2015/16

STRATEGIC POLICY STATEMENT

GOVERNMENT OF THE CAYMAN ISLANDS

Strategic Policy Statement

2015/16 – 2017/18

10th November 2014

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Government of the Cayman Islands

Foreword

As required by Section 23 of the Public Management and Finance Law (2013 Revision) ("PMFL"), the Strategic Policy Statement ("SPS") for fiscal year 2015/16 contains the following elements:

- 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, surpluses, 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.

Dates on which the Forecasts and Information were finalised	
Economic Data	17 October 2014
Economic Forecasts	17 October 2014
Fiscal Data	7 November 2014
Fiscal Forecasts	7 November 2014
Text	10 November 2014

The SPS for the next financial year must be presented to the Legislative Assembly by a member of Cabinet, no 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 that will guide the development of the 2015/16 Budget which will take effect on 1st

July 2015. This SPS highlights the Government's continued commitment to manage public finances responsibly - in order to ensure that compliance with all six Principles of Responsible Financial Management is achieved by 30th June 2016, as required by the Framework for Fiscal Responsibility ("FFR").

The information contained herein is based on 2014/15's year-to-date actual results and the professional judgement of staff in the Ministry of Finance & 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 7th November 2014, 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.

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MESSAGE FROM THE HONOURABLE PREMIER

I am pleased to present the Government of the Cayman Islands' 2015/16 Strategic Policy Statement (SPS). This document outlines the Government's plan for public finances over the next three fiscal years, covering the period: 1st July 2015 to 30th June 2018.

The Progressives led Government campaigned on a promise to lead the Cayman Islands towards a better tomorrow by getting us back on course. To this end, one of our first actions upon taking Office was to develop a fiscal strategy for the duration of our term that would restore public finances through fiscal prudence and effective financial management.

This SPS document is consistent with that strategy, and shows that in the upcoming 2015/16 financial year, the Government will achieve full compliance with the principles of responsible financial management for the first time since the 2007/8 fiscal year.

Over the forecast period, our economy is expected to grow at modest but sustainable levels; inflation is expected to remain stable; and the unemployment rate is forecast to decline.

Public finances are forecast to continue on a positive trajectory with growing cash balances, healthy annual surpluses, and material declines in Public Debt.

Many have sacrificed along the journey to get us where we are, and continued sacrifice will be necessary to get us where we are going. I would especially like to recognize the hardworking men and women of our Public Service, without whom our favorable fiscal position and trajectory would not have been possible.

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

10th November 2014

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). The statements 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 & 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 7th November 2014.

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 2015, 2016, 2017 and 2018, and performance for the financial years ending 30 June 2015, 2016, 2017 and 2018;
(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 principles.

Honourable Marco Archer
Minister of Finance & Economic Development
10th November 2014

Kenneth Jefferson, JP
Financial Secretary & Chief Officer
10th November 2014

SUMMARY OF ECONOMIC AND FISCAL INFORMATION

	2013/14 Unaudited	2014/15 Budgeted	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast
Economic (Percentages)					
Real GDP	1.6	2.1	2.3	2.6	2.9
Consumer Price Index (Inflation)	2.0	1.8	2.1	2.4	2.3
Unemployment Rate	6.2	5.9	5.7	5.3	4.9
Fiscal ($ millions)					
Core Govt. Revenue	648,172	657,773	661,224	672,205	703,993
Core Govt. Expense	547,287	536,838	544,090	544,867	543,200
Net Operating Surplus of Core Govt.	**100,885**	**120,935**	**117,134**	**127,338**	**160,793**
Surplus of Public Entities	9,127	7,095	7,395	7,500	7,500
Surplus of Entire Public Sector	**110,012**	**128,030**	**124,529**	**134,838**	**168,293**
Closing Bank Account Balances	**173,602**	**256,126**	**337,812**	**404,660**	**514,469**
Government Debt	**548,866**	**523,488**	**503,470**	**468,583**	**433,695**

Reaching our Targets

This SPS – which provides the foundation for the formulation of the detailed 2015/16 Budget – contains planned targets for revenues and expenditures that reaffirms the commitment of the Government to restore Public Finances, and deliver high quality service to the people of the Cayman Islands.

In the 2014/15 fiscal year, the Government decided to relieve some of the pressures in the local economy by reducing the import duty on diesel fuel imported by the local electricity provider, Caribbean Utilities Company. Additional relief was also provided by a reduction in the import duty rate for various items from 22% to 20%.

While these measures reduced the amount of annual revenue the Government expects to earn over the forecast period; the fiscal plan for 2015/16 shows the Government achieving full compliance with all principles of responsible financial management as required by the Public Management and Finance Law (2013 Revision) (PMFL). This was achieved by carefully managing operating and capital expenditures to remain within the limits set out in the Medium Term Fiscal Strategy, 2013 - 2017 (MTFS). Additionally, due to a stellar operating performance in 2013/14, the Government's closing cash balance for that fiscal year was $10.9 million higher than originally budgeted. This additional cash compensates for the reduction in forecast revenue for 2015/16 and will enable the Government to achieve the minimum 90-day cash reserve required by 31st December 2015.

Public Sector debt management is a key component of the Government's overall fiscal strategy. To achieve an annual debt servicing ratio of less than 10% (as required by the PMFL), the Government will take an ultra-prudent and conservative approach through the planned early retirement of certain public sector bonds in the 2014/15 fiscal year.

Additionally, the Government will be contributing approximately $12 million to the debt service Sinking Fund in 2014/15. This will reduce the amount that will need to come from General Revenues for debt servicing in future years. This is further discussed in the section on Debt Management.

Economy on the upswing

Overall economic growth of the Cayman Islands over the forecast period is projected to be on an upward path - although conditional on growth projections for the advanced economies, and barring any major global events that will hamper the growth of tourism and financial services.

Government spending is not expected to contribute significantly towards direct stimulation of the economy. Instead, growth in the medium-term will rely heavily on domestic private consumption and investments, which will be primarily stimulated from construction projects (hotel and condominium developments), and major infrastructure ventures (the George Town cruise ship berthing facility, Owen Roberts Airport terminal upgrades, the East-West arterial road, and the new solid waste management facility).

Domestic demand for goods and services are likely to be boosted by the increase in tourism and the implementation of these various development projects, leading to gradual increases in the general price level.

Sustained improvements in employment are expected over the forecast period; new employment is expected to be created directly and indirectly from the construction and operation of, the major projects anticipated.

Continued Debt Management

Strategic management of Public Debt is required to ensure compliance with the annual debt servicing requirement. In 2014/15 the Government will do an early repayment of US$10.0 million in bonds held by the Cayman Islands Development bank. This strategy reduces the amount of Public Debt that will mature in the 2015/16 fiscal year as well as the associated interest costs.

The Government considers it prudent to pay off public sector debt as opportunities arise. This reduces interest cost and the amount of annual revenue that is needed to service those facilities. Therefore, a key component of the overall debt management plan is to either fully extinguish bonds as they mature or to refinance them as amortizing loans which are extinguished over time. To this end, the Government does not intend to execute any "bullet bonds" for the foreseeable future.

In 2011, the Government obtained a US$185.1 million, 15-year loan from FirstCaribbean International Bank. The Administration at that time, decided to seek a moratorium on principal repayment for a period of 5 years. That means, the principal repayment component of the loan will begin in 2016 with annual principal repayment of US$18.5 million. To assist in mitigating the resulting impact on annual debt servicing, the Government will be contributing an additional CI$12.0 million to the debt servicing Sinking Fund in the current 2014/15 financial year. In future fiscal years, monies will be taken from this Sinking Fund to assist with debt servicing until other facilities, such as the 2003 Bond issue (see Core Government Debt Portfolio, on page 41), is fully repaid.

Importantly, the Government intends to fully fund its future capital and operating needs from recurrent revenue and will not be undertaking any new borrowings during the forecast SPS period. As a result, by the close of the 2017/18 fiscal year, central Government debt is expected to be $433.7 million and its cash balances are expected to be $514.5 million.

Building cash reserves is another important component of the overall debt management plan. In 2019, the Government's US$312 million (equivalent to CI$261.3 million) 10-year "bullet-bond" that was executed in 2009, will mature. In 2019, the Government is expected to have $390.6 million in its operating bank accounts and $123.8 million in various Restricted and Reserve Funds. This means, the Government would be in a position to fully extinguish that bond if it chose to do so. However, to balance and manage risk, the Government plans to retire a significant portion of the Bond upon maturity and convert the remaining balance to an amortizing facility.

Improving Cash Balances

The Government's cash position is expected to improve from an opening cash position of $256.1 million on 1st July 2015 to a closing cash position of $514.5 million at 30th June 2018. This improvement in cash will be generated primarily from operating activities and to a lesser extent, dividend payment from Statutory Authorities and Government-Owned Companies.

The Government is required to have 90 days of liquid cash (defined as unrestricted cash balances and the General Reserves) at the 31st December each year, starting at 31st December 2015.

Average daily operating expenditure is expected to be approximately $1.47 million per day during the SPS period. That means, the Government is required to have at least $132.3 million in liquid cash on the 31st of December each year. During the SPS period, the Government is forecast to have liquid cash of $141.5 million as at 31st December 2015, $229.9 million at 31st December 2016, and $297.3 million at 31st December 2017. These balances are well in excess of the minimum requirement under the PMFL.

Capital Spending

Whilst there is a critical need for essential infrastructure, the Government has maintained a restrained capital program to enable the recovery of public finances and operating cash balances.

Over the SPS period, the Government will be providing on-going support to the following Government Owned Companies:

Agency	2015/16	2016/17	2017/18
Cayman Airways	4,850,000	4,850,000	4,850,000
Cayman Turtle Farm	9,500,000	9,500,000	9,500,000
National Housing Development Trust	2,438,844	2,438,844	2,438,844
Cayman Islands Development Bank	1,500,000	1,500,000	1,500,000
Cayman Islands National Insurance Company (CINICO)	500,000	500,000	
Cayman Islands Airports Authority (CIAA)		8,000,000	7,000,000
Total	**18,788,844**	**26,788,844**	**25,288,844**

Capital injections to Cayman Airways, Cayman Turtle Farm, the National Housing Development Trust and the Cayman Islands Development bank are intended to assist those agencies in servicing their annual debt obligations as well as to assist in the coverage of operational losses. Injections to CINICO are for outstanding amounts owed by Government.

The Government also plans to invest $15.0 million into the CIAA over the 2016/17 and 2017/18 fiscal years. These injections are meant to facilitate an accelerated redevelopment plan for the airport facilities.

In addition to support for Statutory Authorities and Government Owned Companies, the Government will also be investing in other critical infrastructure including: a mental health facility; on-going completion of the John Gray High School; on-going support for potential cruise berthing in

George Town; repairs at Her Majesty's Northward Prison; new Radio Communication equipment; improved road network; and solid waste management.

Risks to the Fiscal Plan

The SPS is a forward looking document. Forward- looking statements are made on the basis of information that is presently available. The Government's planned financial performance could differ due to unforeseen changes in economic conditions.

Factors that could pose a risk to the fiscal plan include, but are not limited to:

Natural disasters: The Cayman Islands are susceptible to hurricanes and other natural disasters. Whilst material damage from hurricanes is relatively infrequent, they still present a credible risk.

Tourism: The Cayman Islands have been enjoying increased Tourism in recent years. The Tourism industry is a major pillar in the local economy. The Government is mindful of recent events (such as the Ebola crisis) which could have a contracting effect on world travel.

Financial Services: The Financial Services Industry is a major revenue source for the Government. The local industry is highly regulated and is regarded as one of the safest places to do business. Success of the plan is contingent on there being no major shocks to the international markets which would have a negative effect on the local Financial Services Industry.

Appropriate risk mitigation strategies have been developed to address many of the risks perceived. The Government is adequately insured in the event of a major natural disaster. Staff has been trained and a readiness plan put in place in the event of a medical emergency such as Ebola, and proactive measures are being taken to ensure the continued vitality of our Financial Services Industry.

Economic Outlook

Introduction

The domestic economy continued to recover in 2013. Higher growth is expected for 2014, conditional on the sustained strengthening of demand for tourism services and modest growth in financial services. This section presents the forecasts for fiscal years (FY) 2015/16 to 2017/18 and their major assumptions along with a review of the domestic and global economic performance in 2013 and the first half of 2014 and the current fiscal year forecasts.

World Economic Performance and Forecasts[1]

Global output increased by 3.3 percent in 2013, slightly lower than the 3.4 percent recorded in the preceding year. The weakened performance is due to the emerging markets which recorded slower growth. The advanced economies expanded by 1.4 percent, an improvement over the 1.2 percent growth recorded in 2012. Emerging and developing countries continued to record the strongest growth performance in 2013 as compared to other regions of the world; however, their combined growth rate of 4.7 is lower than the 5.1 percent achieved in 2012.

Global economic output is forecast to continue growing at 3.3 percent in 2014. The advanced economies which are the main markets for the Cayman Islands' financial and tourism services are projected to turn in higher economic performance, growing at 1.8 percent in 2014. However, economic prospect for the emerging market and developing economies is foreseen to further slow down at 4.4 percent.

Economic growth in the US slowed slightly in 2013 to 2.2 percent from 2.3 percent in 2012. Although domestic consumption was robust, growth of domestic investment was tempered. Growth in 2014 is projected to match the previous year's 2.2 percent; this represents a downscaling from the initial projection of 2.8 percent due to a correction for inventory overhang, a harsh winter which further dampened demand together with an export decline.

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[1] This assessment is based on the World Economic Outlook Update (International Monetary Fund, October 2014).

Most of the other advanced economies generally posted stronger economic performance in 2013 than the preceding year and are expected to post modest improvement in 2014.

With easier credit conditions and increased consumer confidence, growth in the United Kingdom (UK) improved to 1.7 percent in 2013 from 0.3 percent in 2012. In 2014, UK growth is projected at 3.2 percent. Canada's growth path is similarly on the uptrend from 1.7 percent in 2012 to 2.0 percent in 2013 and further to 2.3 percent in 2014, mainly on the back of revival in private consumption expenditure.

In 2013, economic activity in the Euro area shrunk for the second consecutive year, this time by 0.4 percent, albeit an improvement on the 0.7 percent decline in 2012. The area continued to be impacted by the sovereign debt crisis in periphery countries in 2011 and 2012 which led to fiscal weakening and weak domestic demand. Germany's growth rate moderated to 0.5 percent in 2013 compared to 0.9 percent in 2012. Economic activity in Italy, Spain, Netherlands, Greece, Portugal and Finland declined anew, however, at a slower rate than in 2012. In 2014, improved domestic demand is expected to push the Euro area growth to 0.8 percent after two years of decline.

Table 1: Comparative Macroeconomic Forecasts (%)

				Forecasts	
	2011	**2012**	**2013***	**2014**	**2015**
Real GDP growth (%)					
Cayman Islands	0.9	1.4	1.2	1.9	2.2
United States	1.8	2.8	2.2	2.2	3.1
World	3.9	3.5	3.3	3.3	3.8
Consumer Prices Inflation (%)					
Cayman Islands	1.3	1.2	2.2	1.8	1.7
United States	3.1	2.1	1.5	2.0	2.1
Advanced economies	2.7	2.0	1.4	1.6	1.8
Unemployment Rate (%)					
Cayman Islands	6.3	6.2	6.3	6.1	5.8
United States	9.0	8.1	7.4	6.3	5.9
Advanced economies	7.9	8.0	7.9	7.3	7.1
Current account of the Balance of Payments (% of GDP)					
Cayman Islands	(18.1)	(18.9)	(18.0)	(17.1)	(18.2)
United States	(3.1)	(2.7)	(2.4)	(2.5)	(2.6)
Advanced economies	(0.2)	(0.1)	0.4	0.3	0.2

*Cayman Islands GDP and current account data for 2012 are actuals; for 2013, these are estimates based indicators.

Sources: IMF World Economic Outlook (October 2014) 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 Fiscal Year 2014/15

Output (GDP) Growth. 2013 marks the third year of consecutive economic growth for the Cayman Islands, this time by 1.2 percent which is slightly lower than the performance in 2012 (1.4%). However, a sharper performance is indicated in the first six months of 2014 with GDP growth of 2.2 percent.

Growth in 2013 is generated largely by the service sectors led by hotels and restaurants, transport, storage and communication, real estate, renting and business activities, and financing and insurance. Robust growth in stay-over tourism by 7.4 percent boosted the performance of the hotels and restaurants sector (6.6%) as well as transportation, storage and communication sectors (2.4%). The latter was also facilitated by higher volume of cargo transportation in the midst of a reduction in cruise transport. During the first half of 2014, stay-over tourism further strengthened by 9.5 percent aided by an 8.5 percent rebound in cruise tourism.

Financing and insurance services sector which accounts for 42.3 percent of GDP had an estimated growth of 1.7 percent in 2013. Real estate, renting and business activities value added was estimated to have increased by 1.3 percent, as both business services and real estate activities were enhanced by higher registration of companies and property transfers. In the first two quarters of 2014, financing and insurance services expanded by 0.6 percent while real estate, renting and business activities expanded by 3.5 percent.

In 2013, value added of government services contracted by 1.5 percent due mainly to the combined effects of lower staff levels and reduction in capital expenditure. Government services continue to decline for the first half of 2014 in keeping with the government's policy to reduce the civil service employment and rationalize fiscal operations.

Based on the economic performance of 2013 and the first six months of 2014, estimated GDP growth for FY 2013/14 is now placed at 1.6 percent while the forecast for FY 2014/15 remains at 2.1 percent. The latter also takes into consideration the updated global outlook as well as expected economic developments listed in the Economic Assumptions section of this report.

Inflation. In 2013, consumer prices rose on average by 2.2 percent, as compared to 1.2 percent in the preceding year. All major categories in the CPI basket had higher inflation rates except for housing and utilities and recreation and culture.

Inflation in 2013 can be traced mainly to higher prices of alcohol and tobacco, household equipment, clothing and footwear, education, food and non-alcoholic beverages, and miscellaneous goods and services. The strong growth in alcohol and tobacco index by 9.8 percent was due primarily to higher import duties implemented in mid-year 2012. For the first half of 2014, the average inflation rate stood at 1.5 percent, driven by higher prices of items led by restaurants and hotels, household equipment, education and transport.

Given the half-year inflation rate, the average inflation for 2014 is forecasted at 1.8 percent, based on expected increase in local demand for goods and services, projected higher global prices of non-oil commodities, and a marginally higher inflation forecast for the United States. For 2015, a slight moderation in the inflation rate is expected from the recent reduction in tariff rates for a large number of consumption items by two percentage points. Forecast inflation rate for FY 2013/14 is 2.0 percent while that for FY 2014/15 is place at 1.8 percent.

Employment. In 2013, a lower population size and lower labour participation rate led to a decline in the labour force by 0.8 percent to settle at 38,483. The decline was also indicated by a 6.5 percent decrease in work permits to 19,432.

Total employment declined by 0.9 percent to 36,070 persons, traced mainly to the 6.7 percent loss in non-Caymanian employment while Caymanian employment improved by 6.1 percent. The unemployment rate deteriorated slightly to 6.3 percent; however, Caymanian unemployment rate fell to 9.4 percent from 10.5 percent in 2012.

Conditional on the projected GDP growth for 2014 and 2015, the unemployment rate is forecast to improve to 6.0 percent and 5.8 percent respectively. The resulting forecast unemployment rate for FY 2013/14 is placed at 6.2 percent while that for FY 2014/15 is expected at 5.9 percent.

Current Account. In 2013, merchandise imports rose to $774.5 million, 2.1 percent higher compared to the preceding year. The growth was largely a result of the higher value of fuel imports as well as non-consumer goods. For the first half of 2014, merchandise grew by 7.1 percent to $399.1 million on the back of higher imports of both oil and non-oil merchandise.

The country's current account deficit was estimated to have narrowed in 2013 by 1.3 percent to $479.5 million, or 18.0 percent of GDP due mainly to an increase in the inflow of funds arising from higher visitor expenditure and business services.

Visitor expenditure is estimated at $409.7 million, higher by 2.4 percent from a year ago due to strong growth in air arrivals despite a slump in cruise arrivals. Meanwhile, receipts from financial services were estimated at $405.7 million, an increase of 1.8 percent as new company registrations rebounded from the decline a year ago. Workers' remittances were marginally lower as foreign employment decreased.

In 2014, the current account deficit is forecasted to be lower at 17.1 percent of GDP, conditional on the sustained increase in receipts from tourism services. The resulting forecast for FY 2013/14 is 17.5 percent of GDP. In FY 2014/15, this is projected to widen slightly to 17.7 percent of GDP as imports are likely to accelerate in 2015 due to the implementation of major investment projects.

Economic Assumptions and Forecasts for Fiscal years 2015/16 to 2017/18

GDP Growth. Overall economic growth of the Cayman Islands in the next three fiscal years is foreseen to be on the upward path, although conditional on growth projection for the advanced economies. The tourism sector, financial and business services are expected to benefit from further improvement in the advance economies for the next three years. The most recent projections for the advanced economies suggest acceleration in their recovery, with GDP growth of 2.3 percent in 2015 from 1.8 percent in 2014. A steeper turnout is projected for the US, from 2.2 percent in 2014 to 3.1 percent in 2015.

Locally driven growth prospects will rely heavily on domestic private consumption and investments as government spending is not expected to play any major role in directly stimulating the economy due to the government's commitments in the Framework for Fiscal Responsibility. However, the recent reduction in tariff duties and other measures aimed at bringing down the cost of doing business is expected to alleviate domestic demand.

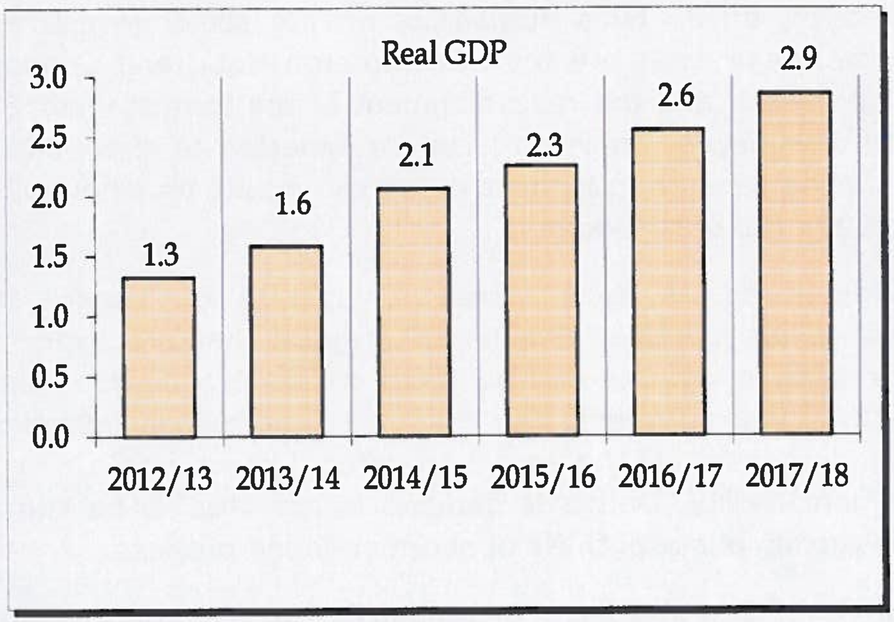
The construction sector is expected to spearhead economic growth in the medium-term, driven by a number of private sector investment projects. Among the major ones are the new Kimpton Hotel and Condominiums on Seven Mile Beach and the redevelopment of the former Hyatt Beach Suites Hotel. On completion, these projects are expected to directly boost tourism services while generating indirect economic impact on wholesale and retail, transport and the utility sectors.

Albeit limited by its fiscal stance to operate on surplus, the central government has identified five major projects that are expected to boost domestic investment: the George Town cruise ship berthing facility; Owen Roberts International Airport Terminal upgrades; the revitalization of George Town; the extension of the east-west arterial road; and a new solid waste management facility. Domestic demand is expected to be stimulated from the construction phase of these above-mentioned projects.

External demand is also likely to be boosted by the expected granting of a US license for the Health City Hospital. In addition, higher growth prospects for tourism services is foreseen over the medium to long-term from the airport and cruise berthing facility projects.

The above external and domestic assumptions support a forecast growth of real GDP in 2015/16 of 2.3 percent (see Figure 1). Moderate improvement in the growth rate to 2.6 percent for FY 2016/17 and stronger growth of 2.9 percent for FY 2017/18 are forecasted, barring major global events that will hamper the growth of tourism and financial services.

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

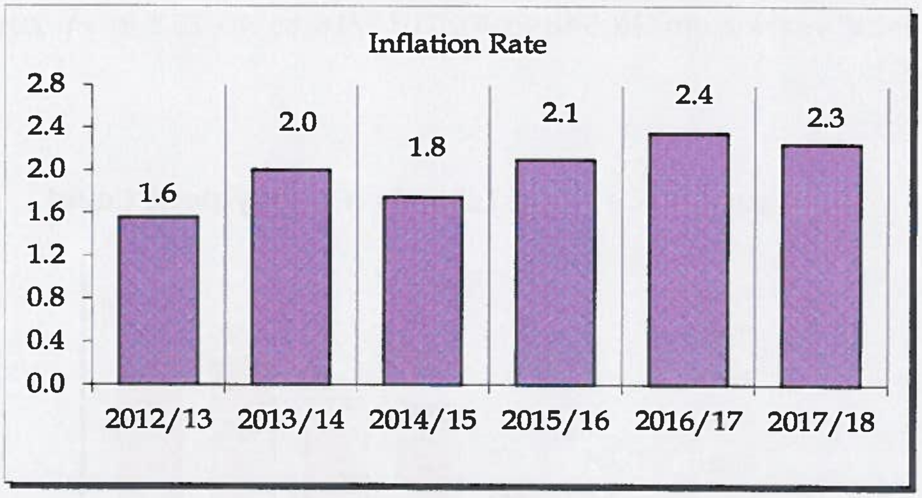


Source: Cayman Islands Government (Economics and Statistics Office)

Inflation Rate. Slightly 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 development projects (see Figure 2).

For FY 2015/16, inflation is forecasted at 2.1 percent. This also assumes a slight build-up in inflationary pressure in the US in 2015 associated with stronger growth in private consumption. In succeeding years, the inflation rate is foreseen to increase to 2.4 percent and ease to 2.3 percent in FY 2016/17 and FY 2017/18 respectively.

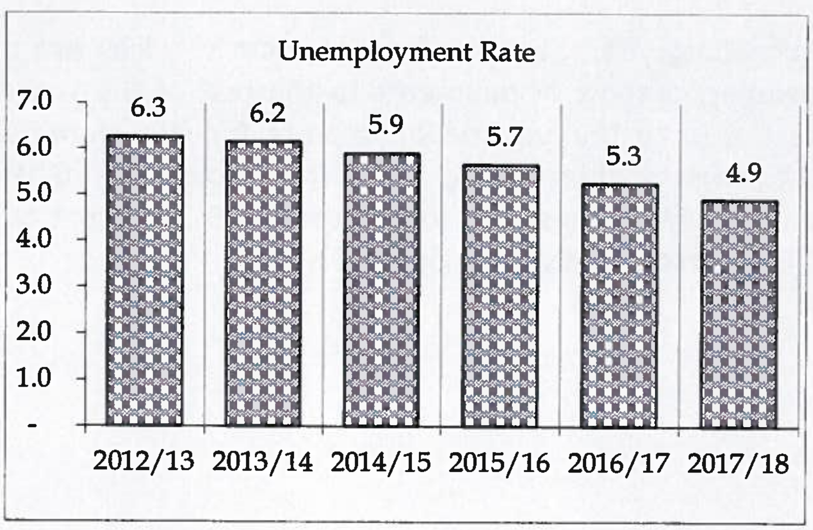
Figure 2: Cayman Islands' Inflation Rates (%)



Source: Cayman Islands Government (Economics and Statistics Office)

Employment. New employment is expected to be created directly and indirectly from the construction and operation of major projects, particularly the Kimpton Hotel, and the redevelopment of the former Hyatt Beach Suites Hotel. Unemployment rate is forecasted at 5.7 percent in FY 2015/16, followed by gradual improvements to 5.3 percent in FY 2016/17 and 4.9 percent in FY 2017/18 (see Figure 3).

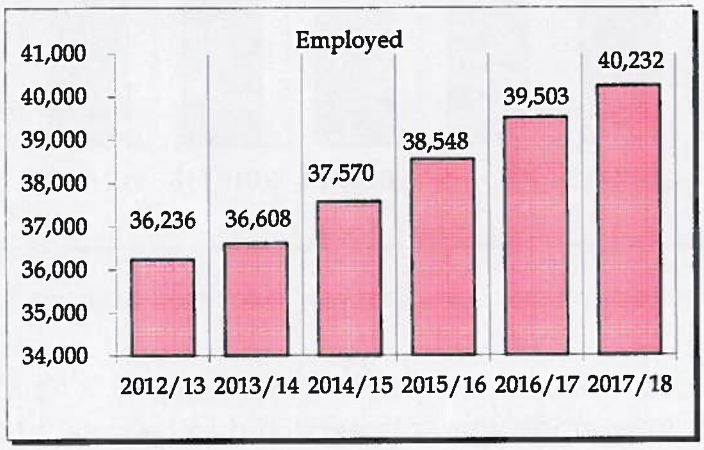
Figure 3: Cayman Islands' Unemployment Rates (% of Labour Force)



Source: Cayman Islands Government (Economics and Statistics Office)

Sustained improvements in the employment level are expected in the next three fiscal years from 38,548 in FY 2015/16 to 40,232 in FY 2017/18 (see Figure 4).

Figure 4: Cayman Islands' Employment Level



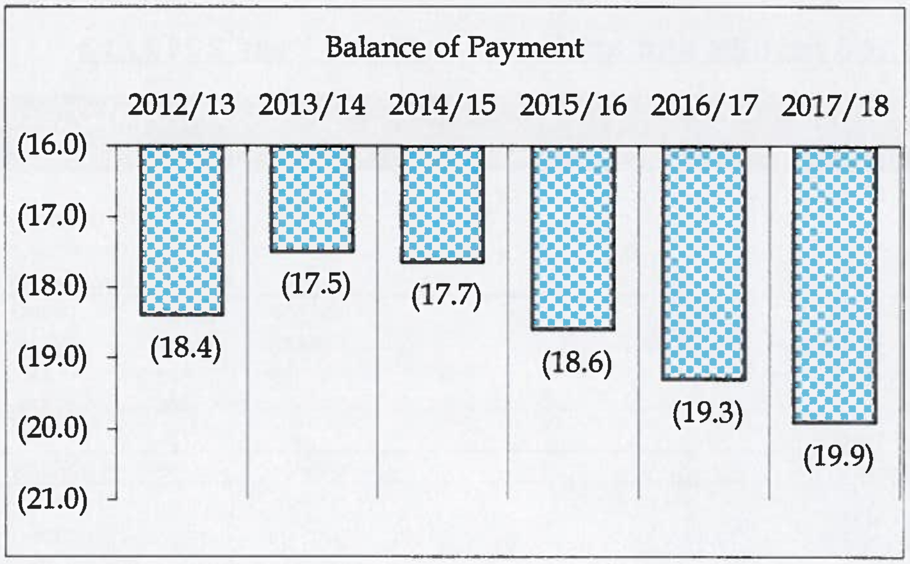
Source: Cayman Islands Government (Economics and Statistics Office)

Current Account. The deficit on the current account of the balance of payments (BOP) is expected to widen to 18.6 percent of GDP in FY 2015/16. This assumes that growth in imports and remittances will outweigh the growth of inflows from total tourism (inclusive of medical tourism) and financial services.

For the succeeding years, inflows from tourism services are expected to be higher; however, outflow of payments to the rest of the world are assumed to accelerate due to the volume of imports for the identified private and government projects, thus raising the current account to GDP ratios. For FY 2016/17 and 2017/18, these are forecasted at 19.3 percent of GDP and 19.9 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 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	585,753	(4,806)	-0.81%
Sales of Goods & Services	58,682	32,964	(25,718)	-43.83%
Investment Revenue	213	906	693	325.35%
Donations	-	408	408	100.00%
Other Revenue	-	134	134	100.0%
Total Revenues	649,454	620,165	(29,289)	-4.51%
Expenses	**Budget**	**Actual**	**Dollar Variance (over)/under**	**Percentage Variance (over)/under**
Personnel Costs	250,885	239,136	11,749	4.68%
Supplies and Consumables	95,284	88,796	6,488	6.81%
Depreciation	25,006	25,299	(293)	-1.17%
Finance Costs	32,841	33,226	(385)	-1.17%
Litigation Costs	454	1,207	(753)	-165.86%
Outputs from Statutory Authorities and Government Owned Companies	108,460	111,223	(2,763)	-2.55%
Outputs from Non-Government Output Suppliers	18,955	25,985	(7,030)	-37.09%
Transfer Payments	32,816	32,277	539	1.64%
Other (Gains) and Losses	17	2,086	(2,069)	n/a
(Profit/Loss on Statutory Authorities and Government Owned Companies	(1,875)	2,721	(4,596)	245.12%
Other Operating Expenses	4,359	4,560	(201)	-4.61%
Total Expenses	567,202	566,516	686	0.12%
Net Surplus/(Deficit)	82,252	53,649	(28,603)	

Unaudited results for the 2012/13 fiscal year show an Operating Surplus of $53.6 million. This result was $28.6 million less than the budget anticipated. The lower than expected performance was primarily due to an unfavourable revenue variance of $29.3 million.

Whilst restrained recruitment efforts resulted in a positive variance of $11.7 million in personnel costs and $6.5 million in Supplies and consumables, those savings were absorbed by negative variances in Outputs from Non-Governmental Output Suppliers and losses in Public Entities.

Unaudited results and analysis for Fiscal Year 2013/14

Unaudited 2013/14 results amount in CI$'000s				
Revenues	Budget	Actual	Dollar Variance over/(under)	Percentage Variance over/(under)
Coercive Revenue	612,060	612,793	733	0.12%
Sales of Goods & Services	31,852	33,418	1,566	4.92%
Investment Revenue	567	1,600	1,033	182.19%
Donations	61	304	243	398.36%
Other Revenue	124	57	(67)	-54.0%
Total Revenues	644,664	648,172	3,508	0.54%
Expenses	Budget	Actual	Dollar Variance (over)/under	Percentage Variance (over)/under
Personnel Costs	237,643	238,100	(457)	-0.19%
Supplies and Consumables	90,874	88,130	2,744	3.02%
Depreciation	27,973	25,886	2,087	7.46%
Finance Costs	31,377	30,515	862	2.75%
Litigation Costs	508	374	134	26.38%
Outputs from Statutory Authorities and Government Owned Companies	100,725	102,190	(1,465)	-1.45%
Outputs from Non-Government Output Suppliers	25,167	26,464	(1,297)	-5.15%
Transfer Payments	33,183	31,130	2,053	6.19%
Other (Gains)/losses	(1,876)	(1,323)	(553)	29.48%
(Profit/Loss on Statutory Authorities and Government Owned Companies	(4,983)	(9,127)	4,144	-83.16%
Other Operating Expenses	3,737	5,821	(2,084)	-55.77%
Total Expenses	544,328	538,159	6,169	1.13%
Net Surplus/(Deficit)	100,336	110,013	9,677	

The Government recorded an unaudited Operating Surplus of $110 million for the 12-month period: 1st July 2013 to 30th June 2014. This amount is $9.7 million better than the full year budget Operating Surplus of $100.3 million. Public Entities reported a $9.1 million Operating Surplus while Central Government achieved a $100.9 million Surplus.

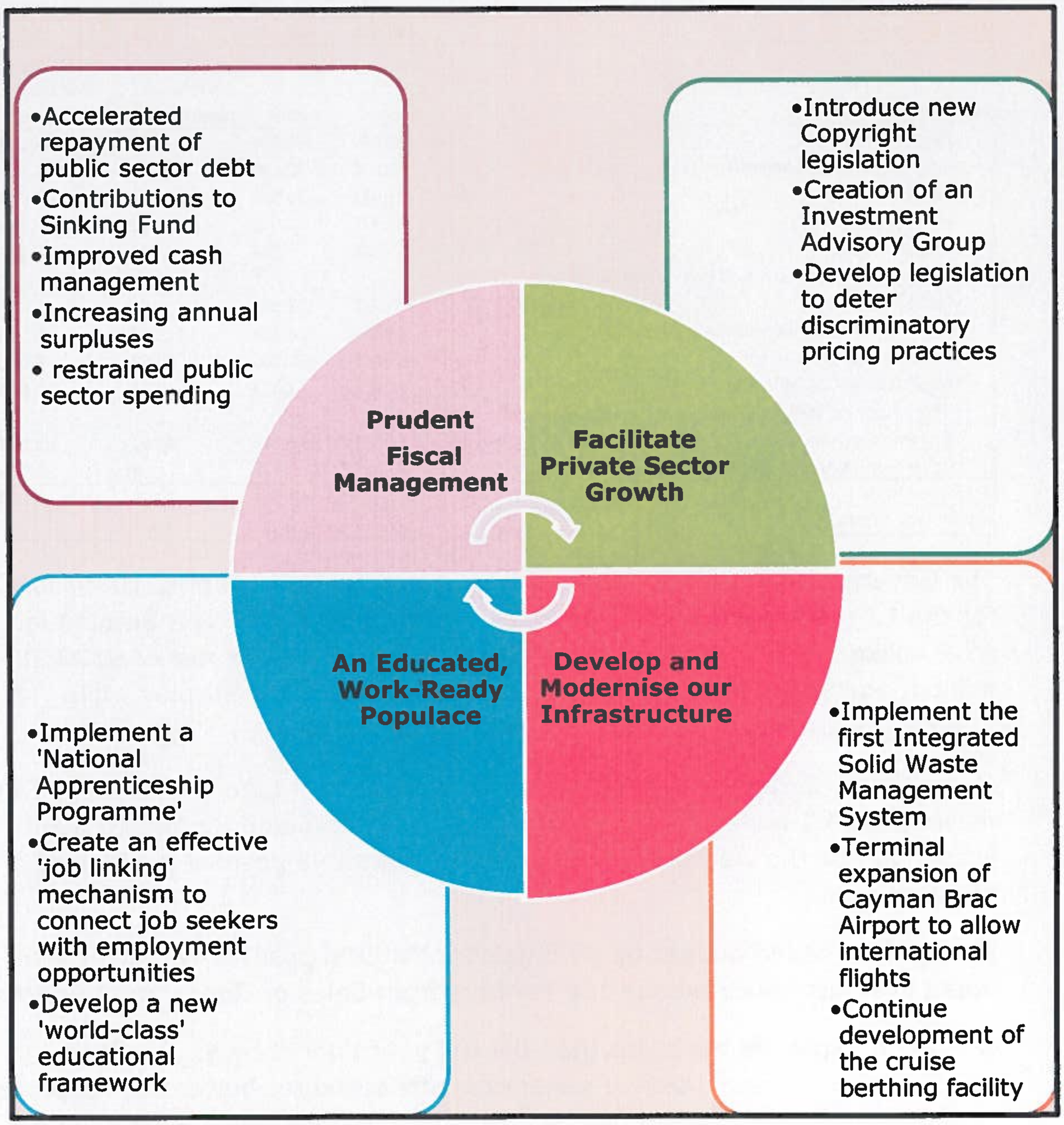
Overall total closing bank account balances as at 30th June 2014 was $173.6 million; $104.1 million of which were held in Reserve and Restricted bank accounts, and the Operating bank accounts were in a positive position of $69.5 million.

Revenue exceeded budget by $3.5 million. Material positive variances were noted in investment revenue and revenue from Sales of Goods and Services.

Operating expenses were less than the full year budget by $6.2 million. Principally this overall positive variance is attributed to: better than expected results among its Public Entities; less was required for transfer payments;

additional savings were recorded in Supplies and Consumables; and Depreciation was less than budgeted.

Medium Term Fiscal Plan



Prudent Fiscal Management

Evidence of prudent fiscal management is provided by the following:

- Government's financial performance exceeded budget expectations for FY 2013/14;

-annual Accounts of Government's agencies for 2013/14 were prepared and submitted to the Auditor General for examination within the legal deadline and indications are that audit opinions to be issued will attest to improved agency results and improved support for the information submitted;

-financial results for Statutory Authorities and Government-Owned Companies for 2013/14, that is significantly better than budgeted;

-accelerated repayment of public sector debt is planned;

-additional contributions to Debt-Service Sinking Fund is planned to occur in 2014/15.

-increase in cash balances existed at 30th June 2014 when compared to the budgeted position and, cash balances are expected to increase steadily in the SPS timeframe;

- all indications are that Government's cash balances will remain positive throughout the 2014/15 year and its decision to forego seeking such a facility in 2014/15, was the correct one and overdraft facility costs and interest charges were avoided;

-compliance with all Borrowing and Cash Reserve ratios will be met in 2015/16 and beyond.

Facilitate Private Sector Economic Growth

With an estimated 49% of the Cayman Islands' GDP derived from financial services, growth within this industry is important.

Through collaborative efforts with the private sector, the Government envisions an internationally competitive business climate, which encourages economic activity. The Government's overarching purpose is to create an environment whereby investment and entrepreneurship can prosper, for the benefit of all those with a vested interest in our Islands. Government has the following plans to encourage growth of the financial services industry:

- Modernization of the Intellectual Property (IP) framework for the Cayman Islands, which will introduce new Copyright legislation, intended to broaden the protection of intellectual property registered in the Cayman Islands, globally. This has a potential positive impact on the Cayman Islands' economy: international research has shown that there is a positive correlation between the strengthening of the IP system and future economic growth;
- revise the Trade and Business License and Liquor Licensing Laws to allow better classification of local businesses and monitoring of commercial activity;
- create an Investment Advisory Group, which focuses on formulating a national plan for attracting investment;
- development of a legislative framework to deter anti-competitive and discriminatory pricing practices by businesses operating in the Cayman Islands, and enhance the viability of local small businesses by preventing unfair competitive practices. Creation of a Fair Trade Board to hear and investigate alleged breaches of a Fair Trade Law, brought to the Board by the public and local businesses, is an important planned development; and
- providing technical assistance to small businesses. Business counselling services will be provided to entrepreneurs and small businesses, in an effort to improve competencies and their success rates. Redesigning the licensing system integrating the use of e-commerce and other IT platforms to provide an enhanced and accessible licensing regime is planned. This will lead to reduced processing times for licensing and registration; reduced administrative costs for licensing functions; allow greater enforcement mechanisms - all of which will provide a competitive advantage that may serve to encourage foreign investment.

An Educated, Work-Ready Populace

One of the Government's national objectives is to ensure the Islands' workforce maintains the competitive edge needed for the jobs of today and tomorrow. From early childhood through to higher education - alongside vocational training – the citizens and residents of the Islands must be able to share in the opportunities and benefits that can only be enjoyed by being a well-prepared labor force.

The full implementation of the National Curriculum in the Islands' education system will include revisions to various aspects of learning, while an enhanced governance model for education will create a new level of partnership between parents, and the community at large. The completion of the new John Gray High School, and the re-purpose of the George Hicks High School, will provide multi-functional educational uses, such as additional classrooms for the University College of the Cayman Islands (UCCI). Potential synergies between UCCI and Cayman Islands Further Education Centre (CIFEC) are being pursued, and this could result in additional cost savings for the Government.

Converting the hurricane shelter site on the Bluff in Cayman Brac, into a new High School campus, to replace the present campus, will cost approximately $8 million over the 2015/16 and 2016/17 years. This pursuit will improve educational facilities in the Islands.

Legislation will be developed to strengthen the mandate of the 'National Workforce Development Agency' – this agency will continue to serve as a championed partner and facilitator in the training, development and employment of Caymanians who are actively seeking employment or career progression. The implementation of a 'National Apprenticeship Programme' will benefit both sides of the employment line - by motivating eligible students through on-the-job training combined with related technical instruction, employee relations and productivity are encouraged to improve. Employers who participate in the National Apprenticeship programme will have the opportunity to sculpt talent to suit their particular business needs. 10% of work permit revenues will be directed to a segregated Training and Development Fund, which would support and finance the 'National Apprenticeship Programme.'

Government remains committed to serving those individuals with disabilities. To provide adequate vocational training and support services for special-needs adults, a new facility will be built over the next three years. The capital funds needed for the construction of this new facility will be subsidized via public-private-partnerships.

Develop and Modernize our Infrastructure

-A national policy is the first and key step in creating a sustainable waste management system. Efforts are already in place towards implementing the Country's first National Solid Waste Management Strategy along with the Integrated Solid Waste Management System (ISWMS).

Commission of ISWMS will follow the procurement process outlined in the Framework for Fiscal Responsibility.

The Government will also investigate and make recommendations regarding the introduction of Landfill tipping fees for all waste brought in from private companies and citizens, this is to encourage recycling and improve waste management throughout the Islands.

The Government will continue initiatives for:

- terminal expansion at Charles Kirkconnell International Airport to allow international flights;
- a George Town cruise-ship berthing facility;
- terminal expansion at Owen Roberts International Airport to safely and comfortably process increasing passenger volumes;
- continued revitalization of George Town;
- expansion of the Linford Pierson Highway;
- affordable Housing is to be pursued, if financing allows;
- construction of a mental health facility;
- improving security at Northward Prison; and
- improving the communication network for first responders.

Three Year Financial Forecast

Forecast Operating Statement

	SPS Forecast			
	Approved Budget 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18
	$000	$000	$000	$000
Revenues				
Coercive Revenue	624,886	627,659	637,962	669,072
Sales of Goods & Services	32,278	32,956	33,634	34,312
Investment revenue	524	524	524	524
Donations	60	60	60	60
Other revenue	25	25	25	25
Total Revenues	**657,773**	**661,224**	**672,205**	**703,993**
Expenses				
Personnel costs	241,763	250,512	252,512	252,512
Supplies and Consumables	88,145	88,580	88,580	88,580
Depreciation and Amortisation	27,751	26,942	26,942	26,942
Finance costs	28,525	27,602	26,379	24,712
Outputs from Statutory Authorities & Government Companies	94,069	94,069	94,069	94,069
Outputs from Non-Governmental Suppliers	22,695	22,695	22,695	22,695
Transfer Payments	31,284	32,021	32,021	32,021
Other (Gains)/Losses	(1,883)	(1,883)	(1,883)	(1,883)
Other Operating Expenses	4,489	3,552	3,552	3,552
(Profit)/Loss on Statutory Authorities & Government Companies	(7,095)	(7,395)	(7,500)	(7,500)
Total Expenses	**529,743**	**536,695**	**537,367**	**535,700**
Net Surplus	**128,030**	**124,529**	**134,838**	**168,293**

The Government's three year financial forecast (FY 2015/16 to 2017/18) is consistent with the MTFS that was agreed with UK Government in August 2013. The revenue forecast is lower than originally planned; however, this is from a deliberate intervention by the Government to provide relief to the local populace through reductions in import duty rates on various consumable goods as well as on the Diesel fuel used for electricity generation.

The revenue forecast does not include any new revenue measures. Growth in the local economy is expected to result in increased demand for goods and services which are expected to drive revenue from import duties and other consumption based revenue items. The Government will also receive additional revenue from certain trust assets which are expected to mature during the SPS period and be transferred to General Revenue.

The operating expenditure forecast shows that the Government will remain within the limits agreed under the MTFS. The 2012/13 unaudited results show operating expenditures for that year of $567.2 million. Following aggressive efforts to reduce that annual amount to $529.7 million in the current 2014/15 fiscal year, in line with the MTFS, the Government expects expenditures to increase by 1.3% during the 2015/16 fiscal year.

The major area of planned increase is in personnel costs. Following the removal of a 3.2% cost of living adjustment in 2010, salaries and wages for Civil Servants currently remain at 2007 levels. This was in addition to a suspension of annual increments for over a decade, along with a more recent ban on within-grade salary increases.

Despite these austerity measures, Civil Servants remain committed to their tasks and worked with the Government to reduce public sector expenditures to the level noted above.

Having given careful consideration to the above, the Government has decided to use a portion of the modest 1.3% increase in operating expenditure planed, to provide a cost of living adjustment of 4% to Civil Servants.

It is important to note that by the time Civil Servants are expected to receive the 4% COLA adjustment in July 2015, it forecast that inflation would have grown by over 12% since the last cost of living adjustment which took into account inflation rates to 2007. Therefore, even with this adjustment, Civil Servant salaries would still be 8% below the rate of inflation over the previous eight years.

From an economic perspective, Caymanians have a high propensity to spend, therefore increases in the monthly take home pay for public sector workers is expected to have beneficial effects in the local economy through increased consumer spending.

Expenditures in supplies and consumables are planned to remain static over the forecast period. The Government anticipates that it will be able to offset any increases due to inflation by efficiencies gained through lease consolidation and stricter procurement policies.

Actual depreciation costs for the 2013/14 fiscal year were $25.9 million. This is primarily due to a restrained capital program and the deferral of acquisition for certain assets. Depreciation is not expected to exceed $26.9 million during the SPS period as the Government will be investing principally in on-going projects (such as the cruise berthing facility, mental health facility and landfill). Those assets are not expected to begin depreciation until future years, which are beyond this SPS timeframe.

Finance costs are expected to continue on a declining trajectory –which is in-line with the planned reduction in public sector debt and the removal of the need for annual overdraft facilities. The Government will continue to seek opportunities to reduce annual interest costs through rate negotiations and portfolio restructuring; however, the forecast SPS result is not contingent on these planned efforts.

Support to Statutory Authorities and Government Owned Companies are expected to remain stable over the forecast period. Anticipated increases in some areas (such as support to the Health Services Authority) are expected to be offset by improvement in other areas (such as Cayman Airways).

Support to Non-Governmental Output suppliers are also expected to remain stable over the forecast period. The Government is cognizant of the unpredictable nature of certain expenditures in this category (such as the provision of Legal Aid and medical care at overseas tertiary institutions). However, the Government believes the budget is sufficiently conservative in other areas to be able to mitigate any unanticipated increases in these more unpredictable areas. This is also true for the provision of Transfer Payments.

The 2014/15 budget included provisions for the write-off off of bad debts relating to the Randyke Gardens wastewater treatment facility as well as defaults under the Government's Guaranteed Housing Assistance Mortgage program (GGHAM). These are not expected to reoccur over the next three fiscal years and so the budget has been adjusted accordingly.

Collectively, Statutory Authorities and Government Owned Companies posted a net surplus of $9.1 million in the 2013/14 fiscal year. This performance is expected to improve with increased cruise ship arrivals (Port Authority) reduced aircraft leasing costs (Cayman Airways), and reduced interest costs (Cayman Islands Development Bank and Cayman Turtle Farm). However, the Government has prudently kept the surplus expectations from Statutory Authorities and Government Owned Companies at modest levels as a risk mitigating strategy.

The SPS forecast does not take into account planned efficiency gains from the implementation of Project Future recommendations by Ernst Young. This adds an extra layer of conservatism to the forecasts as they are not contingent on the implementation of cost-reduction measures, arising from Project Future.

Forecast Operating Performance by Ministry/ Portfolio/ Office

Operating Revenue by Agency $000's				
	Approved Budget	Forecast		
Agency	2014/15	2015/16	2016/17	2017/18
Cabinet Office	11,495	11,556	11,865	12,183
Information Commissioner's Office	0	0	0	0
Judicial Administration	6,694	6,745	6,907	7,082
Ministry of District Administration, Tourism and Transport	22,973	23,023	23,713	24,418
Ministry of Education, Employment and Gender Affairs	1,398	1,443	1,443	1,443
Ministry of Finance and Economic Development	178,102	182,551	176,281	192,796
Ministry of Financial Services, Commerce and Environment	262,432	260,626	271,040	281,274
Ministry of Health, Sports, Youth and Culture	3,970	4,086	4,097	4,112
Ministry of Home and Community Affairs - Home Affairs	85,800	87,026	89,279	89,439
Ministry of Home and Community Affairs - Community Affairs	58	60	60	60
Ministry of Planning, Lands, Agriculture, Housing and Infrastructure	82,938	82,130	85,542	89,208
Office of the Auditor General	2,149	2,177	2,177	2,177
Office of the Complaints Commissoner	0	0	0	0
Office of the Director of Public Prosecutions	0	0	0	0
Portfolio of Legal Affairs	678	700	700	700
Portfolio of the Civil Service	446	460	460	460
Add Audit fee eliminations	(1,359)	(1,359)	(1,359)	(1,359)
Total for All Agencies	**657,773**	**661,224**	**672,205**	**703,993**

The table above provides a breakdown of operating revenues by Ministry/Portfolio/Office. Material increases are concentrated in the Ministries of Finance & Economic Development, Financial Services, Commerce and Environment and, Home Affairs.

Growth in the Ministry of Finance & Economic Development is expected to be primarily caused by increased import duty – which will result from increased demand in the local economy. As earlier noted, the Government will also be transferring approximately $13 million into General Revenue from various trust accounts whose holding period is schedule to mature.

Growth in the Ministry of Financial Services, Commerce and Environment is expected in the areas of Exempt Company fees, Partnership Fees and Security Investment Business license fees.

In the Ministry of Home Affairs, growth is primarily expected from increased work permit fees due to an increased demand for imported labor: driven by several simultaneous projects which are now in advanced stages of planning.

Operating Expenditures by Agency CI$'000s				
Agency	Approved Budget 2014/15	Forecast 2015/16	2016/17	2017/18
Cabinet Office	6,529	6,977	6,977	6,977
Information Commissioner's Office	780	797	797	797
Judicial Administration	11,793	11,992	11,992	11,992
Ministry of District Administration, Tourism and Transport	50,631	51,285	51,285	51,285
Ministry of Education, Employment and Gender Affairs	94,953	96,823	98,823	98,823
Ministry of Finance and Economic Development	60,825	59,013	57,790	56,123
Ministry of Financial Services, Commerce and Environment	20,012	20,780	20,780	20,780
Ministry of Health, Sports, Youth and Culture	64,959	65,368	65,368	65,368
Ministry of Home and Community Affairs - Home Affairs	92,704	94,879	94,879	94,879
Ministry of Home and Community Affairs - Community Affairs	35,292	36,405	36,405	36,405
Ministry of Planning, Lands, Agriculture, Housing and Infrastructure	54,299	55,092	55,092	55,092
Office of the Auditor General	2,337	2,389	2,389	2,389
Office of the Compliants Commissoner	767	783	783	783
Office of the Director of Public Prosecutions	2,920	2,992	2,992	2,992
Portfolio of Legal Affairs	6,987	7,155	7,155	7,155
Portfolio of the Civil Service	32,409	32,719	32,719	32,719
Less Audit fee eliminations	(1,359)	(1,359)	(1,359)	(1,359)
***Total for All Agencies**	**536,838**	**544,090**	**544,867**	**543,200**

*Totals in the above table differ from totals of the operating expenses shown in the Statement of Financial Performance due to the expected Surpluses of Statutory Authorities and Government Owned Companies.

The Government held its annual Strategic Retreat on 6th November 2014. At the Retreat, individual Government Agencies presented their strategic goals and objectives over the next three years and sought Government's support for additional resources where those were necessary.

The Government took those strategic goals and objectives into consideration within the context of its overall medium term fiscal strategy. Where a critical need was identified and the Government could afford to fund it, appropriate resources were directed to the relevant area.

Where the Government was not able to afford the plans put forward, the Agency was asked to defer those plans or to seek to execute them through efficiencies within their Ministries/Portfolios/Offices.

The operating expenditure by Agency shows the result of those deliberations. Whilst all Agencies are shown as having some element of increase in their individual allocations, this increase is primarily associated with the Government's planned award of a 4% cost of living adjustment, mentioned previously.

Forecast Statement of Financial Position

	SPS Forecast			
	Approved Budget 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18
	$000	$000	$000	$000
Current Assets				
Cash and cash equivalents	256,126	337,812	404,660	514,469
Trade receivables	29,276	30,740	32,277	33,891
Other Receivables	10,512	9,986	9,487	9,961
Inventories	2,468	2,221	1,999	1,799
Prepayments	6,736	8,210	8,100	7,900
Loans	276	262	249	237
Total Current Assets	**305,394**	**389,232**	**456,772**	**568,257**
Non-Current Assets				
Trade receivables	0	0	0	0
Investments	2,451	1,905	1,905	1,905
Loans	2,375	2,312	2,249	2,186
Net Worth - Public Entities	330,340	352,577	374,926	397,275
Property, plant and equipment	1,741,632	1,717,392	1,695,158	1,664,413
Intangible Assets				
Total Non-Current Assets	**2,076,798**	**2,074,186**	**2,074,238**	**2,065,779**
Total Assets	**2,382,192**	**2,463,418**	**2,531,010**	**2,634,036**
Current Liabilities				
Trade payables	15,188	18,548	12,827	10,699
Other payables and accruals	41,401	39,331	37,364	35,496
Unearned revenue	23,267	23,732	24,207	22,997
Employee entitlements	6,359	6,041	5,618	5,169
Current Portion of Borrowings	20,017	34,887	34,888	34,888
Total Current Liabilities	**106,232**	**122,540**	**114,905**	**109,249**
Non-Current Liabilities				
Other payables and accruals				
Employee entitlements				
Unfunded pension liability	178,323	178,323	178,323	178,323
Long Term portion of Borrowings	503,471	468,583	433,695	398,807
Total Non-Current Liabilities	**681,794**	**646,906**	**612,018**	**577,130**
Total Liabilities	**788,026**	**769,446**	**726,923**	**686,379**
Net Assets	**1,594,166**	**1,693,972**	**1,804,087**	**1,947,657**
NET WORTH				
Reserves	106,798	130,601	124,198	123,843
Revaluation reserve	749,842	725,119	700,396	675,673
Current Year Surplus	128,030	124,529	134,838	168,293
Other Accumulated surpluses/(deficits)	609,496	713,723	844,655	979,848
Total Net Worth	**1,594,166**	**1,693,972**	**1,804,087**	**1,947,657**

The financial position of the Government is expected to continuously improve over the SPS period. The Government is expected to have a closing net worth of $1.594 billion at the end of the 2014/15 fiscal year. This is expected to improve to $1.948 billion at 30th June 2018.

This improvement is driven primarily by annual operating surpluses. The annual surplus will be used to: build cash reserves (hence growing cash balances); invest in Public Entities (as evidenced in the Forecast Statement of Financial Position, by an increasing net worth of Public Entities); and repay public sector debt (evidenced by declining public sector debt balances).

Forecast Statement of Cash Flows

	SPS Forecast			
	Approved Budget 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18
	$000	$000	$000	$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Cash Inflows				
Coercive Receipts	629,881	627,659	637,962	669,072
Outputs to other government agencies	2,421	1,777	1,777	1,777
Sale of goods and services - third party	30,901	31,179	31,857	32,535
Interest received	516	524	524	524
Donations / Grants received	0	60	60	60
Other receipts	2,279	25	25	25
Operating Cash Outflows				
Personnel costs	(242,634)	(250,512)	(252,512)	(252,512)
Supplies and consumables	(88,658)	(86,697)	(86,697)	(86,697)
Outputs from public authorities	(94,717)	(94,069)	(94,069)	(94,069)
Outputs from non-governmental organisations	(23,728)	(22,695)	(22,695)	(22,695)
Transfer payments	(31,282)	(32,021)	(32,021)	(32,021)
Financing/interest payments	(28,849)	(27,763)	(26,707)	(25,044)
Other payments	(3,938)	(3,552)	(3,552)	(3,552)
Net cash flows from operating activities	**152,192**	**143,915**	**153,952**	**187,403**
CASH FLOWS FROM INVESTING ACTIVITIES				
Investing Cash Inflows				
Proceeds from sale of Loans/investments	809	743	743	743
Receipt of Dividends/Capital withdrawals	2,715	3,440	3,440	3,440
Investing Cash Outflows				
Purchase of property, plant and equipment	(26,735)	(27,425)	(29,431)	(20,920)
Purchase of Loans/investments	(740)	(680)	(680)	(680)
Equity injection paid to public authorities	(20,339)	(18,289)	(26,289)	(25,289)
Net cash flows from investing activities	**(44,290)**	**(42,211)**	**(52,217)**	**(42,706)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings	0	0	0	0
Repayment of Borrowings	(25,378)	(20,018)	(34,887)	(34,888)
Net cash flows from financing activities	**(25,378)**	**(20,018)**	**(34,887)**	**(34,888)**
Net increase/(decrease) in cash and cash equivalents	**82,524**	**81,686**	**66,848**	**109,809**
Cash and cash equivalents at beginning of period	173,602	256,126	337,812	404,660
Cash and cash equivalents at end of period	**256,126**	**337,812**	**404,660**	**514,469**

The Forecast Statement of Cash Flows shows yearly increases to cash and cash equivalents. The Government began 2014/15 with a total cash balance of $173.6 million; this balance is expected to grow to $514.5 million as at 30th June 2018.

Improvements in cash balances will be driven primarily by operating activities where the Government's revenue intake exceeds its operating expenditures. The Government also anticipates that it will receive $10.3

million in dividend payments from its profitable Public Entities during the 2015/16 to 2017/18 SPS period.

From the cash generated in those areas, the Government plans to spend an average of $50 million per year to provide on-going support to Public-Entities and to facilitate a modest capital program.

Approximately $89.8 million will also be used to pay off Public Sector Debt over the 3-year period.

As the Forecast Cash Flow Statement depicts, the Government does not plan to undertake any new borrowings during the 3-year period and therefore, borrowings is shown as zero in each of those years.

Forecast Statement of Debt

	Central Government Stament of Borrowings					
		Principal Repayments				
Loan	Opening Balance	2014/2015	2015/2016	2016/2017	2017/18	Closing Balance for each facility
FCIB 1011 Loan Facility	154,228	-	-	(15,423)	(15,423)	123,382
2009 Bond Offering	261,300	-	-	-	-	261,300
2003 Bond Issue	36,448	(9,112)	(9,112)	(9,112)	(9,112)	-
FCIB Loan # 10276203 Tranche 1	22,925	(2,620)	(2,620)	(2,620)	(2,620)	12,445
FCIB Loan # 10330158 Tranche 2	23,434	(2,533)	(2,533)	(2,533)	(2,533)	13,302
FCIB Loan # 10331239 Tranche 3	32,375	(3,500)	(3,500)	(3,500)	(3,500)	18,375
FCIB Loan # 10249656 Tranche 4	1,625	(1,625)	-	-	-	-
FCIB Loan # 10207828 Tranche 3	1,667	(1,111)	(556)	-	-	-
FCIB Loan # 10123355 Tranche 2	10,400	(1,600)	(1,600)	(1,600)	(1,600)	4,000
FCIB Loan # 10090596 Tranche 1	1,500	(1,500)	-	-	-	-
FCIB Loan # 10017673	800	(800)	-	-	-	-
FCIB Loan # 10017722	727	(727)	-	-	-	-
FCIB Loan # 10017714	-	-	-	-	-	-
Caribbean Development Bank #08/OR-CAY	152	(152)	-	-	-	-
European Inv. Bank Loan B.0244	76	(15)	(14)	(15)	(15)	17
European Inv. Bank Loan 8.0283	872	(57)	(57)	(58)	(59)	641
European Inv Bank Loan 8.0056	337	(26)	(26)	(26)	(26)	233
Total	548,866	(25,378)	(20,018)	(34,887)	(34,888)	433,695
Debt Portfolio Closing Balances		523,488	503,470	468,583	433,695	

The table above shows the central Government's debt portfolio, the opening balance for each facility and the associated principal obligations over the forecast period. The central Government opened the 2014/15 fiscal year with an outstanding debt balance of $548.9 million. This balance is expected to decrease to $433.7 million by 30th June 2018. Based on these scheduled repayments, the Government will retire seven (7) of its seventeen (17) loan facilities by the end of 2016/17.

Core Government cash balances will continue to grow throughout the SPS period. This means that the Government should not have any difficulties meeting its debt service obligations during the SPS period.

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 2014	**108,303**	**737,321**	**607,991**	**1,453,615**
Changes in Net Worth for 2014/15				
Transfers	23,327		(23,327)	-
Revaluation directly to Reserves				-
Changes in Revaluation Reserve		12,521		12,521
Surplus for the period 2014/15			128,030	128,030
Balance at June 30th, 2015	**131,630**	**749,842**	**712,694**	**1,594,166**
Changes in Net Worth for 2015/16				
Transfers	(1,029)		1,029	-
Revaluation directly to Reserves				
Changes in Revaluation Reserve		(24,723)		(24,723)
Surplus for the period 2015/16			124,529	124,529
Balance at June 30th, 2016	**130,601**	**725,119**	**838,252**	**1,693,972**
Changes in Net Worth for 2016/17				
Transfers	(6,403)		6,403	-
Revaluation directly to Reserves				-
Changes in Revaluation Reserve		(24,723)		(24,723)
Surplus for the period 2016/17			134,838	134,838
Balance at June 30th, 2017	**124,198**	**700,396**	**979,493**	**1,804,087**
Changes in Net Worth for 2017/18				
Transfers	(355)		355	-
Revaluation directly to Reserves				-
Changes in Revaluation Reserve		(24,723)		(24,723)
Surplus for the period 2017/18			168,293	168,293
Balance at June 30th, 2018	**123,843**	**675,673**	**1,148,141**	**1,947,657**

The Government's Net-Worth position is expected to improve from $1.453 billion at the end of 2013/14, to $1.947 billion at the end of 2017/18. 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	Degree of Compliance Approved Budget 14-15	SPS Forecast: Degree of Compliance SPS Forecast 15-16	Degree of Compliance SPS Forecast 16-17	Degree of Compliance SPS Forecast 17-18
Operating Surplus : should be positive (Operating surplus = core government operating revenue – core government operating expenses)	Complies Surplus = $128.03 million	Complies Surplus = $124.529 million	Complies Surplus = $134.838 million	Complies Surplus = $168.293 million
Net Worth: should be positive (Net worth = core government assets – core government liabilities)	Complies Networth = $1.594 billion	Complies Networth = $1.694 billion	Complies Networth = $1.804 billion	Complies Networth = $1.948 billion
Borrowing: Debt servicing cost for the year should be no more than 10% of core government revenue (Debt servicing = interest + other debt servicing expenses + principal repayments for core government debt, public authorities debt and self financing loans)	Does Not Comply Debt servicing = 11.3 %	Complies Debt servicing = 9.8 %	Complies Debt servicing = 9.8 %	Complies Debt servicing = 9.8 %
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 = 61.2 %	Complies Net debt = 49.6 %	Complies Net debt = 31.4 %	Complies Net debt = 8.1 %
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 = 43.9 days	Complies Cash reserves = 96.3 days	Complies Cash reserves = 156.1 days	Complies Cash reserves = 202.6 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 calculated in accordance with the FFR specified in the PMFL.

Operating Surplus

Throughout the forecast period the Government is projected to remain in compliance with the requirement to maintain a positive Operating Surplus. The Operating Surplus is forecast to be $124.5 million in 2015/16, rising to $134.8 million in 2016/17, and $168.3 million in 2017/18.

Net Worth

The Government is forecast to maintain a positive Net Worth throughout the forecast period. Net Worth is forecast to be $1.694 billion at the end of 2015/16; $1.8 billion at the end of 2016/17; and $1.948 billion at the 30th June 2018.

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.

The Government is forecast to achieve full compliance with the Debt Service ratio starting in 2015/16 and remaining compliant throughout the SPS period. The Debt Service ratios are expected to remain at 9.8% throughout the SPS period. This result reflects a deliberate strategy of the Government to repay public sector debt as aggressively as possible without exceeding the legal threshold of 10%.

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 ratio. In 2015/16 it is forecast to be 49.6%; in 2016/17 it reduces to 31.4%; and by 2017/18 it reduces further to 8.1%.

The aggressive reduction in Net Debt is a combination of increasing cash balances and an overall Government debt strategy which focuses on debt – particularly, an absence of any plans to incur new borrowing during 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 point 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 continue compliance throughout the SPS period.

Over the forecast period cash reserves at their lowest point are expected in 2015/16 to be $141.5 million or 96.3 days of executive expenses; in 2016/17 $229.9 million or 156.1 days of executive expenses; and by 2017/18 $297.3 million or 202.6 days of executive expenses.

Executive Operating Expenditure Allocation by Minister and Official Member

Executive Operating Expenditure Allocations $000's				
Agency	Approved Budget 2014/15	Forecast 2015/16	2016/17	2017/18
Premier (Cabinet Office)	5,671	6,054	6,054	6,054
Premier (Home and Community Affairs) - Home Affairs	85,387	87,388	87,388	87,388
Premier (Home and Community Affairs) - Community Affairs	35,204	36,315	36,315	36,315
Deputy Governor (Portfolio of the Civil Service)	31,757	32,048	32,048	32,048
Minister of Finance and Economic Development	68,581	67,422	66,199	64,532
Minister of Financial Services, Commerce and Environment	19,071	19,774	19,774	19,774
Minister of Education, Employment and Gender Affairs	93,633	95,470	97,434	97,434
Minister of Planning, Lands, Agriculture, Housing and Infrastructure	34,600	35,211	35,211	35,211
Minister of District Administration, Tourism and Transport	49,942	50,584	50,584	50,584
Minister of Health, Sports, Youth and Culture	61,492	61,836	61,836	61,836
Attorney General (Judicial Administration)	11,659	11,857	11,857	11,857
Attorney General (Portfolio of Legal Affairs)	6,224	6,373	6,373	6,373
Attorney General (Office of the Director of Public Prosecutions)	2,920	2,992	2,992	2,992
Oversight Committee of the Legislative Assembly (Complaints Commissoner)	767	783	783	783
Oversight Committee of the Legislative Assembly (Information Commissioner)	781	797	797	797
Public Accounts Committee (Audit Office)	650	664	664	664
Total for All Agencies	**508,339**	**515,568**	**516,309**	**514,642**

The executive Operating Expenditure allocations shown above were developed following presentations by the various agencies of the Central Government on 6th November 2014. The allocations are based on the policy priorities of the Government.

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 will fund- and the overall total Operating Expenditures shown on page 32 (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				
Agency	Approved Budget 2014/15	Forecast 2015/16	2016/17	2017/18
Premier (Cabinet Office)	0	0	0	0
Premier (Home and Community Affairs) - Home Affairs	2,328	2,000	2,000	2,000
Premier (Home and Community Affairs) - Community Affairs	542	1,500	7,986	4,450
Deputy Governor (Portfolio of the Civil Service)	649	0	0	0
Minister of Finance and Economic Development	1,680	1,380	1,400	1,400
Minister of Financial Services, Commerce and Environment	3,251	2,175	2,175	1,500
Minster of Education, Employment and Gender Affairs	6,271	5,000	6,000	6,000
Minister of Planning, Lands, Agriculture, Housing and Infrastructure	9,877	8,789	8,789	9,189
Minister of District Administration, Tourism and Transport	17,240	22,550	25,050	21,350
Minister of Health, Sports, Youth and Culture	6,876	3,300	3,300	1,000
Attorney General (Judicial Administration)	50	200	200	0
Attorney General (Portfolio of Legal Affairs)	0	0	0	0
Attorney General (Office of the Director of Public Prosecutions)	0	0	0	0
Oversight Committee of the Legislative Assembly (Complaints Commissoner)	0	0	0	0
Oversight Committee of the Legislative Assembly (Information Commissioner)	0	0	0	0
Public Accounts Committee (Audit Office)	0	0	0	0
Total for All Agencies	**48,764**	**46,894**	**56,900**	**46,889**

The section on Capital Investment Plan provides a further discussion on the Capital allocations by Minister and Official Member of Cabinet that is shown by the above table.

Core Government Debt Profile as at 31st August 2014

Core Government Debt Portolio								
Loan	Currency	Date of Origin	Original Amount	Amortized of Bullet	Current Balance KYD	Annual Principal KYD	Interest rate	Maturity date
FCIB Loan # 10444245 *	USD	19-Apr-11	185,074,626	AMR	154,228,457	0	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	36,447,978	9,112,000	5.3000%	8-Apr-18
FCIB Loan # 10276203	USD	26-Oct-07	47,159,962	AMR	22,269,986	2,620,002	2.6700%	11-Feb-23
FCIB Loan # 10330158	USD	24-Jun-08	45,599,964	AMR	22,799,988	2,533,335	2.7100%	24-Jul-23
FCIB Loan # 10331239	USD	27-Jun-08	62,999,950	AMR	31,499,983	3,500,003	2.7100%	24-Jul-23
FCIB Loan # 10249656	USD	29-Jun-07	15,599,964	AMR	1,624,995	1,624,998	1.2100%	30-Jun-15
FCIB Loan # 10207828	USD	14-Dec-06	11,999,990	AMR	1,666,668	1,111,111	3.2000%	14-Dec-15
FCIB Loan # 10123355	USD	23-Nov-05	28,800,000	AMR	10,000,008	1,600,001	5.5800%	30-Nov-20
FCIB Loan # 10090596	USD	29-Jun-05	17,999,986	AMR	1,499,989	1,500,001	4.8475%	30-Jun-15
FCIB Loan # 10017673	USD	30-Jun-04	9,606,300	AMR	800,526	800,526	5.0450%	30-Jun-15
FCIB Loan # 10017722	USD	30-Jun-04	8,722,650	AMR	726,888	726,888	5.0450%	30-Jun-15
Caribbean Development Bank Loan 08/SF	USD	8-Dec-97	5,369,720	AMR	76,242	76,242	3.9500%	1-Oct-14
European Investment Bank Loan 8.0283	EUR	3-May-87	1,489,812.00	AMR	896,948	% Based	1.0000%	15-Apr-29

Cayman Islands Government Self-Financing Debt Portfoliio As at 31st August 2014								
Loan	Currency	Date of Origin	Original Amount	Amortized of Bullet	Current Balance KYD	Annual Principal KYD	Interest rate	Maturity date
European Investment Bank Loan 8.0244	EUR	1-Aug-87	658,000.00	Amortized	354,932	% Based	1.0000%	15-May-27
European Investment Bank Loan 8.0056	EUR	10-Feb-80	330,000.00	Amortized	78,876	% Based	1.0000%	1-Feb-19

The Government remains committed to the reduction of debt through annual principal payments and, it does not plan to incur any new borrowings over the forecast period.

The Public Sector debt profile is therefore expected to remain largely unchanged – changes in the profile will reflect repayment of principal being made.

Statutory Authority and Government Owned Companies Debt Profile

Cayman Islands Government
Statutory Authorities Debt Profile
As at 31st August 2014

Agency	Currency	Guaranteed?	Date of Origin	Original Amount	Amortized of Bullet	Current Balance KYD	Annual Principal KYD	Interest rate	Maturity date
Health Services Authority	KYD	NO	28-Feb-11	800,000	Amortized	551,620	76,400	3.5000%	28-Feb-21
Health Services Authority	KYD	NO	28-Feb-11	1,700,000	Amortized	1,276,241	158,679	3.5000%	28-Feb-21
C.I. Development Bank	USD	YES	16-May-02	4,875,267	Amortised	2,180,969	311,567	3.9500%	30-Jun-2021
C.I. Development Bank	USD	YES	30-Jun-10	5,800,000	Bullet	4,818,640		Libor + 2.75	30-Jun-2015
C.I. Development Bank	USD	YES	30-Jun-05	6,000,000	Bullet	4,984,800		Libor + 1%	30-Jun-2015
C.I. Development Bank	USD	YES	23-Jul-10	5,000,000	Bullet	4,154,000		Libor + 2.75	23-Jul-2015
C.I. Development Bank	USD	YES	11-Jan-11	5,000,000	Bullet	4,154,000		Libor + 2.75	10-Jan-2016
C.I. Development Bank	USD	YES	27-Apr-10	20,000,000	Bullet	16,616,000		Libor + 2.35	27-Apr-2015
Port Authority	USD	YES	24-Mar-04	17,500,000	Amortized	4,359,043	1,384,884	1.65670%	31-Jul-17
Port Authority	USD	YES	20-Aug-04	8,500,000	Amortized	207,284	68,456	1.65670%	31-Jul-17
Cayman Airways	USD	YES	23-Nov-13	10,318,846	Amortized	10,318,846	1,934,130	ibor +2.50%	30-May-20
Cayman Airways	USD	YES	23-Nov-13	6,006,042	Amortized	6,006,042	1,109,324	ibor +2.50%	30-May-20
Cayman Airways	USD	YES	1-Jan-07	4,200,000	Amortized	1,047,941	374,648	ibor +0.75%	31-Aug-17
Cayman Airways	USD	YES	1-Feb-09	15,000,000	Amortized	9,140,782	786,386	ibor +3.5%	31-Dec-24
Cayman Airways	KYD	YES	30-Jun-13	2,520,000		2,500,000		RBP Prime + 1% p.a	Revolving Overdraft Facility
Cayman Turtle Farm	USD	YES	21-May-09	2,352,000	Amortized	1,749,561	126,000	ibor +3.75%	30-Nov-24
Cayman Turtle Farm	USD	YES	26-Mar-06	2,856,000	Amortized	751,268	312,480	4.25000%	30-Nov-16
Cayman Turtle Farm	USD	YES	21-May-09	8,736,000	Amortized	760,117	1,185,408	3.75000%	31-May-15
Cayman Turtle Farm	USD	YES	12-Mar-04	37,464,000	Amortized	18,275,880	2,620,800	4.85000%	1-Mar-19
National Housing Development Trust	USD	YES	24-Oct-04	11,890,000	Amortized	8,104,246	596,468	5.23800%	28-Oct-24
National Housing Development Trust	USD	YES	31-Aug-09	12,083,000	Amortized	10,223,000	620,000	3.25000%	30-Dec-19
Water Authority	KYD	NO	1-Jun-07	2,421,500	Amortized	854,034	211,388	ibor +0.09%	30-Jun-22
Water Authority	KYD	NO	1-Dec-08	7,181,000	Amortized	3,760,053	518,582	ibor +0.09%	31-Aug-23
Water Authority	KYD	NO	1-Apr-95	4,822,349	Amortized	1,190,768	210,894	ibor +0.09%	30-Apr-20
Water Authority	KYD	NO	1-Jul-09	9,176,422	Amortized	5,173,453	931,644	ibor +0.54%	30-Jun-19
Water Authority	KYD	NO	1-Jul-10	3,063,816	Amortized	1,409,305	463,099	ibor +0.54%	30-Jun-17

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

The Government will facilitate the retirement of US$10.0 million in bonds for the Cayman Islands Development Bank in 2014/15 as a wider public sector debt management strategy.

Other facilities maturing for the Cayman Islands Development Bank in the 2014/15 fiscal year will be refinanced as amortizing facilities and repaid over time.

Debt Management Strategy

A robust debt management strategy is a key component of the Government's overall fiscal strategy to comply with the Principles of Responsible Financial Management as set out in the PMFL.

The Government's debt management strategy continues to be focused on: no new borrowings; repayment of existing debt; and where possible, 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.

In the 2014/15 Strategic Policy Statement, the Government noted its plans to establish a Sinking Fund and to make contributions to that fund to service future debt repayment obligations. In the 2014/15 fiscal year, the Government plans to make a $12.0 million contribution to the Sinking Fund. This will be used to assist in the servicing of a 2011 facility from First Caribbean International Bank - whose principal repayments are scheduled to begin in 2016.

During the period covered by this SPS, the Government is expected to pay off approximately $89.8 million in outstanding central Government debt.

Liability Management Plan

The Government consists of "Core Government" (Ministries/Portfolios and Offices), plus Statutory Authorities and Government Owned Companies.

The Government is exposed to various contingent liabilities as part of its normal course of business. Contingent liabilities are disclosed when there is a possible obligation or present obligations that may require an outflow of resources.

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

Guarantees

Statutory Authorities and Government Companies

In accordance with Section 50 of Financial Regulations (issued under the authority of the PMFL), Government is expected to calculate the portion of the guaranteed debt of Statutory Authorities and Government Owned Companies. This represents at minimum, the Government's immediate level of exposure and, as such, is disclosed as a contingent liability.

Guarantees of the Government include:

• Guarantees of the borrowings of Statutory Authorities and Government Owned Companies;

Under the PMFL, entities that:

(a) require an unpredictable level of budgetary support from the Governor in Cabinet, are given an 80% weighting;

(b) are financially stable and require predictable levels of support are given a 50% weighting; and

(c) have not required budgetary support during the last three (3) years are given 20% weighting; and

• Guarantees, either collective or specific, of the loans of certain individuals and companies obtained from the private sector.

Government Guaranteed Home Assistance Mortgage (GGHAM) Program

The Government Guaranteed Home Assisted Mortgage program (GGHAM) that is administered by the National Housing Development Trust was introduced on 9th November 2007 and, to date, has helped 323 households achieve home ownership.

The initial 5-year GGHAM agreement provided approval for $5 million to each of the six participating banks. Due to the high demand for this program, some participating banks reached the maximum lending amounts, which required that additional funding be put in place. Central Government approved additional funding for this program, through a supplementary agreement to the participating banks.

The current GGHAM approved amount is $65 million; however this agreement expired on November 2012. To date, the GGHAM drawn balance is approximately $51.2 million for which, on face value, indicates that Central Government is committed to a contingent liability of 35% (on the first $35 million of loan principal) which equates to $12.3 million.

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. The overall liability arising from the Plans is recognized in Government's financial statements.

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 accepted actuarial valuation date) the net position of the Funds showed a liability of $178.3 million. The Government included $11.4 million in the 2014/15 Budget as a contribution towards the past service pension 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 to fund all of the monthly pensions benefits from its existing resources, and with the regular receipt of monthly pensions contributions from Core Government and other participating Public Sector Entities, this is expected to remain the position over the forecast period.

Post-Retirement Healthcare Liability

The Government recognizes its obligations for the future health care costs of Civil Servants (including their dependents) and other parties.

Previously, Civil Servants who worked for a minimum of 10 years with the Government would be entitled to a health care benefit upon retirement. However, the Public Service Management Law now requires that the employee has the same 10-year qualifying service with the Cayman Islands Government, and also retires from the Civil Service in order to obtain such benefits in the future.

The results of the health care liability actuarial valuation, completed in September 2014, estimated the post-retirement health care obligation as at 30th June 2014 to be $1.18 billion with the post-retirement medical expense totaling $117 million for the year ended 30th June 2014. The assumptions of the actuarial valuation are currently being reviewed by the Government and therefore the post-retirement health care obligation and related expenditure has not been formally recognized on the Statements of Financial Position and Performance.

Once the actuarial valuation review is concluded, the Government will consider the necessary arrangements to set aside funds to meet these future health care costs.

Capital Investment Plan

The Government's capital investment plans over the next three fiscal years are designed to fit within the fiscal parameters of the Framework for Fiscal Responsibility set out in the PMFL.

Planned capital investments total approximately $150 million over the forecast period. For the 2015/16 fiscal year, the planned capital investment is $46.4 million in 2015/16. This amount increases to $56.4 million and then declines in 2017/18 to $46.9 million.

The 2015/16 planned investment of $46.4 million will provide for the following:

- ***$18.29 million*** of capital investments into Statutory Authorities and Government Owned Companies to allow these agencies to meet their debt service obligations and to assist in the funding of operational losses. The major investments in this category are: Cayman Turtle Farm (1983) Limited, $9.5 million; Cayman Airways Limited, $4.85 million; National Housing and Development Trust, $2.44 million;

- The remaining ***$28.11 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;
  - planned improvements to Cruise berthing 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 intended development of the Owen Roberts International Airport. Construction on this project will begin in 2015/16 using reserves held by the CIAA. After which, the Government plans to make a $15 million capital injection over two years to complete the redevelopment process.

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.

Planned Expenditure Measures

With the exception of the cost of living allowance planned in 2015/16, the Government has not forecasted any major changes to planned expenditure measures over the SPS period.

The Government is presently engaged in active consideration of the recommendations made in the recent Ernst & Young report for efficiency changes in the Public Service.

Some recommendations have the potential to result in considerable savings in public sector expenditure, if implemented. However, due to the on-going deliberations process, the Government has not factored those potential savings in its current 3 year fiscal plan.

Broad Outcomes

Broad Outcome 1

A STRONG, THRIVING AND INCREASINGLY DIVERSE ECONOMY

a) Improve the public transport system, by:
   i. Completing public restrooms and introducing seating at George Town Bus Depot;
   ii. Increasing taxi, tour and omnibus permits, and extending operating hours for taxi and omnibus operators.

b) Implement Regulatory Framework Enhancements for upcoming assessments and reviews by international standard-setting bodies; such as the IMF Financial Sector Assessment Program review in 2017.

c) Continue the preparatory work necessary for the fourth round of Mutual Evaluation in which the Cayman Islands' Anti- Money Laundering/ Counter Terrorist Financing framework would be assessed for technical compliance with, and effective implementation of, international standards as set out in the revised Financial Action Task Force 40 Recommendations. The Cayman Islands fourth mutual evaluation is scheduled for the fourth quarter of 2017.

d) Encourage collaboration between the Cayman Islands Turtle Farm and other local attractions, with entities and entrepreneurs in the tourism industry (such as tour bus companies, watersports companies, hotels) to offer visitors "packages" thereby producing additional positive impact on the island's economy and employment.

e) The Civil Aviation Authority of the Cayman Islands (CAACI) will continue to grow the CI Aircraft Registry, in what has become a very highly competitive global marketplace. The CAACI endeavors to build smart infrastructural systems to manage regulatory activities with e-initiatives, while maintaining financial self-sustainability and contributing to core Government revenues.

f) Implement strategy for marketing new products that can be listed and traded on the Cayman Islands Stock Exchange locally and internationally, in particular, the new rules for shipping and mining companies.

Broad Outcome 2

A WORK-READY AND GLOBALLY COMPETITIVE WORKFORCE

a) Improve employability of unskilled or semi-skilled members of the workforce such as young parents, and recovering addicts by providing programmes that increase their job skills and literacy levels, prepare them for suitable careers, and provide therapeutic support as they transition into employment.
b) Develop legislation to underpin the work of the National Workforce Development Agency.
c) Develop and implement a National Apprenticeship Programme with the support and funding to be established through the segregated Training and Development Fund to be funded by the equivalent of 10% of work permit revenues.
d) Establish registration standards and reporting requirements for private employment agencies; likewise, enact quality assurance frameworks for training institutions.
e) Deliver an effective mechanism for connecting job seekers with employment opportunities, by facilitating transparency in the work permit process via collaborative efforts of the National Job Link Programme, Immigration, and other key Government entities.
f) Introduce Airport Concierge Services: Implement new government products and services with potential to support the attraction of inward investment (after evaluation of 6 month pilot programme).

Broad Outcome 3

A MORE SECURE COMMUNITY

a) Continue to expand implementation of the Crime Reduction Strategy considering short as well as medium term solutions relevant to early intervention to reduce re-offending, increase enforcement and situational prevention.
b) Provision of social work and community development services to vulnerable children and families in order to strengthen community ties and build stronger family bonds.
c) Systematically restructure the child protection services offered by the Department of Children & Family Services to ensure compliance with the provisions of the Children Law, (2012 Revision) and Regulations.
d) Conduct an analysis of all public agencies involved with the continuum of care of children and families to develop a comprehensive strategy to proactively address and treat the identified issues.
e) Continued development and enhancement of family programmes and treatment services to reduce risk factors and increase protective factors, and address issues such as trauma, grief, depression and anxiety, substance abuse or co-occurring disorders, thereby preventing further escalation in crime.

Broad Outcome 4

A MORE EFFICIENT, ACCESSIBLE AND AFFORDABLE PUBLIC SERVICE

a) Improve e-Government by developing and implementing a plan to significantly increase e-Government services;

b) Develop and implement e-filing for other the Banking, Insurance and Fiduciary areas of the Monetary Authority;

c) Implement an electronic filing and payment system for Director Registration and Licensing;

Broad Outcome 5

MODERN, SMART INFRASTRUCTURE

a) Implement the first National Solid Waste Management Strategy and the Integrated Solid Waste Management System (ISWMS), following proper procurement processes as per the Framework for Fiscal Responsibility.
b) Investigate the possibility of introducing a Landfill tipping fee, for waste brought in from private companies/ citizens; this would include a review and subsequent amendments to Public Health Regulations.
c) Review the management and operation of cemeteries, and possibly implement appropriate legislation as necessary.
d) Introduce Cruise Berthing for visitors to Grand Cayman. The next steps of the project will involve finalizing a financial transaction structure, and securing sufficient design development plans and physical specifications in order to proceed with a best practice and best value for money procurement process.
e) Complete terminal expansion at Owen Roberts International Airport. This project is required in order for the terminal to safely and comfortably process the current and future passenger volumes
f) Develop a strategic plan to diversify the sources of energy available to the Grand Cayman electrical grid, in a manner that stabilizes and hopefully reduces energy costs longer term, and potentially creates a vibrant new business sector.
g) Reduce ground water infiltration by using a CCTV system to identify and repair sewer mains and rehabilitation of manholes
h) Extend the existing Wastewater collection system into Governor's Harbour and connect all residents in the area to the public sewerage system
i) Create distinct zones for the Water Authority whereby the net inflow can be compared against the water sales to strategically identify problem areas within the distribution system and reduce non-revenue water
j) Complete the widening of the Linford Pierson Highway from Bobby Thompson Way to Crewe Road
k) Complete the widening of Godfrey Nixon Way from Esterley Tibbetts Highway to Eastern Avenue
l) Complete the widening of Smith Road from Huldah Avenue to Hospital Road

Broad Outcome 6

A FIT AND HEALTHY POPULATION

a) Continued development and enhancement of family programmes and treatment services to reduce risk factors, increase protective factors, and address issues such as trauma, grief, depression, anxiety, substance abuse or co-occurring disorders, thereby improving the health and wellbeing of society.

b) Promote and conduct Public Education on the community's responsibility towards the elderly and disabled to improve and strengthen their quality of life.

c) Develop action plans for the implementation of the National Sports Policy.

d) Continue to review and improve facilities where required to meet the needs of the community as well as foster and promote sports tourism.

e) Work with National Sports Associations to develop strategic plans, to improve the quality and increase the quantity of Physical Education in schools, in line with Long Term Athlete development principles.

f) Review and determine the feasibility of a Long-Term Residential Mental Health Facility for the Cayman Islands.

g) Create new legislation for:
   i. the Cancer Registry Bill,
   ii. Nursing Legislation, and
   iii. Human Tissue Transplant Regulations.

h) Formalize a partnership, between the Health Services Authority (H.S.A) and an overseas health care provider, in an effort to improve patient experience, medical/ patient outcomes, and mentoring opportunities for the H.S.A.

Broad Outcome 7

A CENTRE OF EXCELLENCE IN EDUCATION

a) Develop and initiate a new legislative framework for Education- with full implementation of the National Curriculum- to provide our children with a world-class education system, and position them for success in further learning, employment and life.
b) Introduce an enhanced governance model for education, which creates new levels of partnership with parents, the community, and the private sector; with more devolved responsibilities and greater accountability among all stakeholders.
c) Continue with the completion of the new John Gray High School (JGHS), and repurpose the George Hicks Campus (currently housing JGHS) for other educational use including additional classrooms for UCCI.
d) Fully implement the Cayman Islands Early Childhood Curriculum Framework and the Education Council Guidelines for Early Childhood Care & Education Centres (2013).
e) Continue to implement the 'response to intervention' approach to support the most at-risk students.
f) Formalise and implement a public-private-partnership strategy for the re-opening of the historic Library building as a cultural centre.
g) Promote and grow the School for Hospitality Studies.
h) Expand the curriculum of the Cayman Islands Law School (CILS) to introduce the LLM degree programme in International Finance: Law and Regulation, in order to maintain the school's track record as a reputable institution for tertiary education.
i) Maintain the National Gallery as a leading education facility and resource in the Cayman Islands;
j) Provide high quality outreach programs to different sectors of the community which is inclusive, accommodates marginalized members of the community and includes the concept of art therapy (where appropriate)
k) Assist in the establishment of secondary and tertiary level arts education in the Cayman Islands in order to encourage the development of local artists

Broad Outcome 8

A CULTURE OF GOOD GOVERNANCE

a) Institute a Travel Policy for Ministers and for Statutory Authorities & Government Owned Companies.
b) Develop a National Plan (Vision 2030) as a strategic blueprint for sustainable development of the Cayman Islands.
c) Enhance the quality of public media services by:
    i. Increasing local content;
    ii. Improving news content across platforms towards building listener's connection to Radio Cayman.
    iii. Increase reporting on all aspects of government, in collaboration with Government Information Services and Cayman Islands Government TV.
    iv. Encourage more community engagement by increasing opportunities for people in the districts to interact with Radio Cayman.
    v. Improve sponsorship of programmes, in addition to spot advertising, to help pay for public programming.
d) Continued strengthening of the Department of Labour and Pensions so as to provide more effective and efficient mechanisms for managing compliance and enforcement of private sector pension and labour matters.
e) Support the finalisation and facilitate the effective implementation of new Amendments to the Labour Law, the National Pensions Law, the Pensions Investment Regulations and the General Regulations.
f) Facilitate the work of the Minimum Wage Advisory Committee or other appropriate body to review the minimum wage(s).
g) Through the Monetary Authority, formalize regularly scheduled meetings with key private sector groups such as Cayman Finance, AIMA, CISPA, Bankers Association, Insurance Managers Association, STEP and Director's Association;

Broad Outcome 9

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

a) Complete fourth changing room, track, and swimming pool at Cayman Brac Sports Complex, to encourage sports tourism on Cayman Brac.
b) Complete works to convert the Bluff hurricane shelter site into a new Cayman Brac High School campus, to replace the present campus.
c) Improve scheduled Cayman Airways Ltd. air service to Cayman Brac using large turboprop aircraft.
d) Complete terminal expansion at Charles Kirkconnell International Airport. This terminal expansion will allow for international flights into Cayman Brac.
e) Continue the installation of various size water mains along the North Coast (from West End Crossroads to District Administration Building)
f) Continue work on the Bluff site, to carry out preliminary hydrogeological investigations to construct a new water production/storage/distribution facility

Broad Outcome 10

CONSERVATION OF OUR BIOLOGICAL DIVERSITY AND ECOLOGICALLY SUSTAINABLE DEVELOPMENT

a) Continue researching optimal control methods for Aedes aegypti, the vector for dengue fever and chikungunya.
b) Contribute to the conservation of sea turtles in the wild around the Cayman Islands, by resuming annual releases of turtles as soon as the appropriate tests and sample collections are completed.

Broad Outcome 11

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

a) Develop the national food and nutrition security policy & Strategic plan 2016
b) Develop a Land lease to farmers policy
c) Seek to hose the Caribbean week of Agriculture in 2016

Broad Outcome 12

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

a) Finalize the Cayman Islands Disability Policy and its implementation planning.

b) Ensure that the needs of disabled persons in our communities are met by amending or implementing legislation and enhancing infrastructure:

   i. The building of a new Sunrise Centre facility, utilizing a Public-Private partnership (PPP) arrangement, will commence construction in FY 2016/17 and be completed in 2017/18. The Sunrise Centre facility will provide continued vocational training and support services for adults with disabilities.

   ii. National Register of Persons with Disabilities.

   iii. National Resource Centre for Persons with Disabilities.

   iv. Creation and operation of a 'National Council for Persons with Disabilities' with a supporting Secretariat to champion disability interests.

   v. Develop a public education campaign to promote the inclusion of persons with disabilities.

   vi. Provide supported living programmes for persons with disabilities to ensure the achievement of the highest level of independence possible.

c) Develop a National Policy on the Elderly and advocate for any legislation or resources required to ensure the rights of the elderly are protected and their needs are addressed in our community.

d) Undertake a collaborative research project on gender issues in education, in particular the underperformance of boys and young men in the education system.

e) Continue to work towards extension of the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) to the Cayman Islands.

f) Continue to promote gender equality and provide awareness of the Gender Equality Law and CEDAW through training and communications.

g) Implement the National Youth Policy, and construct Youth Development Indicators to lead data driven strategies for youth development.

Conclusion

The outlook for the Cayman Islands is one of renewed optimism. The Government had better than expected financial results in its most recent financial year, stay over tourism is on the increase, the financial services industry is stable and growing, the economy is forecast for continued growth and local unemployment is expected to decline to less than 5% over the next three fiscal years.

A Country without goals is like a ship on the ocean without a destination. The Progressives led Government is committed to the goals of a stronger economy, public safety, a healthy society, and a culture of good governance.

This Strategic Plan makes key provisions for the achievement of those goals. It allocates resources for the continued support of our tourism and financial services industries, education, and our law enforcement agencies. It also outlines strategies that will lead to job creation in the private sector and improved opportunities for Caymanians.

Importantly, it shows the Government returning to a position of compliance with all key Principles of Responsible Financial Management as set out in the Public Management and Finance Law (2013 Revision). This return to a compliant position is consistent with the Medium Term Fiscal Strategy that the Government agreed with the Foreign and Commonwealth Office in August 2013. That plan is on track, on schedule and, on target.

"A dream is just a dream, but a goal is a dream with a plan and a deadline."

This Government is privileged to lead a great people. We are not without dreams; however, what differentiates us, is a credible plan for the achievement of those dreams. A main goal of this Administration is the restoration of public finances. This Strategic Policy Statement shows that the plans laid by the Progressives led Government to achieve that goal is coming to fruition and that the Country is poised to realize the dream of restored public finances.

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Cayman Islands Government