 is placed at 6.0 percent, a marginal improvement from 6.2 percent for FY 2012/13.

Current Account[2]. Merchandise imports fell slightly to $758.5 million in 2012 from $759.5 million a year ago. The decline was largely a result of the lower value of fuel imports on account of lower volume and average prices.

During the first half of 2013, merchandise imports were 0.5 percent lower than a year ago, although imports of non-petroleum and related-products grew at 1.3 percent. In view of the anticipated increase in commodity prices, merchandise imports are forecast to increase overall by 1.0 percent in 2013.

[2] The current account of the balance of payments measures the total value of the country's transaction against the rest of the world in terms of trade in goods and services, income and transfers. A deficit in the current account means that the Cayman Islands made more payments to the rest of the world compared to its receipts from these transactions.

The country's current account deficit was estimated to have narrowed to 18.1 percent of GDP in 2012 due mainly to an increase in inflow of funds arising from visitor expenditures. Estimated inflows from tourism services dominated the inflow of funds, backed by strong growth in air arrivals and a rebound in cruise arrivals. Receipts from financial services were estimated to have declined in 2012 as new company registrations and mutual funds (excluding master funds) registration declined. Workers remittances were marginally higher as foreign employment increased.

In 2013, higher projected imports and remittances are estimated to outweigh tourism and financial services receipts from abroad, widening the current account deficit to 19.1 percent of GDP in 2013. The resulting forecast for FY 2013/14 is 19.0 percent of GDP.

Economic Assumptions and Forecasts for FY 2014/15 to 2016/17

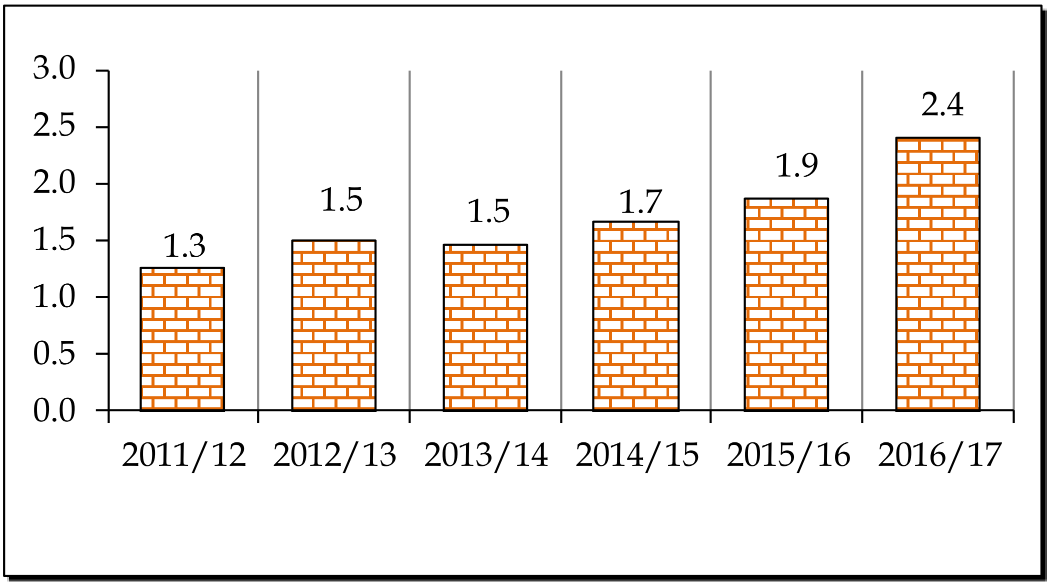
GDP Growth. Conditional on improved growth projection for the advanced economies starting in 2014, overall economic growth of the Cayman Islands in the next three fiscal years is foreseen to be on the uptrend. This will also continue to rely heavily on domestic private investments as government spending is not expected to play a direct role in stimulating the economy in light of the government's commitments in the FFR.

Construction is assumed to contribute towards GDP growth in the medium-term with the implementation of recently announced private sector investment projects such as the redevelopment of the Owen Roberts International Airport Terminal; a modern cruise ship berthing facility; the development of the new Kimpton Hotel on Seven Mile Beach; redevelopment of the former Hyatt Beach Suites Hotel; and the development of new hotels near Cayman Health City and in Beach Bay, Bodden Town. Construction of Cayman Health City (Phase 1) has already commenced and is at an advanced stage of completion. The construction phase of these projects is expected to stimulate the demand for services in several sectors such as wholesale and retail; real estate, renting and business activities; hotels and restaurants; financing and insurance.

The upbeat forecasts assume that the positive growth outlook, albeit moderate, for the advanced economies over the medium-term is likely to contribute to increasing growth in tourism services. Fiscal consolidation in the advanced economies and sustained recovery of global finance are also assumed to facilitate healthier demand for financial services.

The above external and domestic assumptions support a forecast growth of real GDP in 2014/15 of 1.7 percent (see Figure 1). Moderate improvement in growth to 1.9 percent for FY 2015/16 and stronger growth of 2.4 percent are forecasted for FY 2016/17, conditional on the operation of planned private sector investment projects, increasing demand for tourism services and stability in financial services.

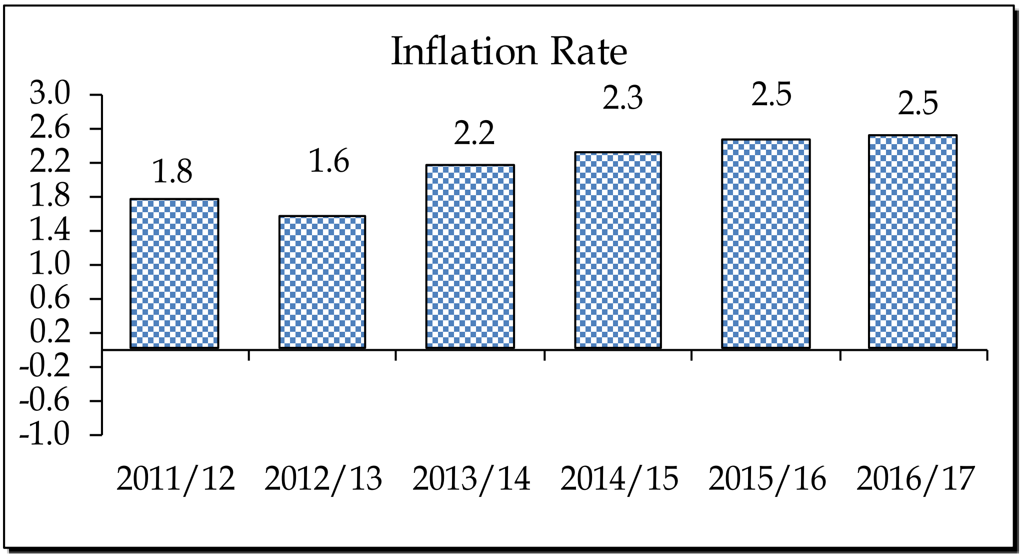
Figure 1: Cayman Islands' Real GDP Growth (%s)



Source: Cayman Islands Government (Economics and Statistics Office)

Inflation Rate. Higher inflation rates are projected in the next fiscal years as domestic demand for goods and services are likely to be boosted by the increase in tourism and the implementation of various developments (see Figure 2). For FY 2014/15, inflation is forecasted at 2.3 percent. In succeeding years, this will inch up to 2.5 percent in FY 2015/16 and FY 2016/17 as construction demand from the proposed hotel projects and other phases of the Cayman Health City are implemented.

Figure 2: Cayman Islands' Inflation Rates (%)

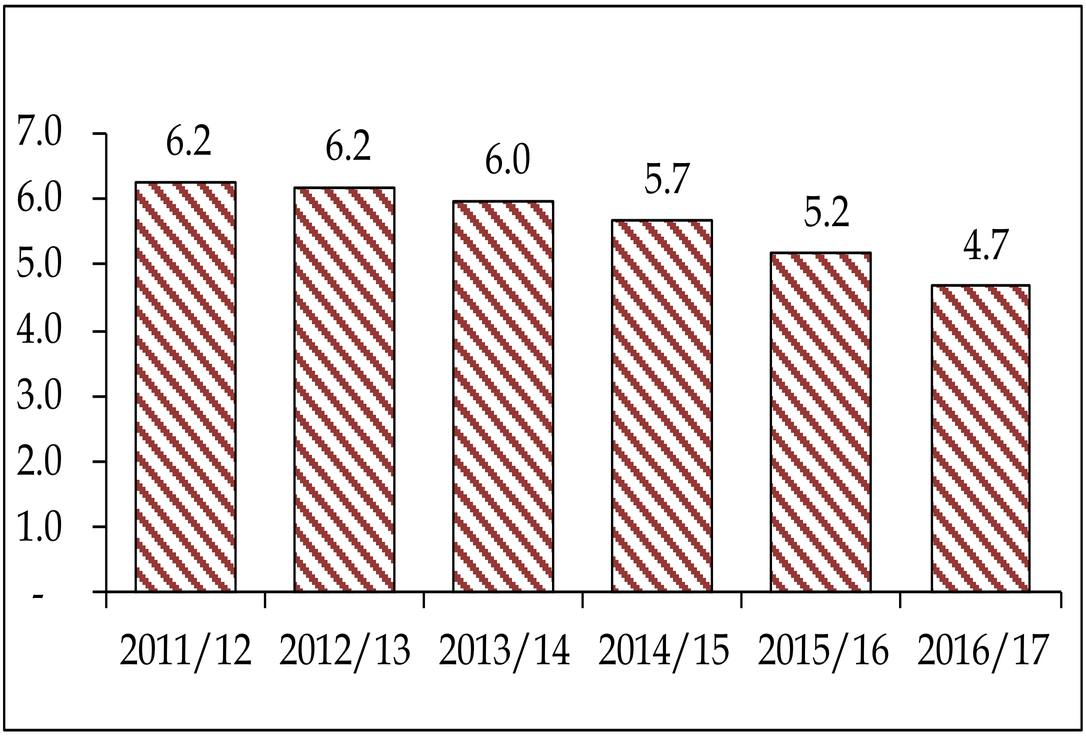


Source: Cayman Islands Government (Economics and Statistics Office)

Employment. Local employment is assumed to have a lagged response to forecast output growth. New employment is expected to emanate from construction projects, the commencement of the Health City and the proposed hotel projects and from local services with strong linkages to the envisioned private sector projects. Unemployment rate is forecasted at 5.7 percent in FY 2014/15, followed by gradual improvements to 5.2 percent in FY 2015/16 and 4.7 percent in FY 2016/17 (see Figure 3).

Figure 3: Cayman Islands' Unemployment Rates

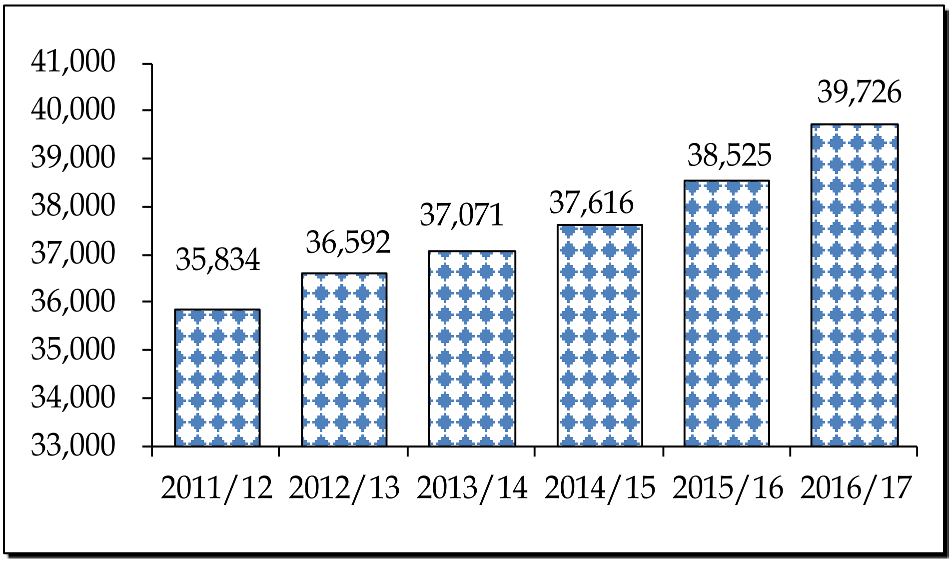
(% of Labour Force)



Source: Cayman Islands Government (Economics and Statistics Office)

Sustained improvements in the employment level are expected in the next three years from 37,616 in FY 2014/15 to 39,726 in FY 2016/17 (see Figure 4).

Figure 4: Cayman Islands' Employment Level



Source: Cayman Islands Government (Economics and Statistics Office)

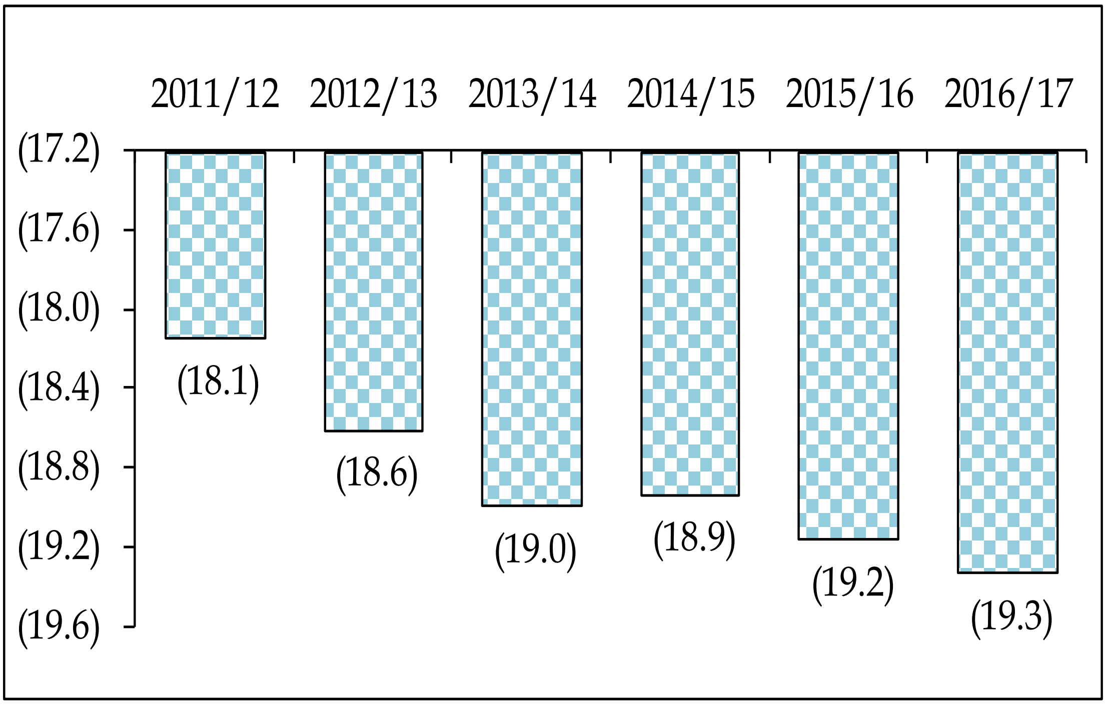
Current Account. For the financial year 2014/15, the deficit on the current account of the Balance of Payments (BOP) is expected to improve slightly to 18.9 percent of GDP. This assumes that growth in imports and remittances in FY 2014/15 will underperform the growth of inflows from tourism particularly from medical tourism, and to a lesser extent financial services.

For the succeeding years, the construction of other projects is assumed to accelerate the growth of imports, thus raising the current account to GDP ratios. For FY 2015/16 and 2016/17, the current account deficits are forecasted at 19.2 percent of GDP and 19.3 percent of GDP respectively (see Figure 5).

Figure 5:

Cayman Islands' Current Account of the Balance of Payments

(% of GDP)



Source: Cayman Islands Government (Economics and Statistics Office)

Fiscal Outlook

Past Fiscal Performance and Analysis

Unaudited results and analysis for Fiscal Year 2011/12

Unaudited 2011/12 results amount in CI$'000s				
Revenues	Budget	Actual	Dollar Variance over/**(under)**	Percentage Variance over/**(under)**
Coercive Revenue	479,702	487,721	8,019	1.67%
Sales of Goods & Services	56,018	55,531	(487)	-0.87%
Investment Revenue	162	418	256	158.27%
Donations		4,368	4,368	100.00%
Other Revenue		37	37	100.0%
Total Revenues	535,882	548,076	12,194	2.28%
Expenses	Budget	Actual	Dollar Variance **(over)**/under	Percentage Variance **(over)**/under
Personnel Costs	228,311	224,348	3,963	1.74%
Supplies and Consumables	95,346	98,779	(3,433)	-3.60%
Depreciation	22,425	20,955	1,470	6.56%
Finance Costs	33,410	33,468	(58)	-0.17%
Litigation Costs	281	328	(47)	-16.73%
Outputs from Statutory Authorities and Government Owned Companies	93,235	101,656	(8,421)	-9.03%
Outputs from Non-Government Output Suppliers	17,754	28,910	(11,156)	-62.84%
Transfer Payments	28,820	30,822	(2,002)	-6.95%
(Gains)/losses on foreign exchange transactions	416	(1,647)	2,063	n/a
(Profit)/Loss on Statutory Authorities and Government Owned Companies	8,405	2,847	5,558	66.13%
Other Operating Expenses	3,800	5,796	(1,996)	-52.53%
Total Expenses	532,203	546,262	(14,059)	-2.64%
Net Surplus/(Deficit)	3,679	1,814	(1,865)	

The Government submitted the consolidated 2011/12 Financial Statements for all Government Agencies to the Office of the Auditor General by the legal deadline of August 31st 2012.

As a result of supplementary appropriation changes, which were approved by the Legislative Assembly on September 9th 2013, the operating surplus for 2011/12 was $1.8 million.

This net operating surplus was less than originally forecast in the approved 2011/12 Budget and was primarily a result of a $14.1 million increase in operating expenses, partially mitigated by a $12.1 million increase in revenues.

Higher than expected expenses were primarily attributed to an $8.4 million increase in Outputs purchased from the National Roads Authority and an $11.2 million increase in Outputs purchased from Non-Government Output Suppliers mainly for overseas medical expenses for indigents and uninsured persons.

After the approval of the 2011/12 Budget the Government decided against changing its funding model for the National Roads Authority (NRA), whereby Cabinet would have assigned certain revenue streams directly to the NRA in lieu of purchasing Outputs, the said revenue streams were recognized as revenues for the Core Government. This increased Government's revenues by $8 million over Budget. In addition, over the 2011/12 FY, Government received a donation of $4.1 million under the "For Cayman Investment Alliance" agreement with the DART group of companies.

The revised 2011/12 closing cash balance was $109.0 million. During the year, purchase of property, plant and equipment increased by $10.9 million.

Unaudited results and analysis for Fiscal Year 2012/13

Unaudited 2012/13 results amount in CI$'000s				
Revenues	Budget	Actual	Dollar Variance over/**(under)**	Percentage Variance over/**(under)**
Coercive Revenue	590,559	560,036	(30,523)	-5.17%
Sales of Goods & Services	58,682	58,326	(356)	-0.61%
Investment Revenue	213	658	445	208.92%
Donations		409	409	100.00%
Other Revenue		136	136	100.0%
Total Revenues	649,454	619,565	(29,889)	-4.60%
Expenses	Budget	Actual	Dollar Variance **(over)**/under	Percentage Variance **(over)**/under
Personnel Costs	250,885	238,871	12,014	4.79%
Supplies and Consumables	95,284	87,428	7,856	8.24%
Depreciation	25,006	25,034	(28)	-0.11%
Finance Costs	32,841	33,187	(346)	-1.05%
Litigation Costs	454	1,210	(756)	-166.52%
Outputs from Statutory Authorities and Government Owned Companies	108,460	110,852	(2,392)	-2.21%
Outputs from Non-Government Output Suppliers	18,955	25,999	(7,044)	-37.16%
Transfer Payments	32,816	31,728	1,088	3.32%
(Gains)/losses on foreign exchange transactions	17	(764)	781	4594.12%
(Profit)/Loss on Statutory Authorities and Government Owned Companies	(1,875)	(1,658)	(217)	11.57%
Other Operating Expenses	4,359	4,357	2	0.05%
Total Expenses	567,202	556,244	10,958	1.93%
Net Surplus/(Deficit)	82,252	63,321	(18,931)	

At the end of FY 2012/13, the Government submitted the consolidated Financial Statements for all Government Agencies to the Auditor General by the legal deadline of 31st August 2013.

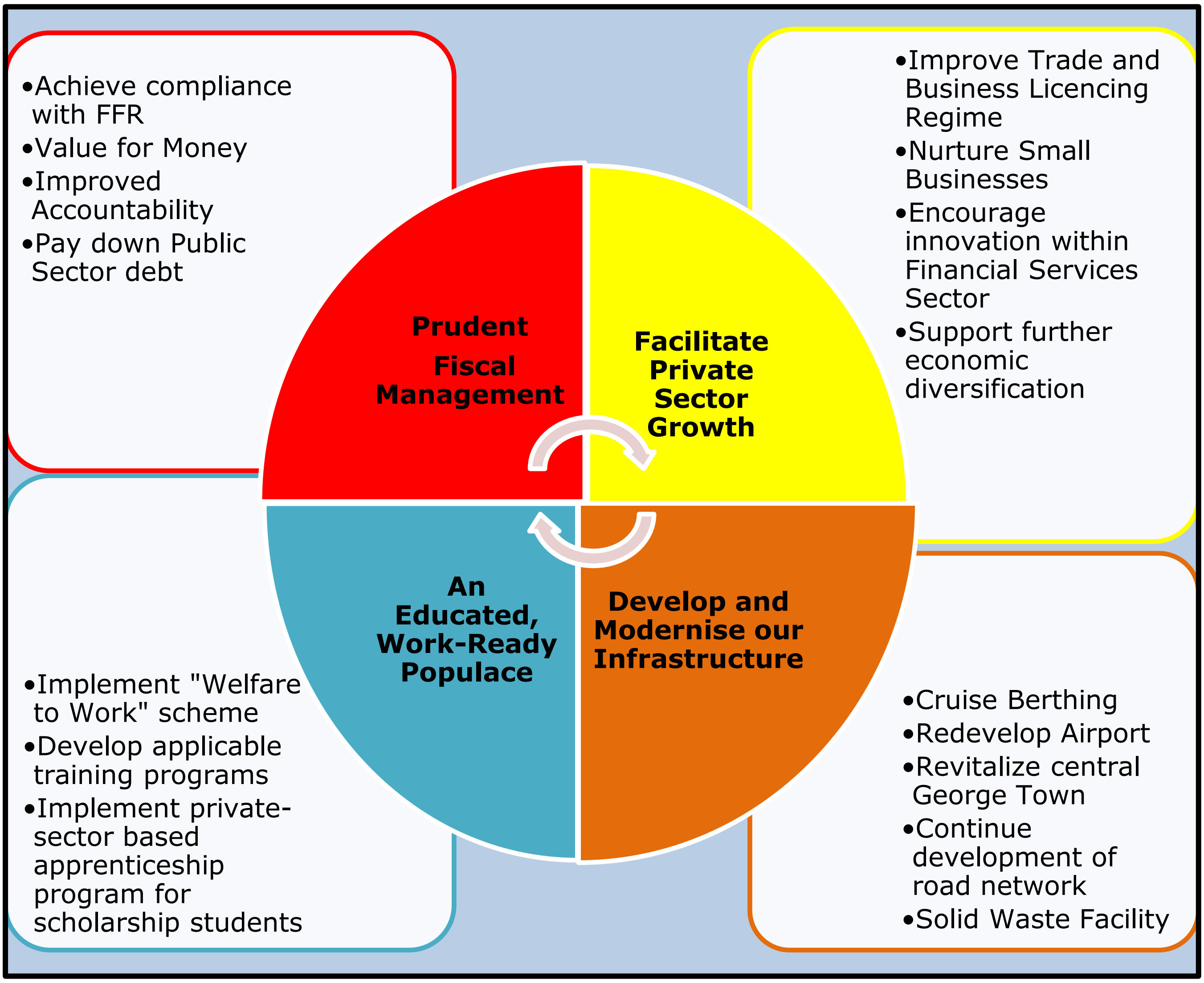
After taking into account the appropriation changes requested as part of the Supplementary budget approved by the Legislative Assembly on September 9th 2013, the operating surplus for the 2012/13 FY was $63.3 million. This figure represents an $18.9 million deterioration to Government's net operating position when compared to the approved 2012/13 Budget. This negative variance primarily resulted from a shortfall in revenues of $29.9 million, due in part to changes in Government policy which resulted in the non-implementation of certain budgeted revenue measures during the 2012/13 Financial Year.

However, due to a $12.0 million positive variance in Personnel costs (resulting from stricter management of recruitment processes and natural attrition of staff complement), along with a $7.9 million reduction in Supplies and Consumables (due to savings in professional fees, marketing, maintenance and other areas), the revised operating expenses were $10.9 million lower than the amount forecast in the original 2012/13 approved Budget.

The revised 2012/13 closing cash balance was $117.1 million. During the year, purchase of property, plant and equipment decreased by $1.4 million.

Accounts Receivable Aging Summary as at 30th September 2013

	Current	Past Due	Past Due	Past Due	Past Due	Past Due	Past Due	Total Outstanding amount
		1-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	361+ Days	
Ministry/Portfolio and Offices	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Office of the Auditor General	-	-	-	-	-	-	-	**-**
Judicial Administration	-	-	-	-	-	-	(4)	**(4)**
Ministry of Home and Community Affairs	1	-	173	1	1	-	1,005	**1,181**
Portfolio of Legal Affairs	178	10	13	-	8	18	23	**250**
Ministry of Finance and Economic Development	968	1,190	988	198	66	7	7,172	**10,589**
Ministry of District Administration, Tourism and Transport	-	-	-	-	-	-	(5)	**(5)**
Ministry of Planning, Lands, Agriculture, Housing & Infrastructure	204	(32)	17	23	36	131	1,132	**1,511**
Minstry of Education, Employment and Gender Affairs	14	13	18	34	175	160	748	**1,162**
Ministry of Health, Sports, Youth and Culture	90	(84)	-	1	1	1	83	**92**
Cabinet Office	3	40	2	1	1	2	-	**49**
Office of the Compliants Commissoner	-	-	-	-	-	-	-	**-**
Portfolio of the Civil Service	-	-	-	-	-	-	-	**-**
Ministry of Financial Services, Commerce and Environment	168	(3)	-	-	-	430	5	**600**
Due from the Public	**1,626**	**1,134**	**1,211**	**258**	**288**	**749**	**10,159**	**15,425**
Trade with public entites	**1,605**	**186**	**1,099**	**167**	**531**	**565**	**5,265**	**9,418**
Total	**3,231**	**1,320**	**2,310**	**425**	**819**	**1,314**	**15,424**	**24,843**



Prudent Fiscal Management

The Government is committed to achieving compliance with the Framework for Fiscal Responsibility set out in the PMFL. To ensure this, prudent financial management has been placed at the center of the Government's medium term fiscal plans. Over the next three financial years the Government seeks to reduce Government operating expenditure, pay down debt, and build cash reserves. These can only be achieved if prudent fiscal management is applied across the entire public sector. The key elements of this plan are:

Improving Fiscal Risk Management: this will involve enhancing the process by which Government agencies identify, track and manage all liabilities. The ultimate goal being to ensure that these liabilities are addressed in a definitive and sustainable way where possible and that processes are put in place to avoid the acquisition of any unnecessary liabilities. This will include the aggressive management of the public sector debt portfolio allowing for the refinancing or early retirement of debt as and when market conditions are favourable;

Improving Value For Money, will involve a strengthening of all procurement practices across the public sector to ensure that goods and services are obtained on the best possible terms thereby reducing costs and ensuring greater efficiencies. In addition, the processes by which Government considers and approves capital investments will be closely examined and strengthened to ensure that due consideration is given to the long-term impacts of these investments and that they achieve their desired results; and

Improved Accountability: The Government is committed to improving the current state of financial accountability and will guide and support all agencies to improve the standard and frequency of their financial reporting. This is a critical component to ensure that both decision makers and the general public have a clear and reliable source of financial data to evaluate the public sector on.

In addition to these critical components, the Government will also be considering changes to the overall financial management system currently used by the Government that is set out in the PMFL. A committee headed by Councilor McTaggart and the Financial Secretary will shortly commence work on a review of the PMFL to consider legislative amendments aimed at improving the financial management systems and processes across the public sector. This committee will consider areas such as: the appropriateness of output budgeting for Government; shifting from annual budgeting to multi-year budgeting; and simplification of budget documentation.

Over the medium term, the Government will examine various services, assets and agencies for possible divestment as a means of reducing expenditure, limiting risk and improving efficiency within the public sector.

Facilitate Private Sector Economic Growth

The Government recognizes the role of small and medium sized businesses to maintain a vibrant, diverse and growing economy which creates employment, supports service innovations and provides consumers with a wide range of choices. The Government will work to remove, where possible, the taxes and bureaucratic hurdles which may restrict or unnecessarily burden the operations of these smaller businesses. Training programs will be provided to owners and operators of small businesses to enhance their business skills so as to improve the level of success among this category of businesses.

A review of the trade and business licensing legislation and processes will be conducted in order to streamline these procedures, lowering costs to both Government and the business community.

Encouraging economic growth and diversification in all sectors of the economy is an important goal for this Government, and where appropriate, the Government will provide the necessary support to encourage investment, innovation and expansion in the financial services sector, tourism sector (including medical and sports tourism), agriculture, private tertiary education and other sectors.

There are a number of high profile private sector investments which are due to come into operation during the next three years that will generate new jobs, increase the number of visitors, and generally expand the Cayman Islands economy.

An Educated, Work-Ready Populace

The Government believes strongly that we must educate our people in order that they can take full advantage of the employment opportunities generated from a buoyant economy. It is crucially important that Caymanians have the skills and competency required by employers as this will enable them to take on high skilled jobs and earn the salaries necessary for them to truly enjoy the fruits of the Cayman Islands economic success story.

The public education system will strengthen its curriculum offerings to enhance the work readiness of its students. Also, the Government will work more closely with private sector employers to provide the necessary internships and job placements for students receiving scholarship support to ensure that they have adequate practical experience and exposure to complement their academic activities.

Jobs come in a wide variety of fields and the Government will partner with the private sector to offer a wider range of vocational training opportunities.

Where able-bodied unemployed Caymanians find themselves receiving welfare assistance, the Government will work with these individuals to transition them back into the workforce by linking the receipt of welfare benefits to mandatory training to strengthen their chances of securing employment.

Develop and Modernize our Infrastructure

A modern world-class infrastructure is an important component of the strategy to achieve economic growth and diversity over the medium term. The Government has identified five major infrastructure development projects that will support these goals over the long term, the projects are: cruise berthing facility; Owen Roberts International Airport enhancement; George Town revitalization; solid waste management facility; and an expanded road network. These projects are all being actively examined and analyzed to determine the best solutions for the way forward, being careful to consider the Government's financial position; the project's economic impact; and their related environmental concerns.

Currently, the cruise berthing project is the most advanced in its development, and this project is seen as crucial to grow the cruise tourism sector of the economy and to increase job creation and opportunities for small business development. This is a critical project to ensure that the Cayman Islands maintain its position as one of the top cruise tourism destinations in the Caribbean.

The redevelopment of the Owen Roberts International Airport is key to the continued growth and development of the stay-over tourism market and the financial services industry. There are several major private sector driven hotel development projects which are forecast to come on stream during the next few years and the Airport needs redevelopment in order to cope with an expected increase in the number of tourists arriving by air. The current airport terminal which has served the country well, is operating at or over capacity during peak travel times each day and needs to be redeveloped in order to provide our visitors with a comfortable, hassle free experience.

The revitalization of the George Town central business district is seen as very important to supporting the planned increases in cruise and stay-over tourists while also providing many opportunities for small businesses to develop to service the planned increases in tourist arrivals. In addition, George Town, being the capital of the country should have a greater level of activity outside of traditional working hours. The revitalization will be a collaboration of both public and private sectors, and will seek to bring more entertainment type activity to George Town.

The development of a modern solid waste management facility is crucial to the long term environmental health of the Cayman Islands. The present landfill is quickly exceeding its ability to service the needs of the country and a solution has to be found. The Government is committed to conducting the necessary reviews to identify an appropriate solution which will likely involve some form of public private partnership in order to finance and implement.

The continued development of the road network is another key infrastructure development need that will serve as a catalyst for economic development. In particular, the extension of the East-West arterial highway from the Newlands area east towards Frank Sound has been identified as the next major road infrastructure development.

Three Year Financial Forecast

Forecast Operating Statement

		SPS Forecast		
	Current Budget 2013/14	Forecast 2014/15	Forecast 2015/16	Forecast 2016/17
	CI$'000s	CI$'000s	CI$'000s	CI$'000s
Revenues				
Coercive Revenue	612,060	622,425	635,810	643,425
Sales of Goods & Services	31,852	31,852	31,852	31,852
Investment revenue	567	801	1,129	1,468
Donations	61	61	61	61
Other revenue	124	124	124	124
Total Revenues **Note 1**	**644,664**	**655,263**	**668,976**	**676,930**
Expenses				
Personnel costs	237,706	240,605	240,605	240,605
Supplies and Consumables	91,382	87,712	87,712	87,712
Depreciation and Amortisation	27,973	27,972	27,972	27,972
Finance costs	31,377	29,708	28,623	27,258
Outputs from Statutory Authorities & Government Companies	100,725	95,389	95,389	95,389
Outputs from Non-Governmental Suppliers	25,167	23,102	23,102	23,102
(Profit)/Loss on Statutory Authorities & Government Companies	(4,983)	(5,483)	(5,483)	(5,483)
Transfer Payments	33,122	31,627	30,979	30,679
Other (Gains)/Losses	(1,876)	(1,976)	(2,076)	(2,076)
Other Operating Expenses	3,767	3,144	3,107	3,107
Total Expenses **Note 2**	**544,360**	**531,800**	**529,930**	**528,265**
Net Surplus	**100,304**	**123,463**	**139,046**	**148,665**

The Government's three year financial forecasts are consistent with the Medium Term Fiscal Strategy and shows increasing surpluses over the next three financial years. Whilst revenues were $3.5 million higher than budget during the first quarter of fiscal year 2013/14, the Government has retained a modest outlook on future revenues and have kept the revenue assumption throughout the SPS period broadly in line with those forecasted in the medium term fiscal plan.

For the avoidance of doubt, the revenue forecast does not include any new revenue measures and is based on a constant policy assumption. It is also not dependent on any specific economic projects coming to fruition. To the extent that major private sector development projects come to fruition during the next three financial years, these will provide an added boost to Government revenues.

The operating expenditure forecast for 2014/15 shows a decrease of $12.5 million in operating expenditures when compared with the 2013/14 budget. This decrease results in forecast core Government operating expenses of $537.3 million for 2014/15. When combined with the expected net performance of Statutory Authorities and Government Owned Companies, the net operating expense for the entire public sector is $531.8 million for 2014/15. This is consistent with the $532.0 million limit established in the Medium Term Fiscal Strategy, for 2014/15.

Government's forecast operating expenses are expected to continue to decline throughout the SPS period, albeit at a slower pace in future years.

The Government believes there will be further opportunities to reduce Personnel Costs stemming from the voluntary redundancy program and efforts to reduce overall headcount through attrition. However, the Government is committed to credible fiscal planning and has sought to extract a higher degree of savings from areas such as Supplies and Consumables, Purchase of Outputs from Non-Government Output Suppliers and the Purchase of Outputs from Statutory Authorities and Government Owned Companies. To the extent greater personnel savings accrue, this would be a positive variance and the cash derived therefrom can be used to further improve the cash reserves of the Country.

In the area of Supplies and Consumables, the savings are expected to accrue from fees expended in 2013/14 that will not re-occur in future years. These items include the cost for an outline business case for the cruise berthing facility, the upgrade of the Government's financial management system, the reduction in Government occupied leased properties (primarily the Department of Tourism moving into the Government Administration building) and continued efficiency gains in other areas.

As a result of the revaluation of Government assets in line with International Public Sector Accounting Standards, the annual Depreciation amount has increased by approximately $2.0 million over the levels estimated in the Medium Term Fiscal Plan. However, since depreciation is a non-cash item, the increase has no material bearing on the overall fiscal strategy.

In the interest of prudence, the Government will seek to retain its minimal operating annual overdraft of $15.0 million as a contingency measure. However, the Government plans to manage its financial affairs in 2014/15 so that it does not require the overdraft facility. The amounts saved in fees and interest combined with the continued decline in outstanding debt principal will result in a savings of approximately $1.7 million in Financing Expenses for 2014/15. Thereafter, financing expense is expected to continue to decline as the Government continues to pay down its debt balances and refrain from new borrowings.

Outputs from Statutory Authorities and Government Owned companies will continue to decrease as the Government seeks to improve the performance of the agencies in this sector whilst simultaneously structuring their finances to make them more self-sustaining.

Statutory Authorities and Government Owned companies were not designed to become a financial burden on the core Government. The rationale behind establishing many of these agencies was that such entities would have their own sources of revenues which would allow the entities to carry out their mandate and, where possible, return a dividend to the core Government.

As part of its overall strategy, the Government is seeking to structure the financial affairs of these agencies to make them less reliant on funding/subsidies from the central Government. This is being carried out in tandem with a detailed review of their financial operations to ensure that these organizations are lean and that they have credible medium term plans for the management of their financial affairs and the delivery of their respective outputs.

The Government has mandated that all Statutory Authorities and Government Owned Companies review their operations and implement credible and sustainable changes to improve their financial performance.

This mandate resulted in an improved financial plan for the current fiscal year. The Government intends to continue to instill greater fiscal discipline among its Statutory Authorities and Government Owned Companies and will seek to achieve an improvement of $0.5 million in their net operating performance for fiscal year 2014/15. Thereafter, their operations are expected to stabilize whereby the Government can expect a steady surplus from these agencies going forward.

Transfer payments are forecast to decline as the Government concludes many of the legacy items it inherited from the previous Administration and seeks to implement proper processes and procedures for the management of social programs.

This includes the conclusion of the Housing Assistance Program and the continued reduction of the Young Nation Builders' Scholarship Fund. The Young Nation Builders' Scholarship Fund will be replaced by the Government's standard scholarship program in future years which will ensure proper processes and procedures for the awarding of scholarships. Finally, equipment previously purchased for "law enforcement equipment services" will not be purchased in 2014/15 or in future years.

Gains from foreign exchange are expected to modestly improve in future years as the Government's cash reserve increases and greater amounts are collected through revenues. This will also have a positive impact on interest income earned from greater cash balances.

Other executive expenses largely consists of the Judiciary expenses, salaries and constituency allowances of Members of the Legislative Assembly, Court of Appeal expenses, memberships to various international organizations and settlement of legal claims. The reduction in 2014/15 is largely a result of the provision made in 2013/14 for a voluntary separation package which will not be repeated in 2014/15 and the conclusion of a court ordered settlement which will end in 2014/15. Thereafter, this area of expense is expected to remain relatively stable.

Forecast Operating Performance by Ministry/ Portfolio/ Office

Note 1: Operating Revenue by Agency $000's				
	Approved Budget	Forecast		
Agency	2013/14	2014/15	2015/16	2016/17
Cabinet Office	9,829	5,963	6,034	6,035
Information Commissioner's Office	0	0	0	0
Judicial Administration	6,065	6,184	6,274	6,301
Ministry of District Administration, Tourism and Transport	23,374	24,337	24,702	24,753
Ministry of Education, Employment and Gender Affairs	1,507	1,507	1,507	1,507
Ministry of Finance and Economic Development	185,335	191,964	195,098	198,202
Ministry of Financial Services, Commerce and Environment	240,034	247,523	255,175	259,433
Ministry of Health, Sports, Youth and Culture	4,305	4,319	4,330	4,331
Ministry of Home and Community Affairs	85,796	85,929	87,184	87,219
Ministry of Planning, Lands, Agriculture, Housing and Infrastructure	86,411	85,529	86,664	87,141
Office of the Auditor General	768	768	768	768
Office of the Complaints Commissoner	0	0	0	0
Office of the Director of Public Prosecutions	0	0	0	0
Portfolio of Legal Affairs	774	774	774	774
Portfolio of the Civil Service	466	466	466	466
Total for All Agencies	**644,664**	**655,263**	**668,976**	**676,930**

The table above provides a breakdown of operating revenues by Ministry/ Portfolio/ Office. The operating revenue by Agency shows a largely consistent revenue base for most Agencies. Revenue increases are forecast to increase in line with economic projections or remain stable where the particular revenue basket is not susceptible to such changes.

The Cayman Islands enjoys a thriving financial services industry. This industry has demonstrated sustained year on year increases in revenue generation. This is expected to continue in the short to medium term.

Note 2: Operating Expenditures by Agency CI$'000s				
	Approved Budget	Forecast		
Agency	2013/14	2014/15	2015/16	2016/17
Cabinet Office	6,363	6,360	6,360	6,360
Information Commissioner's Office	770	770	770	770
Judicial Administration	11,201	11,194	11,194	11,194
Ministry of District Administration, Tourism and Transport	52,739	50,864	50,864	50,864
Ministry of Education, Employment and Gender Affairs	96,324	95,277	94,777	94,477
Ministry of Finance and Economic Development	64,813	66,279	65,094	63,729
Ministry of Financial Services, Commerce and Environment	22,050	20,840	20,840	20,840
Ministry of Health, Sports, Youth and Culture	68,233	65,430	65,430	65,430
Ministry of Home and Community Affairs	125,731	123,910	123,762	123,762
Ministry of Planning, Lands, Agriculture, Housing and Infrastructure	58,670	54,549	54,549	54,549
Office of the Auditor General	2,350	2,350	2,350	2,350
Office of the Compliants Commissoner	740	740	740	740
Office of the Director of Public Prosecutions	2,741	2,741	2,741	2,741
Portfolio of Legal Affairs	6,854	6,851	6,851	6,851
Portfolio of the Civil Service	31,736	31,100	31,063	31,063
Less Audit fee eliminations	(1,972)	(1,972)	(1,972)	(1,972)
***Total for All Agencies**	**549,343**	**537,283**	**535,413**	**533,748**

*Total in the above table differs from the total of Operating Expenses on page 25, due to the expected Surpluses of SAGCs being subtracted from Operating Expenses.

The Operating Expenditure profile shows a stable business outlook for most agencies of the core Government. The Ministry of Finance met with all Ministries and Portfolios to discuss their future financial plans and the circumstances which were impacting each agency both negatively and positively.

Each agency's allocation was then adjusted based on the representations made, as well as judgments by the Ministry of Finance staff. For example, in the case of the Ministry of District Administration, Tourism & Transport, the allocation was decreased on the basis of the fees paid for an outline business case in 2013/14 which will not be repeated in 2014/15. The allocation was further reduced by the Department of Tourism's plans to move into the Government Administration building. This means, that agency will no longer pay rent to a third party, this will result in savings to that Agency of over $0.6 million in a full year.

Forecast Statement of Financial Position

	SPS Forecast			
	Approved Budget 2013/14	Forecast 2014/15	Forecast 2015/16	Forecast 2016/17
	$000	$000	$000	$000
Current Assets				
Cash and cash equivalents	163,007	240,070	338,077	420,667
Trade receivables	34,406	32,686	31,051	29,499
Other Receivables	14,213	13,502	12,827	12,186
Inventories	3,682	3,314	2,982	2,684
Prepayments	8,960	8,210	8,100	7,900
Loans	1,018	967	919	873
Total Current Assets	**225,286**	**298,749**	**393,957**	**473,809**
Non-Current Assets				
Trade receivables	300	300	300	300
Investments	1,905	1,905	1,905	1,905
Loans	3,388	3,435	3,482	3,529
Net Worth - Public Entities	300,737	321,860	342,483	363,106
Property, plant and equipment	1,667,106	1,641,021	1,615,436	1,599,851
Total Non-Current Assets	**1,973,436**	**1,968,521**	**1,963,606**	**1,968,691**
Total Assets	**2,198,722**	**2,267,270**	**2,357,563**	**2,442,500**
Current Liabilities				
Trade payables	38,435	35,244	32,856	30,289
Other payables and accruals	34,586	32,857	31,214	29,653
Unearned revenue	24,059	24,540	25,031	25,532
Employee entitlements	6,731	6,394	5,947	5,471
Current Portion of Borrowings	25,373	20,013	34,882	34,882
Total Current Liabilities	**129,184**	**119,048**	**129,930**	**125,827**
Non-Current Liabilities				
Other payables and accruals	945	900	870	850
Employee entitlements	121	121	121	121
Unfunded pension liability	178,323	178,323	178,323	178,323
Long Term portion of Borrowings	523,493	503,482	468,600	433,718
Total Non-Current Liabilities	**702,882**	**682,826**	**647,914**	**613,012**
Total Liabilities	**832,066**	**801,874**	**777,844**	**738,839**
Net Assets	**1,366,656**	**1,465,396**	**1,579,719**	**1,703,661**
NET WORTH				
Reserves	106,798	110,251	117,223	124,286
Revaluation reserve	671,945	647,222	622,499	597,776
Current Year Surplus	100,304	123,463	139,046	148,665
Other Accumulated surpluses/(deficits)	487,609	584,460	700,951	832,934
Total Net Worth	**1,366,656**	**1,465,396**	**1,579,719**	**1,703,661**

The Government's forecast financial position is robust and improving. Over the fiscal period, the Government's net-worth is expected to improve from $1.4 billion in 2013/14 to $1.7 billion in 2016/17. This improvement is primarily the result of healthy operating surpluses ranging from $100.3 million in 2013/14 to $148.7 million in 2016/17.

A portion of the resultant cash from these surpluses will be used to bolster the Government's cash reserves and improve its financial position. The Government is expected to close the 2013/14 fiscal year with a cash position of $163 million. This is expected to improve to $420.7 million by the end of fiscal year 2016/17.

Central Government debt is expected to be $548.9 million by the end of fiscal year 2013/14. The Government plans to reduce the outstanding debt to $468.6 million by the end of 2016/17.

Amounts in restricted funds such as the General Reserves, Environmental Protection Fund, and the National Disaster Fund are forecast to increase from a balance of $106.8 million forecast at the end of 2013/14 to $116.2 million by the end of 2016/17.

All key indicators show the Government moving from strength to strength in each successive year. Cash reserves are improving, debt is declining, net worth is improving and monies are being set aside for unforeseen circumstances.

Forecast Statement of Cash Flows

	SPS Forecast			
	Approved Budget 2013/14	Forecast 2014/15	Forecast 2015/16	Forecast 2016/17
	$000	$000	$000	$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Cash Inflows				
Coercive Receipts	612,974	622,425	635,810	643,425
Outputs to other government agencies	2,062	2,425	2,425	2,425
Sale of goods and services - third party	29,324	29,427	29,427	29,427
Interest received	578	801	1,129	1,468
Donations / Grants received	61	61	61	61
Other receipts	2,016	124	124	124
Operating Cash Outflows				
Personnel costs	(238,262)	(240,605)	(240,605)	(240,605)
Supplies and consumables	(91,819)	(85,736)	(85,636)	(85,636)
Outputs from public authorities	(100,725)	(95,389)	(95,389)	(95,389)
Outputs from non-governmental organisations	(26,662)	(24,136)	(24,136)	(24,136)
Transfer payments	(33,122)	(31,627)	(30,979)	(30,679)
Financing/interest payments	(31,505)	(29,895)	(28,807)	(27,609)
Other payments	(4,969)	(3,144)	(3,107)	(3,107)
Net cash flows from operating activities	**119,951**	**144,731**	**160,317**	**169,769**
CASH FLOWS FROM INVESTING ACTIVITIES				
Investing Cash Inflows				
Proceeds from sale of Loans/investments	683	683	683	683
Receipt of Dividends/Capital withdrawals	4,318	4,750	4,750	4,750
Investing Cash Outflows				
Purchase of property, plant and equipment	(27,292)	(26,610)	(27,110)	(37,110)
Purchase of Loans/investments	(730)	(730)	(730)	(730)
Equity injection paid to public authorities	(24,630)	(20,390)	(19,890)	(19,890)
Net cash flows from investing activities	**(47,651)**	**(42,297)**	**(42,297)**	**(52,297)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings	0	0	0	0
Repayment of Borrowings	(26,360)	(25,371)	(20,013)	(34,882)
Net cash flows from financing activities	**(26,360)**	**(25,371)**	**(20,013)**	**(34,882)**
Net increase/(decrease) in cash and cash equivalents	**45,940**	**77,063**	**98,007**	**82,590**
Cash and cash equivalents at beginning of period	117,067	163,007	240,070	338,077
Cash and cash equivalents at end of period	**163,007**	**240,070**	**338,077**	**420,667**

The forecast statement of cash flows shows year on year increases in cash flows from operating activities. This stems from increasing revenues expected through modest economic growth, combined with declining Government expenditures. In 2013/14, operating cash flows are expected to generate approximately $120.0 million; this amount is expected to improve to $169.8 million in the 2016/17 fiscal year.

The forecast statement of cash flows also shows that over the forecast period, the Government plans to restrict capital investments to $52.0 million in 2013/14, $47.0 million in 2014/15 as well as 2015/16, and $57.0 million in 2016/17. Restricting capital in the earlier years allows the Government to build its capital reserves at a faster pace and is a financially prudent measure to take to improve the state of Government finances.

The Government also expects to receive an annual dividend of $4.3 million from its Statutory Authorities and Government Owned Companies in 2013/14, thereafter, the Government expects to receive a dividend of $4.75 million on an annual basis.

The Government expects to reduce the debt of the core Government by approximately $106.6 million between 2013/14 and 2016/17. Yearly provisions for principal payment on debt is shown in financing activities of the statement of cash flows and shows that the Government will be able to meet all its debt servicing obligations in a comfortable manner over the forecast period.

Forecast Statement of Debt

		Stament of Borrowings				
		Principal Repayments				
Loan	Opening Balance	2013/2014	2014/2015	2015/2016	2016/2017	Closing Balance for each facility
FCIB 1011 Loan Facility	154,228	-	-	-	(15,423)	138,805
2009 Bond Offering	261,300	-	-	-	-	261,300
2003 Bond Issue	45,560	(9,112)	(9,112)	(9,112)	(9,112)	9,112
FCIB Loan # 10276203 Tranche 1	25,545	(2,620)	(2,620)	(2,620)	(2,620)	15,065
FCIB Loan # 10330158 Tranche 2	25,967	(2,533)	(2,533)	(2,533)	(2,533)	15,835
FCIB Loan # 10331239 Tranche 3	35,875	(3,500)	(3,500)	(3,500)	(3,500)	21,875
FCIB Loan # 10249656 Tranche 4	3,250	(1,625)	(1,625)	-	-	-
FCIB Loan # 10207828 Tranche 3	2,778	(1,111)	(1,111)	(556)	-	-
FCIB Loan # 10123355 Tranche 2	12,000	(1,600)	(1,600)	(1,600)	(1,600)	5,600
FCIB Loan # 10090596 Tranche 1	3,000	(1,500)	(1,500)	-	-	-
FCIB Loan # 10017673	1,601	(801)	(800)	-	-	-
FCIB Loan # 10017722	1,454	(727)	(727)	-	-	-
FCIB Loan # 10017714	800	(800)	-	-	-	-
Caribbean Development Bank #08/OR-CAY	492	(340)	(152)	-	-	-
European Inv. Bank Loan 8.0244	88	(12)	(13)	(13)	(14)	36
European Inv. Bank Loan 8.0283	926	(54)	(54)	(55)	(55)	708
European Inv Bank Loan 8.0056	361	(24)	(24)	(24)	(25)	264
Total	**575,225**	**(26,359)**	**(25,371)**	**(20,013)**	**(34,882)**	**468,600**
Debt Portfolio Closing Balances		**548,866**	**523,495**	**503,482**	**468,600**	

The table above shows the core Government's debt portfolio, the opening balance for each facility and the principal obligations for each over the forecast period. As at 30th June 2014, the core Government is expected to have outstanding debt of $548.9 million, this is expected to decrease to $468.6 million by 30th June 2017. Based on these scheduled repayments the Government will retire seven (7) of its seventeen (17) loan facilities by the end of 2016/17.

This clearly demonstrates the Government's plans to not only reduce the overall value of debt, but also the number of loan facilities it currently has.

Forecast Statement of Changes in Net Worth (Amounts in CI$'000s)

	SPS Forecast			
	Statutory Reserves	Revaluation reserve	Accumulated Surplus/(Deficits)	Total
Balance at 30 June 2013	**95,821**	**685,691**	**498,586**	**1,280,098**
Changes in Net Worth for 2013/14				
Transfers	10,977		(10,977)	-
Revaluation directly to Reserves				-
Amortisation of Revaluation Reserve		(13,746)		(13,746)
Surplus for the period 2013/14			100,304	100,304
Balance at June 30th, 2014	**106,798**	**671,945**	**587,913**	**1,366,656**
Changes in Net Worth for 2014/15				
Transfers	3,453		(3,453)	-
Revaluation directly to Reserves				
Amortisation of Revaluation Reserve		(24,723)		(24,723)
Surplus for the period 2014/15			123,463	123,463
Balance at June 30th, 2015	**110,251**	**647,222**	**707,923**	**1,465,396**
Changes in Net Worth for 2015/16				
Transfers	6,972		(6,972)	-
Revaluation directly to Reserves				-
Amortisation of Revaluation Reserve		(24,723)		(24,723)
Surplus for the period 2015/16			139,046	139,046
Balance at June 30th, 2016	**117,223**	**622,499**	**839,997**	**1,579,719**
Changes in Net Worth for 2016/17				
Transfers	(1,049)		1,049	-
Revaluation directly to Reserves				-
Amortisation of Revaluation Reserve		(24,723)		(24,723)
Surplus for the period 2016/17			148,665	148,665
Balance at June 30th, 2017	**116,174**	**597,776**	**989,711**	**1,703,661**

The Government's net-worth position is expected to improve from $1.4 billion at the end of 2013/14, to $1.7 billion at the end of 2016/17. This improvement will largely result from the anticipated surpluses the Government is expected to generate over the forecast fiscal period.

The amounts shown under the category of Transfers relates to the revaluation reserve which is being reduced over time in line with International Public Sector Accounting Standards (IPSAS).

Compliance with Principles of Responsible Financial Management

Principle	SPS Forecast			
	Degree of Compliance Original Budget 2013/14	Degree of Compliance SPS Forecast 2014/15	Degree of Compliance SPS Forecast 2015/16	Degree of Compliance SPS Forecast 2016/17
Operating Surplus : should be positive (Operating surplus = core government operating revenue – core government operating expenses)	Complies Surplus = $100.304 million	Complies Surplus = $123.463 million	Complies Surplus = $139.046 million	Complies Surplus = $148.665 million
Net Worth: should be positive (Net Worth = core government assets – core government liabilities)	Complies Net Worth = $1.367 billion	Complies Net Worth = $1.465 billion	Complies Net Worth = $1.580 billion	Complies Net Worth = $1.704 billion
Debt Service: Debt service cost for the year should be no more than 10% of core government revenue (Debt service = interest + other debt servicing expenses + principal repayments for core government debt, public authorities debt and self financing loans)	Does Not Comply Debt Service = 12.2 %	Does Not Comply Debt Service = 16.1 %	Complies Debt Service = 9.9 %	Complies Debt Service = 9.6 %
Net Debt: should be no more than 80% of core government revenue (Net debt = outstanding balance of core government debt + outstanding balance of self financing loan balance + weighted outstanding balance of statutory authority/government company guaranteed debt - core government liquid assets)	Complies Net Debt = 71.9 %	Complies Net Debt = 51.4%	Complies Net Debt = 31.0 %	Complies Net Debt = 12.1 %
Cash Reserves should be no less than estimated executive expenses for 90 Days: (Cash reserves = core government cash and other liquid assets)	Does Not Comply Cash Reserves = 6.5 days	Does Not Comply Cash Reserves = 41.0 days	Complies Cash Reserves = 96.5 days	Complies Cash Reserves = 163.2 days
Financial Risks should be managed prudently so as to minimize risk	Complies Insurance cover exists for all government buildings, vehicles and major potential liabilities. Hurricane Preparedness Strategy in place.	Complies Insurance cover exists for all government buildings, vehicles and major potential liabilities. Hurricane Preparedness Strategy in place.	Complies Insurance cover exists for all government buildings, vehicles and major potential liabilities. Hurricane Preparedness Strategy in place.	Complies Insurance cover exists for all government buildings, vehicles and major potential liabilities. Hurricane Preparedness Strategy in place.

The ratios above were all calculated in accordance with the FFR specified in the Public Management and Finance Law (2013 Revision).

Operating Surplus: Throughout the forecast period the Government is forecast to remain in compliance with the requirement to maintain a positive Operating Surplus. The Operating Surplus is forecast to be $123.463 million in 2014/15 rising to $139.046 million in 2015/16; and $148.665 million in 2016/17.

Net Worth: The Government is forecast to maintain a positive Net Worth throughout the forecast period. Net Worth is forecast to be $1.46 billion in 2014/15; $1.57 billion in 2015/16 and rise to $1.70 billion in 2016/17.

Debt Servicing Cost: As per the FFR, this measure requires that the Entire Public Sector debt service costs (interest + principal + other debt service costs) be no more than 10% of core government revenue.

In 2014/15 the Government it not forecast to comply with the Debt Service Ratio which is expected to be some 16.1% of core Government revenues. This non-compliance is the result of a planned refinancing of approximately $24 million in non-amortizing debt of the Cayman Islands Development Bank which matures during 2014/15. This one-off transaction, increases debt service costs in 2014/15 thereby increasing the ratio. Also, during 2014/15 the Government plans on setting aside some $9.1 million of cash into a sinking fund to make planned repayments in future years of the 2003 Bond. This contribution is considered debt service costs and thus increases the degree of non-compliance in this year.

During 2015/16 and 2016/17 the Government is forecast to achieve PMFL compliance when the debt service ratio is forecast to be approximately 9.9% and 9.6% respectively.

Net Debt: The Government is required to maintain a net debt balance that is not greater than 80% of core Government's revenue. For the three year forecast period Net Debt is forecast to remain well below this limit achieving full compliance with this measure. In 2014/15 it is forecast to be 51.4%; in 2015/16 it reduces to 31.0% and by 2016/17 it reduces further to 12.1%. This trend is consistent with the overall Government debt strategy which focuses on debt reduction and does not call for any new borrowings over the forecast period.

Liquid Assets: The Government is required to achieve and maintain cash reserves (liquid assets) equivalent to at least 90 days of executive expenditures. This ratio is calculated at the point in the financial year when cash reserves are expected to be at their lowest, this occurs in December of each year given the current cycle for revenue inflows. The Government is forecast to achieve compliance with this ratio in 2015/16 and 2016/17. Over the forecast period cash reserves at their lowest point are expected in 2014/15 to be $60.3 million or 41 days of executive expense and increase in 2015/16 to $141.5 million or 96.5 days of executive expense and by 2016/17 are expected to be $238.7 million or 163.2 days of executive expenses.

Executive Operating Expenditure Allocation by Minister and Official Member

Executive Operating Expenditure Allocations $000's				
Agency	Approved Budget 2013/14	Forecast 2014/15	2015/16	2016/17
Premier (Cabinet Office)	5,530	5,527	5,527	5,527
Premier (Home and Community Affairs)	119,263	117,518	117,370	117,370
Deputy Governor (Portfolio of the Civil Service)	31,271	30,639	30,602	30,602
Minister of Finance and Economic Development	71,271	68,240	67,155	65,790
Minister of Financial Services, Commerce and Environment	21,226	20,032	20,032	20,032
Minister of Education, Employment and Gender Affairs	94,814	93,781	93,281	92,981
Minister of Planning, Lands, Agriculture, Housing and Infrastructure	48,893	44,832	44,832	44,832
Minister of District Administration, Tourism and Transport	52,404	50,545	50,545	50,545
Minister of Health, Sports, Youth and Culture	64,767	62,017	62,017	62,017
Attorney General (Judicial Administration)	11,159	11,152	11,152	11,152
Attorney General (Portfolio of Legal Affairs)	6,080	6,077	6,077	6,077
Attorney General (Office of the Director of Public Prosecutions)	2,741	2,741	2,741	2,741
Oversight Committee of the Legislative Assembly (Complaints Commissoner)	740	740	740	740
Oversight Committee of the Legislative Assembly (Information Commissioner)	771	770	770	770
Public Accounts Committee (Audit Office)	650	650	650	650
Total for All Agencies	**531,580**	**515,261**	**513,491**	**511,826**

The executive Operating Expenditure allocations shown above were developed through consultation with Ministers and Official Members. The allocations are based on the policy priorities of the overall Government as they relate to the subject area of the various members.

The Executive Operating Expenditure allocations shown above represent expenditure that is funded by Cabinet and does not include expenditure that is funded by Entity revenue. This explains the difference between the allocations shown in the above table - that Cabinet is willing to fund- and the overall total Operating Expenditures shown on page 30 (the latter being inclusive of expenditures that are not funded by Cabinet but are funded by Entity Revenues).

Capital Allocation by Minister and Official Member

Capital Allocation by Minister and Official Member $000's				
	Approved Budget	Forecast		
Agency	2013/14	2014/15	2015/16	2016/17
Premier (Cabinet Office)	69	0	0	5
Premier (Home and Community Affairs)	2,984	2,342	1,745	2,000
Deputy Governor (Portfolio of the Civil Service)	0	0	0	4,000
Minister of Finance and Economic Development	4,150	1,000	150	143
Minister of Financial Services, Commerce and Environment	1,834	1,740	1,500	1,500
Minster of Education, Employment and Gender Affairs	2,900	9,000	10,000	11,600
Minister of Planning, Lands, Agriculture, Housing and Infrastructure	11,605	10,402	12,000	15,000
Minister of District Administration, Tourism and Transport	18,685	17,890	17,390	17,890
Minister of Health, Sports, Youth and Culture	8,405	4,626	4,215	4,733
Attorney General (Judicial Administration)	180	0	0	75
Attorney General (Portfolio of Legal Affairs)	332	0	0	50
Attorney General (Office of the Director of Public Prosecutions)	72	0	0	0
Oversight Committee of the Legislative Assembly (Complaints Commissoner)	25	0	0	2
Oversight Committee of the Legislative Assembly (Information Commissioner)	3	0	0	2
Public Accounts Committee (Audit Office)	0	0	0	0
Total for All Agencies	**51,244**	**47,000**	**47,000**	**57,000**

Core Government Debt Profile as at 31st October 2013

Core Government Debt Portfolio									
Loan	CUR	Date of Origin	Original Amount	Amortized or Bullet	Current Balance KYD	Annual Principal KYD	Interest rate	Maturity date
FCIB 1011 Loan Facility *	USD	19/Apr/11	185,074,626	AMR	154,228,457	-	5.4400%	19/Apr/26
2009 Bond Offering	USD	24/Nov/09	312,000,000	BUL	261,300,000	Bullet	5.9500%	24/Nov/19
2003 Bond Issue	USD	8/Apr/03	163,200,000	AMR	54,671,978	9,112,000	5.3000%	8/Apr/18
FCIB Loan # 10276203	USD	26/Oct/07	47,159,962	AMR	27,509,991	2,620,002	4.2500%	11/Feb/23
FCIB Loan # 10330158	USD	24/Jun/08	45,599,964	AMR	27,866,658	2,533,335	4.2500%	24/Jul/23
FCIB Loan # 10331239	USD	27/Jun/08	62,999,950	AMR	38,499,989	3,500,003	4.2500%	24/Jul/23
FCIB Loan # 10249656	USD	29/Jun/07	15,599,964	AMR	4,874,991	1,624,998	2.8200%	30/Jun/15
FCIB Loan # 10207828	USD	14/Dec/06	11,999,990	AMR	3,888,890	1,111,111	3.2000%	14/Dec/15
FCIB Loan # 10123355	USD	23/Nov/05	28,800,000	AMR	13,200,011	1,600,001	5.5800%	30/Nov/20
FCIB Loan # 10090596	USD	29/Jun/05	17,999,986	AMR	4,499,992	1,500,001	4.8475%	30/Jun/15
FCIB Loan # 10017673	USD	30/Jun/04	9,606,300	AMR	2,401,577	800,526	5.0450%	30/Jun/15
FCIB Loan # 10017722	USD	30/Jun/04	8,722,650	AMR	2,180,664	726,888	5.0450%	30/Jun/15
FCIB Loan # 10017714	USD	30/Jun/04	9,600,000	AMR	1,600,001	800,001	5.0200%	30/Jun/14
Caribbean Development Bank Loan 08/SF	USD	8/Dec/97	5,369,719.73	AMR	398,649.00	374,760	Variable	1/Oct/14
European Investment Bank Loan 8.0244	EUR	1/Aug/87	658,000.00	AMR	375,130.30	13,000.00	1.0%	15/May/27
European Investment Bank Loan 8.0283	EUR	3/May/87	1,489,812.00	AMR	953,347.94	55,000.00	1.0%	15/Apr/29
European Investment Bank Loan 8.0056	EUR	10/Feb/80	330,000.00	AMR	98,472.11	24,000.00	1.0%	1/Feb/19

*Principal repayment deferred for 5 years
AMR= Amortized Loan Facility
BUL=Bullet Facility

The Government remains committed to the reduction of debt through annual principal and interest payments and plans no new borrowings over the forecast period.

The public sector debt profile is therefore expected to remain largely unchanged except for where debt facilities become completely extinguished.

Statutory Authority and Government Owned Companies Debt Profile

Cayman Islands Government Statutory Authorities Debt Portfolio As at 30 June 2013										
Agency	Loan	Currency	Guranteed?	Date of Origin	Original Amount	Amortized or Bullet	Current Balance KYD	Annual Principal KYD	Interest Rate	Maturity Date
Health Services Authority	FCIB FEB 2011 Loan	KYD	No	7/Feb/11	800,000	Amortized	637,882	69,135	3.5000%	28/Feb/21
Health Services Authority	FCIB NOV 2011 Loan	KYD	No		1,700,000	Amortized	1,455,514	120,799	3.5000%	30/Oct/21
C.I. Development Bank	Caribbean Development Bank	USD	YES	16-May-02	4,875,267	Amortized	2,570,428	375,020	3.61000%	30-Jun-21
C.I. Development Bank	FCIB et al	USD	YES	30-Jun-10	5,800,000	Bullet	4,818,640	n/a	3.48440%	30-Jun-15
C.I. Development Bank	FCIB et al	USD	YES	30-Jun-05	6,000,000	Bullet	4,984,800	n/a	1.73440%	30-Jun-15
C.I. Development Bank	FCIB	USD	YES	23-Jul-10	5,000,000	Bullet	4,154,000	n/a	3.47740%	23-Jul-20
C.I. Development Bank	FCIB	USD	YES	11-Jan-11	5,000,000	Bullet	4,154,000	n/a	3.48640%	10-Jan-21
C.I. Development Bank	HSBC	USD	YES	27-Apr-10	20,000,000	Bullet	16,616,000	n/a	3.07840%	27-Apr-15
Port Authority	RBC - Repair Cargo Dock GCm	USD	YES	6-May-03	5,500,000.00	Amortized	91,706	570,720	1.23050%	1-Sep-2013
Port Authority	RBC - Construct RWCT	USD	YES	24-Mar-04	17,500,000	Amortized	5,976,807	1,476,000	1.23050%	1-Jun-14
Port Authority	RBC - Construct WBCT	USD	YES	20-Aug-04	8,500,000	Amortized	287,203	72,816	1.23050%	1-Jun-14
Port Authority	Cayman Islands Government	KYD	YES	1-Dec-90	1,720,664	Amortized	34,407	68,826	0.00000%	1-Dec-13
Cayman Airways	RBC Operating Loan	USD	Yes	Pre July 2003	23,602,333	Amortized	10,779,187	1,464,924	Libor +2.50	May 2019
Cayman Airways	RBC Club Loan	USD	Yes	1-May-04	21,055,000	Amortized	6,192,902	1,340,640	Libor +2.50	May 2019
Cayman Airways	FCIB Capital Loan (2006/7)	USD	Yes	1-Jan-07	4,200,000	Amortized	1,152,955	454,800	Libor +0.75	Sept 2016
Cayman Airways	FCIB Capital Loan (2009)	USD	Yes	1-Feb-09	15,000,000	Amortized	9,371,949	888,000	Libor +3.5%	April 2023
Cayman Turtle Farm	FCIB - Bank Loan	USD	Yes	21-May-09	2,352,000	Amortized	1,908,118	126,000	Libor +3.75	30-Nov-24
Cayman Turtle Farm	CNB Bank Loan Tranche 2	USD	Yes	26-Mar-06	2,856,000	Amortized	1,169,562	312,480	4.25000%	30-Nov-16
Cayman Turtle Farm	CNB Bank Loan Tranche 3	USD	Yes	21-May-09	8,736,000	Amortized	2,331,782	1,185,408	3.75000%	31-May-15
Cayman Turtle Farm	William & Blair (Placement Agn	USD	Yes	12-Mar-04	37,464,000	Amortized	21,755,160	2,620,800	4.85000%	1-Mar-19
National Housing Development Trust	Scotia Bank & Trust Bond	USD	Yes	24-Oct-04	11,890,000	Amortized	8,518,978	528,459	5.23800%	28-Oct-24
National Housing Development Trust	Bank of Butterfield Bond	USD	Yes	31-Aug-09	12,083,000	Amortized	10,843,000	620,000	3.25000%	30-Dec-19
Water Authority	FCIB (Admin Bldg)	KYD	Yes	1-Aug-98	1,600,000	Amortized	-	41,211	Libor +1%	31-Mar-14
Water Authority	FCIB (New Admin Bldg)	KYD	Yes	1-Jun-07	2,421,500	Amortized	1,144,801	183,394	Libor +0.09	30-Jun-22
Water Authority	FCIB (North Side Works)	KYD	Yes	1-Dec-08	7,181,000	Amortized	4,569,586	460,128	Libor +0.09	31-Aug-23
Water Authority	CIG (Development of Facilities)	KYD	Yes	1-Apr-95	4,822,349	Amortized	1,433,811	210,892	Libor +0.09	30-Apr-20
Water Authority	Ocean Conversion (North Soun	KYD	Yes	1-Apr-07	1,450,505	Amortized	180,726	230,684	ibor +.042%	31/Mar/14
Water Authority	Ocean Conversion (North Side)	KYD	Yes	1-Jul-09	9,176,422	Amortized	6,197,909	818,456	ibor +0.54%	30/Jun/19
Water Authority	Ocean Conversion (Red Gate)	KYD	Yes	1-Jul-10	3,063,816	Amortized	1,918,450	406,788	ibor +0.54%	30/Jun/17

Similar to the Core Government, Statutory Authorities and Government Owned Companies are expected to adhere to a policy of zero borrowing over the forecast period.

To the extent that there is capital expansion projects among the Statutory Authorities and Government Owned Companies, it is expected that these will be financed from cash reserves or where possible, through a Public/Private Partnership.

Debt Management Strategy

The Government is committed to overall prudent management of public finances with the goal of achieving compliance with the Principles of Responsible Financial Management set out in the PMFL while balancing the need to deliver high quality services to the people of the Cayman Islands and encouraging the continued development of the economy.

Our debt management strategy is focused on: no new borrowings; repayment of existing debt; and where possible the refinancing of non-amortizing debt into amortizing debt instruments.

The Government will not incur any additional new borrowings over the forecast period; instead it intends to manage its finances in such a way as to fund all of its operating expenditure and capital investments from cash generated from its operations.

The repayment of debt is a critical component of the Government's fiscal strategy and between 2014/15 and 2016/17 the Government is forecast to reduce its debt by some $80.26 million based on the current schedule of debt repayments.

During 2014/15, the Government will establish a sinking fund, under the control of the Minister of Finance and Economic Development, into which it will deposit $18.22 million over four financial years (2014/15 – 2017/18) that will allow it to fund the repayment of the 2003 Bond. This bond requires annual payments of $9.1 million per year funded by cash generated from operating surpluses. By establishing the sinking fund and building up the cash to fund these repayments in advance, the Government will reduce the impact these repayments have on operating cash balances.

The Government also plans to refinance maturing bullet bonds prior to, or at, their maturity date, into amortizing debt. Doing this, helps to reduce the "shock" that the maturing bullets can have on our cash balances while also reducing interest expense over the life of the debt. During the medium term forecast period, in the 2014/15 financial year the Government plans on refinancing bullet bonds at the Cayman Islands Development Bank which total approximately $24 million into amortizing debt instruments.

Looking ahead over the longer term, the Government has identified the 2009 core government CI$261.3 million bullet bond which matures in 2019 for refinancing. While the current forecasts indicate that the Government could have large enough cash balances to repay this debt on maturity, to do so would significantly reduce cash reserves and increase the Government's financial vulnerability. Therefore, the more prudent approach is to seek refinancing of this debt.

Liability Management Plan

The Cayman Islands Government consists of "Core Government" (Ministries/Portfolios and Offices) plus Statutory Authorities and Government Owned Companies (SAGCs). At any given time the Government is faced with a myriad of potential liabilities which come and go based on various circumstances not always within the control of the Government.

The main recurring contingent liabilities which have a financial impact for the Government are: Guarantees; Past Service Pension Liability; and Post-Retirement Healthcare benefits for Civil Servants.

Guarantees

The Government has over the years issued a number of guarantees to various financial institutions to cover the debts of SAGC's as and when required. As at 30 June 2013 the balance of debt secured under these guarantees was approximately $67.98 million; this is $18.29 million less than the balance at 30 June 2012 and reflects the Government's and SAGCs' on-going strategy to repay debt across the Entire Public Sector.

For the next three financial years the Government is not planning to issue any new guarantees in respect of SAGC debt nor to have SAGCs increase their borrowings during this period.

In addition to guarantees for SAGCs the Government operates the Government Guaranteed Home Assistance Mortgage Programme (GGHAM) which provides qualified applicants with a government guarantee of up to 35% of their mortgage. At 30 June 2013 the Government's liability under this programme was estimated at $16.6 million.

Over the next three years the Government is committed to reviewing the GGHAM programme to ensure that it is achieving its goal of providing lower income Caymanian families with access to home financing while minimizing the likelihood of claims against the Government under the programme.

Past Service Pension Liability

The Government, through the Public Service Pensions Board, operates both defined benefit and defined contribution pension schemes for Public Servants, Parliamentarians and the Judiciary. These various public service pension plans have varying degrees of past service liabilities based on the contributions to the Funds and the accrued length of service of the participants of the various Plans which present a liability to the Cayman Islands Government.

The Public Service Pensions Board must obtain an actuarial valuation of the Funds it manages to provide the prescribed pensions benefits under the various pension Plans.

As at 1st January 2011, (the last actuarial valuation date) the net position of the Funds showed a liability of $178.3 million. The Government included $11.4 million in the 2013/14 Budget as a contribution towards the past service liability and plans to keep the contributions, at least at this level for each of the next three fiscal years. The Government will reassess its contribution rate after that period with a view to increase the annual contribution based on the ability of public finances at that time.

Presently, the Public Service Pensions Board is able fund all of the monthly pensions benefits from its existing resources and with the regular receipt of monthly pensions contributions from the core government and participating SAGC's this is expected to remain the position over the forecast period.

Post-Retirement Healthcare Liability

The Government fully recognizes its obligations in the respect of the provision of healthcare benefits to retired Public Servants.

At present this liability is not reflected in the Government's financial statements- because there isn't an actuarially calculated amount to include- however, the Government has engaged the services of an actuary to review the matter and prepare a valuation outlining the Government's liabilities in respect of this liability.

Currently, the Government meets its obligations arising from this liability by providing qualified retired Public Servants with health insurance purchased through the Cayman Islands National Insurance Company (CINICO) at a cost of $18.28 million per year (the budgeted amount for 2013/14).

Capital Investment Plan

The Government's capital investment plans over the next three financial years is designed to fit within the fiscal parameters of the Framework for Fiscal Responsibility set out in the Public Management and Finance Law.

Planned capital investments total some $151 million over the forecast period. For the 2014/15 and 2015/16 financial years planned investments total $47 million per year and are forecast to rise to $57 million in the 2016/17 financial year.

The 2014/15 planned investment of $47 million will provide for the following:

- ***$20.39 million*** of capital investments into Statutory Authorities and Government Owned Companies to allow these agencies to meet their debt service obligations and to fund operational losses. The major investments in this category are: Cayman Turtle Farm (1983) Limited, $10.2 million; Cayman Airways Limited, $5.1 million; National Housing and Development Trust, $3 million;
- The remaining ***$26.61 million*** will be invested in various Ministries and Portfolios primarily to fund the following major items:
    - Continued improvement to our education infrastructure;
    - Continued development of the Cayman Islands Road Network infrastructure;
    - Improved Prisons infrastructure;
    - Upgrading of public sports facilities; and
    - Upgrading of solid waste collection and processing equipment.

In addition to the planned capital investment activities by the Cabinet, the Government intends to proceed with the development of the Cruise Berthing Pier in George Town and the redevelopment of the Owen Roberts International Airport under public private partnership basis. These two projects are currently being developed and evaluated and once a financing plan and model has been finalised, their financial impact, if any, will be incorporated into the Governments rolling medium term fiscal plans.

Planned Revenue and Expenditure Measures

Planned Revenue Measures

The Government is not planning to introduce any major new revenue measures during the next three financial years. There may however be some revisions to existing fees to account for changes in the cost of providing certain services as well as changes to the demand for services. These changes will be disclosed during the annual budget process.

Planned Expenditure Measures

During the next three financial years the Government is concentrating its efforts on improving the state of public finances by practising fiscal prudence.

The Government is not planning any major increases to operating expenditure and is instead focused on achieving sustainable reductions to public sector expenditure while maintaining the capacity to deliver a high quality of much needed public services.

The planned expenditure reduction measures focus on the following areas:

Reduction in Outputs Purchased from SAGCs: The Government is planning to purchase some $3.8 million less per annum in outputs from the National Roads Authority (the NRA) and instead fund the NRA by diverting a portion of the coercive revenue earned by the Government from import duties on gasoline and diesel used by road users. This change will give the NRA a direct source of revenue which is linked to the consumers of its services, "road users". In addition to the NRA, the Government is planning to purchase $1.2 million less per annum in outputs from other SAGCs based on improved revenue forecasts and efficiency improvements. Finally, the Government is seeking an overall net improvement in the SAGC operating position of $0.5 million per annum. This improvement is expected to be realised from efficiency improvements and reduced interest expense as SAGCs pay down their existing debt portfolios.

Reduced expenditures for Transfer Payments & Non-Government Output Suppliers: The Government is planning to reduce the level of expenditure it incurs in the provision of various forms of social welfare benefits by:

- reducing expenditure for overseas health care for indigents through improved case management, securing better pricing from overseas healthcare providers, and tightening of qualification criteria; and

- improved management of all categories of transfer payments by implementing stronger processes for qualification for benefits, stricter monitoring of benefits paid, and enforcement of existing policies.

Reduced Ministry/Portfolio Operating Expenditures: The Government is targeting a $4.37 million reduction from 2013/14 levels by implementing:

- removal of one-off non-recurring expenditures such as professional fees for various consultancy services;
- the implementation of a revised property insurance programme increasing levels of self-insurance and deductibles;
- Phased implementation of a revised health insurance benefit for new and contracted Civil Servants; and
- reduced overtime expenditures across agencies by better improved scheduling and stricter enforcement of policies governing paid overtime.

Planned Expenditure Measures

Measures	**Expected Savings in CI'$000s** 2014/15	2015/16	2016/17
SAGC Outputs	(5,000)	(5,000)	(5,000)
SAGC Net Improvement in Surplus/ Deficit Position	(500)	(500)	(500)
Reduced NGS 55 (Tertiary Care at various Local and Overseas Institutions)	(2,000)	(2,000)	(2,000)
Transfer Payments	(1,295)	(1,295)	(1,295)
Other Operating Expenses	(4,370)	(4,370)	(4,370)
Total Operating Expenditure Reductions	**(13,165)**	**(13,165)**	**(13,165)**

Broad Outcomes

Broad Outcome 1

A STRONG, THRIVING AND INCREASINGLY DIVERSE ECONOMY

a) Work in partnership with the cruise lines to grow number of annual cruise visitors to 2.1 million by 2015;
b) Work with industry partners to continue to grow the number of stay over visitors and to enhance the visitor experience at our airports;
c) A strong, thriving economy requires a strong and thriving George Town. Revitalization of George Town is a key objective to aid our business and tourist environment. In addition to cruise berthing and airport development, we will aim to:
   i. Pedestrianize relevant parts of George Town, especially around the 'Waterfront', to improve the shopping, dining, and business environment/experience for visitors and locals alike. Particularly as cruise tourism numbers grow. This will require road works to divert traffic away from pedestrian only areas, as well as to allow for future growth;
   ii. Put in place a committee/working group whose role would be to consider and oversee the George Town Revitalization initiative, including making the downtown waterfront areas family friendly and attractive and preserving/improving as best as possible the historic sites and 'ambience' of George Town. Seek private sector involvement to make this a reality;
   iii. Consider amending the planning law to allow the development of residential apartments as part of commercial buildings so as to encourage 'mixed use development' downtown that includes condos/apartments within retail/commercial space;
   iv. Encourage evening activity & entertainment in an improved downtown atmosphere (live music, outdoor cafes, mood lighting etc.) to bring tourists and locals into George Town after business hours;
   v. Increase the number of taxi & bus licenses in line with increasing tourist numbers. Extend bus schedules to 9pm so as to encourage tourists on West Bay Road to come into George Town for dinner & entertainment and to be able to conveniently travel back to their hotels by bus; and
   vi. Utilize part of the 'Tower Building' site as a park/craft market. Additionally consider expanding the existing craft market (with approval of property owner) and also utilizing the old 'farmers market' site as an artisan's market and farmers market.

Broad Outcome 1 contd.

d) Taking care of Small Businesses – a thriving economy needs many successful small to medium businesses to help grow the economy:
   i. Work with the Chamber of Commerce on initiatives to encourage & nurture small business growth & development. Including training programs for businesses/entrepreneurs and thoughts on reducing the tax burden on small businesses etc;
   ii. Where possible, roll back Government fees that negatively impact small business and increase the cost of living to the general public; and
   iii. Review whether certain business segments can be designated as 'for Caymanian participation only'.

e) Review of Trade & Business license regime to improve the process and make it more efficient for businesses & Government;

f) Review & modernize the Liquor Licensing Laws;

g) Encourage & Enhance Financial services:
   i. Develop short, medium, and long term strategic growth plans around financial services; and
   ii. Actively seek to attract more re-insurance companies and business to Cayman. A growing reinsurance business may also help growth in our fund business as there are synergies in the two. Also assists in growing financial services overall.

h) Consider initiatives that may help enhance economic growth such as: Sunday trading; allowing cruise ships to open casinos while in harbor (ships stay longer in port); potential economic benefits of moving to daylight savings time in line with the USA;

i) Encourage new types of business enterprises that will benefit the Cayman Islands by bringing in new revenue streams and help to diversify the revenue base for Government, and where possible relieve some of the tax burden on other parts of the economy and help reduce the cost of living for residents. Examples include:
   i. Medical Tourism; Sports Tourism; Educational Tourism; Culinary Tourism;
   ii. Medical device testing; and
   iii. Special Economic Zone businesses – including companies utilizing Cayman as a 'staging area' for deploying staff to short term work in the USA/Canada and in the region.

j) Continue to work with the DART group, and all other potential developers, on projects that benefit the Cayman Islands economically and that do not adversely impact the natural environment.

Broad Outcome 2

A WORK-READY AND GLOBALLY COMPETITIVE WORKFORCE

a) Develop welfare to work programme that ensures that individuals who can work are provided, as a condition of receiving assistance, with job opportunities, & suitable support, that may lead to full time positions;
b) Encourage more entrepreneurship amongst Caymanians;
c) Enhance the resources of the National Workforce Development Agency (NWDA) and focus their remit to better assist Caymanians who are unemployed. Additionally, improve the ability of the NWDA to better inform Immigration and the Business community as to when there is a Caymanian potentially available for a position being advertised;
d) Work with available resources to support & enhance existing vocational training opportunities in the public and private sector;
e) Partnership between the Education Council, or other scholarship granting body, and private sector businesses to help ensure that Caymanian students returning home have the opportunity to: (i) be placed with a company or business when home on vacation so as to develop work experience; (ii) after graduation to have an opportunity to work for a company in an apprenticeship role, with the expectation that the job would transition into full time employment once the development period was successfully completed; and (iii) ensure that businesses are made aware of Caymanians returning home with qualifications that may be needed by that business;
f) Work in tandem with the Ministry of Education to ensure that the education curriculum is appropriate and up to date and that students receive appropriate career guidance;
g) Implement an appropriate accreditation system that incentivizes/rewards businesses that actively train and employ Caymanians;
h) Initiate local discussion on, and establish a committee to review and recommend on, the enactment of a National Minimum Wage as a separate law or as part of a revised Labour Law; and
i) Increase the retirement age for workers from 60 to 65 while taking into consideration the implications on both private sector and public sector pensions plans.

Broad Outcome 3

A MORE SECURE COMMUNITY

a) Continue to support the Royal Cayman Islands Police Service and encourage a more proactive method of policing with regard to serious crime rather than a reactive one;
b) Continue to seek ways within our available resources to improve the infrastructure at Northward Prison as well as at our juvenile detention centers;
c) Review the needs of the Cayman Islands Fire Service to improve the efficiency and effectiveness of the Department;
d) Support the Customs & Immigration services and enhance their capabilities to enforce our laws and protect our borders;
e) Support the work of Hazard Management and the Public Safety Communications units to strengthen the community's ability to respond and deal with emergency situations and disasters.

Broad Outcome 4

A MORE EFFICIENT, ACCESSIBLE AND AFFORDABLE PUBLIC SERVICE

a) Improve the budget process to adopt multi-year budgeting and consider any required changes/improvements to the PMFL;
b) Implement reforms to reduce operating costs and improve efficiencies across public sector – include the use of new technologies such as LED lighting;
c) Move forward with e-Government initiatives and implement appropriate electronic and web-based portals for Government services; and
d) Establish a committee to review the privatization of suitable government assets or functions.

Broad Outcome 5

MODERN, SMART INFRASTRUCTURE

a) Complete the Cruise Berthing Port facility, with no upland development, utilizing a Public Private Partnership (PPP) arrangement;
b) Redevelopment of the Owen Roberts International Airport;
c) Upgrade the George Town Bus depot to provide covered seating and public restrooms;
d) Develop a modern waste management facility that includes waste to energy and recycling, via PPP;
e) Complete facilities needed by Customs to secure the 'container scanner'; as well as a new customs warehouse; and
f) Improve road network infrastructure including the extension of the East West arterial road.

Broad Outcome 6

A FIT AND HEALTHY POPULATION

a) Development of a mental health facility, in conjunction with the private sector;
b) Complete the Gym at the John Gray High School site to provide improved sporting facilities for Sports tourism and community use;
c) Development of a sports field in the Savannah/Newlands area;
d) Improve the utilization of all the sporting facilities in the country, including at the new schools, for the benefit of the community;
e) Encourage fitness and healthy lifestyles in schools and in the community generally; and
f) Work with the Health Services Authority, private sector partners and Cayman Islands National Insurance Company to lower the cost of health care and improve the quality of medical services available in Cayman.

Broad Outcome 7

A CENTRE OF EXCELLENCE IN EDUCATION

a) Build additional classrooms at either Clifton Hunter or John Gray High School campuses to deal with growth in student population;
b) Enact the new Education Law and review the management of the education system and correct inadequacies/gaps;
c) Review training needs of educators, including training to assist in working within the new academy model as used at Clifton Hunter, and ensure that any training gaps are covered;
d) Determine the feasibility of creating an education trust (public/private) to raise funding for building school infrastructure and/or working with Government to fund scholarships;
e) Improve requirements/criteria for assessing suitability of candidates for Government sponsored scholarships. Consider granting partial scholarships and working with retail banks and the CICSA Cooperative Credit Union to have more funding available for student loans;
f) Ensure that students applying for scholarships are suitably qualified and have received adequate career guidance;
g) Consider the use of an education voucher system that will give parents the choice of schools and allow the possibility for some children to move into private schools and reduce burden on Government to provide education;
h) Utilize the 'Bermuda Model' where scholarships are granted to a select number of schools at which the Government has negotiated 'local rates' or at least lower rates than is usual for international students; and
i) Work with private sector entities to encourage development of new educational facilities to provide training opportunities that support jobs for Caymanians and economic growth.

Broad Outcome 8

A CULTURE OF GOOD GOVERNANCE

a) Encourage good governance ethos amongst the private sector by requiring that entities contracting with the Government comply with all local laws, including payment of pensions, health insurance and due diligence requirements;
b) Implementing revised procurement standards for the public sector bringing them in line with international best practice;
c) Ensuring that Caymanians have the first opportunity for available employment in Government services, including Statutory Authorities and Government companies;
d) Return the Cayman Islands to fiscal responsibility by meeting all of the Targets required under the PMFL; and
e) Enacting legislation to enhance clarity and ensure uniformity in governance arrangements for Statutory Authorities and Government Companies.

Broad Outcome 9

SUSTAINABLE DEVELOPMENT IN CAYMAN BRAC AND LITTLE CAYMAN WITH SENSITIVITY TO THE ISLANDS' UNIQUE CHARACTERISTICS

a) Encourage new jobs in the private sector, and where practical in the public sector, for Cayman Brac - including back office jobs;
b) Develop the Sports Complex on the Bluff to encourage Sports Tourism on Cayman Brac;
c) Convert the Bluff hurricane shelter site to a new Cayman Brac High School campus to replace the present campus;
d) Consider a modern development plan for Cayman Brac; and
e) Improve airlift and airport infrastructure on Cayman Brac and Little Cayman

Broad Outcome 10

CONSERVATION OF OUR BIOLOGICAL DIVERSITY AND ECOLOGICALLY SUSTAINABLE DEVELOPMENT

a) Encourage the protection of lands identified as critical for environmental protection; and
b) Enact a new National Conservation Law.

Broad Outcome 11

A ROBUST AGRICULTURE SECTOR SUITED TO THE NEEDS AND RESOURCES OF THE COUNTRY

a) Support the agriculture and farming community, including the use of modern farming techniques/technology.

Broad Outcome 12

EQUITY AND JUSTICE IN A SOCIETY THAT VALUES THE CONTRIBUTION OF ALL

a) Work with available resources to provide affordable housing to Caymanians; including encouraging and working with the private sector;
b) Ensure that the rights of women and children, including economic rights, are enhanced;
c) Support the work of organizations that focus on the health, wellbeing, and care of our elderly; and
d) Ensure that the needs of disabled persons in our communities are met by amending or implementing legislation and enhancing infrastructure.

CONCLUSION

The Government is committed to stabilising and improving the financial position of the country and has taken firm steps towards realising this much desired outcome which will benefit many future generations of Caymanians. This SPS builds on the decisions made during the development of the 2013/14 Budget approved by the Legislative Assembly in October 2013 and sets out the Government's fiscal plans and policy objectives for the next three financial years.

This SPS outlines twelve (12) broad outcomes that the Government seeks to achieve. These outcomes aim to provide equity and justice in a society that values the contributions of all; goals to instil a culture of good governance; and goals that will create a more secure community and a work-ready and globally competitive workforce.

The Government's fiscal plan focusses on strengthening the overall financial position of the Cayman Islands over the next three years by reducing annual operating expenditure; growing revenues in a sustainable manner; building cash reserves; and reducing public sector debt.

The SPS forecasts full compliance with the principles of responsible financial management specified in the Public Management and Finance Law (2013 Revision) by the stipulated deadline of 30 June 2016.

The achievement of the fiscal targets and policy objectives set out in this SPS is of paramount importance to this Government as it is critical to the continued positive development of the Cayman Islands over the long term.