



PARLIAMENT
OF THE CAYMAN ISLANDS



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STANDING PUBLIC ACCOUNTS COMMITTEE

IMPROVING FINANCIAL ACCOUNTABILITY AND TRANSPARENCY:
LONG-TERM FINANCIAL SUSTAINABILITY (February 2025)

*Official transcript relating to the Official Report of the
Standing Public Accounts Committee Meeting
held on 4th September, 2025*

CONTENTS

Mr. Patrick Smith, Auditor General	1, 25, 41, 47, 51
Mr. Kenneth Jefferson, Financial Secretary, MFED	3, 5-15, 58
Mr. Matthew Tibbetts, Accountant General, MFED	14, 48, 50, 51, 58
The Deputy Governor, Hon. Franz I. Manderson	24 - 47
* Mr. Mike Slade, Chief Risk Officer, Office of the Deputy Governor	39, 40, 41
Undertakings	30, 34, 40, 41, 46

* Originally invited to be in attendance only.

PRESENT WERE:

PAC Members: Mr. Roy M. McTaggart, JP, MP, Chairman
Hon. G. Wayne Panton, JP, MP, Member
Hon. Kenneth V. Bryan, MP, Member
Mr. Christopher S. Saunders, MP, Member
Mr. A. Royston (Roy) Tatum, MP, Member

Audit Office: Mr. Patrick Smith, Auditor General
Ms. Angela Cullen, Deputy Auditor General, Performance Audit
Mr. Gabriel Ncube, Audit Manager
Mr. Mickel Alexander

Witnesses: Mr. Kenneth Jefferson
Financial Secretary and Chief Officer
Ministry of Finance and Economic Development – (MFED)

Hon. Franz Manderson
Deputy Governor
Office of the Deputy Governor

Mr. Mike Slade
Chief Risk Officer
Office of the Deputy Governor

In attendance: Mr. Matthew Tibbetts
Accountant General
Ministry of Finance and Economic Development – (MFED)

Mr. Adolphus Laidlow
Director, Economics and Statistics Office
Ministry of Finance and Economic Development – (MFED)

Mr. Lee Ramoon
Director of Revenue Unit
Ministry of Finance and Economic Development – (MFED)

Absent: Mrs. Julie Hunter, MP, Member

PAC Clerk: Ms. Tishel McLean

**OFFICIAL VERBATIM REPORT
STANDING PUBLIC ACCOUNTS COMMITTEE
THURSDAY
4 SEPTEMBER, 2025
10:10 A.M.**

**IMPROVING FINANCIAL ACCOUNTABILITY AND TRANSPARENCY:
LONG-TERM FINANCIAL SUSTAINABILITY (February 2025)**

Verbatim transcript of the Standing Public Accounts Committee Meeting held on Thursday, 4th September, 2025, at 10:10 a.m., in the Chamber of the House of Parliament; George Town, Grand Cayman.

[Mr. Roy M. McTaggart, Chairman, presiding]

The Chairman: Good morning, everyone.

I'd like to welcome you all to the first meeting of this Public Accounts Committee (PAC) where we will be examining a report from the Auditor General.

As is our custom, before we begin these hearings, we do say prayers. I've asked Mr. Kenneth Bryan if he would lead us in prayers this morning, so I just ask if we could all stand, please.

Mr. Kenneth V. Bryan: Let us pray:

Dear heavenly Father, we first thank you for the opportunity to be here today, a free democracy, and freedom of speech as we examine this very important topic of our financial sustainability for future generations. May you bless our hearts, our minds, our souls, our thoughts, and our expertise to find the conclusions best suited for the good people of the Cayman Islands in our democratic duties as Members and witnesses and technocrats of the Public Accounts Committee. We ask all of these things in your son, Jesus Christ's name. Amen.

The Chairman: Please be seated.

Welcome once again, everyone. I declare this meeting quorate, though we have had apologies this morning from Mrs. Julie Hunter, who I understand is off island.

I would like to welcome everyone here this morning. In addition to the members of the Committee, we have people from the Auditor General's Office and the Ministry of Finance and Economic Development. Welcome [in] particular to Mr. Patrick Smith, who is the country's new Auditor General, having taken up his post on the 1st June. I'm delighted to welcome you to the Committee, Mr. Smith, and look forward to a very fruitful and rewarding time with you as we seek to fulfil our mandates and our roles as watch keepers of the Government.

I also recognise Ms. Angela Cullen; she is Deputy Auditor General in charge of the second segment of the work they undertake, value for money-type audit reports — of which this one we are looking at is one. Also, welcome to two audit managers from

her group, Messrs. Gabriel Ncube and Mickel Alexander; welcome to you both this morning.

From the Ministry of Finance, we have with us Mr. Kenneth Jefferson, the Financial Secretary and Chief Officer for the Ministry. Mr. Matthew Tibbetts, the Accountant General; Mr. Adolphus Laidlow from the Economics and Statistics Office (ESO), and Mr. Lee Ramoon from the Revenue Department of the Ministry of Finance. Welcome to you all this morning, I'm sure you will have much information that can enlighten us all in terms of the content of the report that we will examine this morning.

For the sake of the listening public, the report on which we are holding this hearing comes from the Auditor General's Office and was released in February 2025, entitled [*Improving Financial Accountability and Transparency: Long-term Financial Sustainability*](#). A very important topic, it is the third and final report in a series that began several years ago undertaken by the Auditor General's Office. At this point, I invite the Auditor General to introduce the report to us this morning.

OFFICE OF THE AUDITOR GENERAL

Mr. Patrick Smith, Auditor General: Thank you, Mr. Chairman and again, good morning. Also, good morning to the Members of the Public Accounts Committee, officials from the Ministry of Finance, and the listening public. Mr. Chairman, thank you for the opportunity to open this hearing.

Today we are considering our report *Improving Financial Accountability and Transparency: Long-Term Financial Sustainability*, which we published on the 26th of February, 2025. As you mentioned, Mr. Chairman, it is the third report in a series. The first report on budgeting was published in December 2020, and the second report on financial management and reporting was published in May 2021. This was the last report published by my predecessor, Sue Winspear, immediately before she departed in February of this year.

The audit covered three main areas:

1. Risks to and cost pressures on long-term financial sustainability;

2. Short and medium-term financial planning, monitoring and reporting; and
3. Planning and reporting on long-term financial sustainability.

Our audit focused on the Ministry of Finance and Economic Development as it has a critical role in planning and reporting on the Government and the Entire Public Sector (EPS) finances. The entire public sector encompasses all ministries, portfolios [and] offices within the Government, as well as all 26 Statutory Authorities and Government Companies (SAGCs).

The audit covered the six years between 2018 and 2023 but also considered budgets for the 2024 to 2025 period. When we refer to long-term, we mean five years or more. I will now briefly summarise our findings in each of these three areas. I will start with risks to and challenges on financial long-term sustainability.

The Cayman Islands Government introduced a risk management framework in 2019, but it was not fully implemented. The Deputy Governor appointed a Chief Risk Officer for the first time in early 2024. Since then, a new risk management framework has been developed, which was expected to be rolled out in 2025. Our understanding is that the new approach assesses the impact of global economic risks on the Government's revenues but does not assess risk to long-term financial sustainability. We found there is some understanding of the risks and cost pressures; however, the Cayman Islands Government has not identified or assessed risk to long-term financial sustainability. Therefore, we identified some risks. I will now discuss some of these risks.

The financial performance of the entire public sector was mixed over the six years between 2018 and 2023. There were annual surpluses in four years and deficits in two years during the COVID pandemic. However, more importantly, over that period public sector expenditure increased at twice the rate of revenue; expenditure increased by 51 per cent while revenue increased by 25 per cent. This resulted in annual surpluses reducing significantly and is not sustainable in the long term.

I am concerned that the Parliament and other decision makers may have incomplete information on the financial implications of legislation, policies and strategies before approving them. Acts, policies and strategies are developed for the longer term and can have significant cost implications. For example, harmonising the pay and conditions across the public sector has cost tens of millions of dollars, but was not budgeted for.

Government spending on healthcare, including funding to the Health Services Authority increased by 74 per cent over the six years to 2023. Healthcare costs are likely to continue to rise as the population grows and the Caymanian population ages. An older Caymanian population may also increase the demand

for and cost of social services in the longer term. This is not unique to the Cayman Islands, but funding for healthcare and social welfare needs to be carefully planned and managed in the longer term. I also want to highlight the consistently poor budgeting for tertiary medical care. Each year we see significant supplementary appropriations for this, rather than realistic budgets being set in place initially.

Public sector pay costs increased by over 50 per cent over the six years to 2023. I acknowledge that some of this increase was to better align the public sector salaries with the cost of living; however, there is no public sector pay strategy, and pay uplifts are not routinely factored into budgets.

The public sector needs buildings and other assets to deliver public services. These need to be maintained regularly and replaced in the longer term. However, the long-term financial consequences of new buildings, which can be significant, are often not adequately considered when investment decisions are being made.

The final risk I want to highlight is a rising level of public sector debt and other obligations which may put a strain on public finances in the longer term. Government debt more than doubled in 2021 and in December 2023, reached \$453 million. The Government plans to borrow a further \$150 million. This debt will need to be repaid over the medium to longer term.

The civil service also has a significant post-retirement obligation for its staff. As of December 2023, the cost of paying future pensions and healthcare liabilities for civil servants was \$2.7 billion. Some SAGCs have similar terms and conditions for their staff, resulting in a further obligation of over \$400 million. Total post-retirement obligations are approximately \$3.1 billion. Some statutory authorities have set aside funds to cover these expenses in the future; however, the majority is unfunded and the Government will need to ensure it has the money to pay for people's pensions and healthcare over the longer term.

Moving on to short and medium-term planning, monitoring, and reporting — short-term means one year or less, medium-term is over one year to four years.

The Government plans for the short and medium term through the current budgeting framework. The strategic policy statements and other budget documents cover a three-year period, setting two years' budgets and providing an indication for year three. However, the Government does not adequately plan for commitments and cost pressures. As mentioned earlier, there's no pay strategy in place so it's unclear whether pay uplifts are factored into budgets; and budgeting for tertiary medical care is insufficient. Some information could also be improved, for example, by providing more detail such as time scales and estimated cost on major capital projects.

The Government monitors and reports on its short-term finances, but there are significant issues with the financial information being reported. Financial reporting is done through the consolidated financial statements for the entire public sector and unaudited quarterly financial reports. However, the most recent audited EPS financial statements are for 2020, so they are out of date. In addition, these financial statements have an adverse opinion, which means the financial information cannot be relied upon. Although the quarterly finance reports prepared by the Ministry of Finance are Tabled in the Parliament, these are unaudited; therefore, my office cannot comment on the quality or accuracy of the financial information.

Finally, concerning planning and reporting on long-term financial sustainability — as I mentioned earlier, long-term refers to five years or more.

Long-term financial planning can help assess the financial sustainability of government revenues, expenditure, and debt over the longer term. It can also aid discussion and decision-making about government policies and plans, and the delivery of public services. The Government does not plan for or report on its long-term financial sustainability; however, international accounting bodies and other agencies recommend that the Government do so. Many other countries do so, some forecasting up to 50 years ahead.

As mentioned previously, it is unclear whether all decision makers are aware of the financial implications of legislation, policies, and strategies before approving them. These are long-term in nature and most, if not all, will have cost implications. Many countries and jurisdictions have independent review bodies to help monitor, assess and improve financial sustainability. This is not unique to large countries. For example, Bermuda and Jersey have independent review bodies to assess the credibility of long-term financial assumptions, projections, and risks. The Cayman Islands does not have such a review body, but in my view, an independent review could add significant value.

We have made six recommendations: five to the Ministry of Finance and one to the Government. The Ministry of Finance accepted two recommendations and partly accepted three. The Government rejected the recommendation to create an independent review mechanism.

As you mentioned, Mr. Chairman, I have my staff with me today and at this time, with your permission, I would ask them to introduce themselves for the record.

I thank you, Mr. Chairman.

Ms. Angela Cullen, Deputy Auditor General, Performance Audit, Office of the Auditor General: Thank you.

Through you, Mr. Chairman, I'm Angela Cullen, Deputy Auditor General for Performance Audit.

Mr. Gabriel Ncube, Audit Manager, Office of the Auditor General: Thank you.

Through you, Mr. Chair, I'm Gabriel Ncube. I'm Audit Manager at the Office of the Auditor General. Thank you.

Mr. Mickel Alexander, Audit Project Leader, Office of the Auditor General: Thank you, Mr. Chair. I am Mickel Alexander, Audit Project Leader at the Office of the Auditor General.

The Chairman: Thank you, Auditor General, and thank you all as well for introducing yourselves to the wider Committee. Again, I extend my welcome to you here this morning.

Thank you too for that presentation on this report and for giving us a bird's eye view of what is contained in it and the issues and recommendations that have been made by the Auditor General therein. I'm going to lead off the questioning this morning, but before I do so, I wanted to make a short preamble to sort of set the scene for the questions we are going to be asking. The Auditor General published this report on long-term financial sustainability in February 2025. Long-term financial sustainability means the Government can provide services and meet financial commitments, both now and into the future.

We note from the report that over the six-year period, from 2018 to 2023, expenses grew at twice the pace of revenue; expenses increased by 51 per cent compared to revenue growth of 25 per cent. This raises concerns about the long-term sustainability of public finances. We also noted that core government debt increased from \$223 million in 2021 to over \$453 million in December 2023.

The report identified several risks to long-term financial sustainability including rising healthcare costs, increasing public sector pay costs, and population changes, namely demographics and population growth. The Auditor General made six recommendations. Two of these were fully accepted by the Ministry of Finance and Economic Development; three were partly accepted and one was rejected. Committee members, I'll lead off the questioning of the issues highlighted in this report.

The first area I'm going to look at and question is the area of risks and cost pressures, looking at the revenue and expenditure trends within the Government. Mr. Financial Secretary, I welcome you too. First question directed to you: I'd like to hear and get your thoughts on the current revenue versus expenditure trends and their effect on long-term sustainability of government finances.

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT – (MFED)

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic

Development: Thank you, Mr. Chairman. Good morning to you and to all honourable members of the Committee.

I heard your comments, Mr. Chair, which were based on a particular paragraph in the Auditor General's report. On my notes, I see that it's connected with Exhibit 1 on page 14 and paragraph 14 on page 13, where it talks about the performance. There's no doubt that the performance in the period of 2018 to 2023 is not a good trend at all. In fact, as you said, Mr. Chairman, these are referencing the Entire Public Sector numbers and not central government numbers, but central government numbers are obviously the lion's share of the entire public sector numbers. We see in paragraph 14, where the operating expenditures have grown from almost \$0.9 billion in 2018 to \$1.3 billion in 2023. That's the 51 per cent that the Auditor General referred to. In annual terms that is about 8.6 per cent compounded every year to get you to that number in 2023.

On the revenue side, revenues have grown and the growth rate is much less than the expenditures. That is undesirable, Mr. Chairman. Where your expenses are growing faster than your revenues, there would come a point in time if those trends were to continue, that we would break even and go into deficit. Had that trend from 2018 to 2023 continued exactly into 2024, we would have had a deficit at the end of 2024. Fortunately, we didn't. We did not have a deficit at the end of 2024; we actually had a surplus, but the point that the Auditor General is making in the report is a valid one. We cannot have the level of expenditure rising faster than the rate of growth of revenues.

It is problematic. It's not something that the Government would want to sustain going forward. You could end up with a breach of the FFR [Framework for Fiscal Responsibility], which requires you to have a surplus. The obvious thought, Mr. Chairman, would be that the Government needs to increase its revenues and/or ('and' would be better) lower its expenses. On the revenue side, the revenue growth can actually come from existing revenue sources being increased.

On 1st January, 2025, Mr. Chairman, the financial services industry introduced fee increases which were estimated to give an additional \$67 million in the course of 2025. Changes in connection with immigration fees, work permits, et cetera were expected to give an additional \$7.2 million in 2025 but the Bill to do so hasn't yet been approved. I'm told that the Cabinet is expected to do it this month and then it will come to Parliament for approval.

Customs and Border Control also plans to do increases requiring a change in regulations which are to take place in September. The amount is not as significant as the others; \$2.3 million is the expected increase.

Mr. Chairman, generally speaking, it is not a desirable trend that we have experienced up until

2023, and it is not something that we want to continue into 2025, 2026, 2027, and onwards. I would like the Government to get back to the surpluses it enjoyed around 2016. In the year ended June 2016, we had a surplus of \$130 million; in 2017 (an 18-month period), we had a surplus of \$93 million; in 2018, we had a surplus of approximately \$166 million; and in 2019, we had a surplus of \$144 million.

COVID destroyed 2020, whereby we had a deficit. 2021, we had a deficit; 2022 [we had] a smaller surplus of \$54 million so you can see what the Auditor General's Report is resulting in, going from \$100 million-plus surpluses down to \$54 million at the end of 2022, \$40 million surplus at the end of 2023 and a surplus in 2024 of around \$60 million. I would like the Government to aim to get back to a \$100-million surplus annually. That would obviously allow it to finance a bigger proportion of its capital expenditures from revenues.

Importantly too, I think it would allow it to put aside amounts into its general reserves. At the end of July, the government's general reserves were \$119 million. Right now, all that's happening with it is that it's sitting in a fixed deposit. It's growing because it's earning interest, but if the Government achieved surpluses of \$100 million we could take, say, \$40 million per year. It sounds a bit aggressive, but if we take \$40 million per year out of that \$100 million surplus and put it in the general reserves for 10 years, we would have an additional \$400 million to add to the present \$119 [million]. At the end of 10 years, aggressively, you could end up with general reserves of half a billion — which is what is desirable, Mr. Chairman.

I know the report goes on to talk about risk, et cetera. I'll probably stop there, but I leave the point that I think one of the best ways of addressing the risks that the government faces, particularly external risks like an economic downturn, would be having a great war chest of dollars in the form of general reserves to fight whatever comes along. You would recall that during COVID times that was precisely how the government was able to assist the public — it had built up significant surpluses and it enabled the government to assist, so achieving \$100 million surpluses a year is a trend that I would like the government to get back to.

Obviously, on the expenditure side, Mr. Chairman, there is a great need to have a critical look at our expenditures as well in the hope of reducing those. The Honourable Premier, in his memorandum of July this year, asked the civil service to do their level best to have expenditure savings and reductions in certain areas. The budget circular issued for the 2026, 2027, and 2028 years tells the civil service to, once achieved, continue those reductions in those years' budgets. We shall see, Mr. Chairman.

This strays a bit beyond the question, but I'm giving information to the Committee which I hope is helpful. Currently, the submissions for the 2026, 2027,

and 2028 revenue and budgets (budgets are on the expenditure side), are being collated; so this month we will know whether there is a surplus or a deficit in those years. If there is a deficit, and you, Mr. Chair, and most of the Committee Members have been through that process before, we have to start chipping away probably at the expenditures and possibly, if the gap is severe, introduce more revenue measures.

I think I'll stop there, Mr. Chairman, but I agree with the sentiment in the Auditor General's report that such a trend should not continue. If it does, it's going to cause severe difficulties for any government in the future.

The Chairman: Thank you, Financial Secretary, for that response.

You referred to the graph on page 14 of the report with plotted revenues and expenditures, which clearly shows the narrowing of the gap between the revenues and expenditures and mentioned this being unsustainable because eventually the expenditures would exceed the revenues and we would fall into a deficit situation. Given what we are hearing today about the potential for a \$60 million deficit this year, it seems to me that time has arrived.

Do you have any observations on that? What's being done to alleviate it?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman. Just to clarify: You are seeking observations on the possibility of the \$60 million deficit.

[Affirmative response]

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Okay. Thank you.

Mr. Chairman, the \$60 million "deficit figure" arose out of discussions that concern the Pre-election Economic and Financial Update (PREFU) document which said there was a potential for a 2025 deficit of \$26 million — *a potential*. The conclusion of the document said words to the effect that a deficit for 2025 was not inevitable. It could be averted; you could take action on both the revenue and expenditure sides that could either get it to break-even [or] turn it into a surplus, [which] is what is desired. That's what the PREFU said.

Obviously, it was a highly discussed document in the political arena at the time. I would say to the Committee and honourable Members that there's a two-week window in which the PREFU document could have been gazetted. In an attempt to keep it out of the political fray as long as possible, we chose the very last day of the two-week process — 2nd April — but legally, it could have been two weeks earlier. That obviously caused concern. The election came shortly

after that on 30th April, and we had our election results.

The Honourable Deputy Governor asked the civil service to have another look at the 2025 year which occurred in mid-May 2025 and Chief Financial Officers and Chief Officers — at that time we were talking about 12 ministries, 2 portfolios and 9 offices so we're talking about 21 (sic) agencies, were canvassed to say, *what do you think now?* As a result, we got a figure of \$60 million as a possibility, so *the possibility of a deficit* had actually grown by then. Obviously, the Government took note of the need to take action, hence the 16th July memo from the Honourable Premier, who was the Acting Finance Minister at the time, asking for reductions.

Mr. Chairman, I will close by saying quite succinctly that from what I see now, unless something goes completely haywire in the last five months of the year, I do not believe we will have a \$60 million deficit. I don't see that happening. As I said, it's caveated on the basis of— if things go awry in the last five months, well, they go awry, but I can't foresee... We don't see anything happening.

The latest set of financial information we have is the seven months ended on the 31st July. Shortly we will have the month of August — we'll probably have that available next week; but for the first seven months of this year, with the action the Premier has taken, namely, pausing recruitment for the rest of the year unless it's really essential. I know the RCIPS [Royal Cayman Islands Police Service] desperately wants additional staff and will probably come to Finance Committee this month, I believe, to get additional resources — subject to change, of course, in terms of the timing. The RCIPS wants additional resources, staff resources in particular, so I know that's coming.

Mr. Chairman, even bearing in mind those sorts of additional requests, we will get additional requests for the usual tertiary care which could easily be, maybe, another \$20 million. We are going to get requests for financial assistance, possibly. There will be other pressures, but I don't see a \$60 million deficit at the end of 2025.

The Chairman: Thank you for that answer. If I could ask you, do you see an actual deficit occurring for the year 2025?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: My honest answer is, Mr. Chair...

If you ask me how do you assess the effect of what the Premier's memo has done, I couldn't do so today but with the action taken, I don't see the Government having a deficit. I see a break-even position, a small surplus position.

The Chairman: Thank you, sir. I don't want to hog the questions, so I'll ask other Members to take care. You had yours first. Go ahead, Mr. Bryan.

Mr. Kenneth V. Bryan: Thank you, Mr. Chairman.

Good morning members, and thank you. Mr. Jefferson. I am very encouraged to hear that things are looking a bit better with the Government. Thank you for enlightening the Committee [in] trying to understand how the complicated finances of the country work.

The report, on page 52 paragraph 130, speaks to your Ministry's limitation in being able to control the levers for change that may sometimes be needed. We know that over the last, I think it was within 20 years, we decentralised the financing function in government whereby you can only advise; you cannot control many of the expenditure concerns you highlighted just now. You referred to the Premier sending out a memo to control spend or hiring freezes and so forth.

It makes it difficult for you as the constitutionally responsible advisor to the government on controlling mechanisms. Do you think that should change in law because it seems it is a common practice? This is not the first time we've been around a situation where you give advice — basically you can send it to the ministries [but] the ministries don't really have to adhere to your direction, yet you're still the one held accountable for the guidance from an FFR perspective, along with the government. How do you feel about that, and do you think the law should be changed?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman. Before I attempt to answer, I just want to clarify with Member Bryan whether he has in mind the question of should the accounting function...?

He's nodding, Mr. Chairman. Should the accounting function be centralised within the Ministry of Finance, as opposed to the present situation where each Ministry (there's 10 at present) is required by the Public Management and Finance Act to have a Chief Financial Officer [yet] there are CFOs who cover two ministries — one person covers two ministries.

Member Bryan, thank you for the question. It is a difficult one to answer, to say [that] if we centralised we would be in a better position, et cetera. It's difficult to say a definitive 'yes' to that. For a long time in the Ministry of Finance, we have struggled with the frustration of CFOs — and I'm not talking badly of my colleagues. CFOs, in particular, do not see the Financial Secretary as their boss. They don't; they see the Chief Officer of their ministry, portfolio or office, and ultimately, the Deputy Governor as their boss.

An interim step, Mr. Chair, Member Bryan, would be that Chief [Financial] Officers could report to the Financial Secretary but continue to have a rela-

tionship with the ministry's Chief Officer. Whether they are all on the third floor or a different floor or they stay on their different floors is a practical question, but we could try to see whether that change made a difference.

I apologise if it's vague and woolly, but that's the honest answer. We don't know for certain in advance.

Mr. Kenneth V. Bryan: Through you, Mr. Chair. Thank you, Mr. Jefferson. I'll ask the question to the Deputy Governor as well when he comes along, because from an authority in reporting he may be able to opine further. I know it's quite difficult for you to opine because you're speaking on your colleagues.

Let's move away from the operational expenses, which you've covered and enlightened the audience today quite adequately. About revenue opportunities, which is the other half of this equation of sustainability, we talked about new revenue streams or current ones that can be increased or expanded. From your perspective, do you have any recommendations for this committee that should be considered, or an idea of where we may go while we try to balance this equation of reducing expenses [while] at the same time increasing revenue to cut down our debt and pay for the rest of the things that we need to do for the country?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Member Bryan. Mr. Chairman, through you.

Mr. Chairman, the one area that comes to mind immediately would be the stamp duty regime. That is perhaps a promising area. As an example, I know that in 2023 the stamp duty on land transfers was \$78.5 million; in 2024, it was \$88.7 [million]; to July 2025 it is \$57.7 million. The reasonable expectation for the whole of this year could be something close to \$90 million. I know this was an area that the previous administration planned to do something about. In fact, it was one of the revenue measures they thought about, [but] it was not actually implemented.

I'm kind of reluctant to give the specific details. I certainly don't want to scare away the real estate business at all, but I do know the general idea was that there were certain areas within the Islands where the standard rate of 7.5 per cent could be increased. A past and current Member of Parliament said that in his view maybe it could go as high as 15 [per cent] in certain selected areas. I don't think the past administration supported 15, but it certainly was open to it going higher. I think that's one area, Member Bryan.

As I said earlier, the financial services industry has already introduced some measures that took effect on 1st January. I think they would be reluctant to

make any further changes to that area, so I think the most promising would be the stamp duty regime. I also know that the Lands and Survey Department has a proposal in mind to change the regime. For example, Mr. Chairman, one possibility under that scheme is for Caymanians to pay a lower rate of duty than the current 7.5 per cent, so you're introducing a nationality regime into the stamp duty regime. I know it is a possibility.

To me, that is the most fruitful area for further revenue.

Mr. Kenneth V. Bryan: Thank you, Mr. Jefferson.

Mr. Chairman, I know that other Members also want to ask questions, so I'm going to wrap this up quickly with two minor ones per what the Secretary said. I know you were unable to further clarify about the past administration and this discussion of potential duty waiver increases because you wouldn't have been at the Caucus level, but just for confirmation: It was rejected; that's why it didn't happen.

Could you say whether the current administration is considering them as a revenue stream now, in light of SPS [Strategic Policy Statement] coming up soon?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chair. Just to clarify, Member Bryan, did you say import duties?

Mr. Kenneth V. Bryan: The duties on land transactions — the increase in certain areas in Cayman, which you referred to as a potential new revenue stream.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Yes, sir. Thank you, Member Bryan.

I haven't got any feedback on whether it is actively considering that or not. I haven't got such feedback, so I can't say yes or no. All I can say is that there is a proposal from the Lands and Survey Department to change the regime, and I believe the current administration is aware of such a proposal. Further, I do not believe that it has gone to Caucus as yet. It is an initial stage that would have to go through to get approval.

I can't answer for certain with a yes or a no that they are for it or against it. I think it's something they obviously will consider and debate and go back and forth, and a majority view will prevail.

Mr. Kenneth V. Bryan: Thank you, Mr. Jefferson. Thank you, Mr. Chairman.

Mr. A. Roy Tatum: Good morning. Thank you, Mr. Chairman. Financial Secretary, thank you very much for your comments so far.

I want to go back to the issue with regard to projections. I have had a concern for many years [and] you might have heard me say so publicly as well that I'm of the firm belief that we have a problem as a country with making accurate projections with regard to the country's finances. I believe during a Meeting of Parliament, perhaps the last Meeting, the current Finance Minister also had concerns about bringing the SPS now because the forecast may be widely different from where we are at.

Having listened to your explanation of the fact, I'm heartened that it doesn't sound like we will have a deficit, but do you agree with me given the number of times since the PREFU and along the way that the possibility of a deficit has changed, will you opine on whether or not we have a challenge, as a country, with accurately forecasting, even over short periods of time like a year.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Member Tatum and through you, Mr. Chairman.

There is no doubt about it, Mr. Chair. Perhaps we can put it down to human nature. There is an almost inherent desire by Heads of Department to understate their revenues. I'm going to use a ridiculous example: I know, as a Head of Department, that I realistically can collect \$9, but I want to appear in a favourable light at the end of the financial year, so I'm going to say that my revenue estimate is \$6. If I get \$8, then I look good. There is an inherent tendency to want to do that, Member Tatum, which has caused problems in the past. There's no doubt about it.

Mr. Chairman, the best example I can give is tertiary care, where we see the revenue projections coming from the ministries, portfolios, and offices. The procedure is that the Revenue Unit has its own projections. Mr. Ramoon is the director of that unit. For a number of years, he will have his own projections as to what revenues are going to be for the government; and his concentration is on the coercive revenues—the big revenue earners in government which account for, like, 92 per cent of government's revenue. We're talking import duties, financial services fees, stamp duties, work permits, tourism accommodation tax, and so forth. Member Bryan will remember quite well.

If those revenues are understated, Mr. Chairman, the government's need to have a surplus means that expenditures have to be lower than they could and should be. The result is that you get an individually significant expenditure appropriation, like Tertiary Care at Local and Overseas Institutions for Those in Need, given the budget code of NGS 55 (meaning Non-Governmental Supplier; 55 referring to all the different healthcare). In the 2025 budget that [item] is stated at \$15 million whereas the reality is that in 2024 it was in the region of \$57 million. I have the precise number; I could give it to you.

The consequence of that is that revenues can be understated and expenses are understated in order to arrive at a surplus, and once the year starts, the revenues perform better than the projections. Then you take care of the expenditure side by having supplementaries. We've already seen that in June of this year the Finance Committee approved a supplementary for NGS 55, amongst other things. There were others — Financial Assistance to Seamen and Veterans supplementary and so forth, but that's the general point; so, Member Tatum, I'm admitting to that and definitely know that we need to do better.

I was talking to the director of the ESO just yesterday, and his department is actually able to do some forecasting as well. The current situation, Mr. Chair, is that the Revenue Unit has its own forecast all done by itself. When the SPS and the budget process starts — this is probably old news to Member Tatum — we write to all the ministries and ask for their submissions. Those submissions come in and include both revenues and expenses. We compare those submissions of revenue from the ministries with the Revenue Unit's numbers; and oftentimes, there is a difference. The Revenue Unit, the budget unit, will contact Ministry X and say, *"Your estimate is \$100, the Revenue Unit's is \$61,"* or it could be the other way, *"how are we going to resolve those differences? Do we reach a compromise or do we stick with your number?"*

In many instances, Mr. Chair, the deference is toward the Ministry that's responsible. If we are talking of tourism accommodation tax as an example, if the Department of Tourism and the Ministry of Tourism said, *"We feel that the revenue estimate is this because we know more than the Revenue Unit,"* we would defer to them. That's the current situation where you have two sets of numbers being compared. The director of the ESO has said his area can produce its own and it is something we will be pursuing. You then have three sets of numbers and hopefully that will be even better.

Mr. Chair, I do know that, and I'm jumping way ahead, the recommendation for the independent fiscal review contains the comment that the Ministry of Finance rejects it and does not want to pursue it. That comment was made purely on the basis of our knowledge of what such a review body actually does.

Taking the Office of Budget Responsibility (OBR) in the UK as an example. It was established in 2010 by the UK Chancellor at the time, Mr. George Osborne, so obviously, it's been around for 15 years. Something the OBR is tasked with is to advise the UK Government of any changes in legislation. On any new policies they want to pursue, [they] will advise them *this is the financial impact of what you propose*; but the prior period of time is 10 weeks, so if the UK Government wants to introduce something, they have to give it to the OBR 10 weeks prior.

Now, I know there is no comparison between the UK and the Cayman Islands, so in Cayman's context the 10 weeks could become five or two [weeks]. Our concern was the practicality of the timing of it and how it was going to work. I certainly don't object to another independent review of our projections. The PAC can obviously make that recommendation. We would have to go through the practical considerations of who is going to fill this role. Since it [would be] independent, it obviously can't be from government; but in all likelihood, it would have to be paid for by government. I don't know the arrangement in the UK, [but] I think that office may be funded by the UK. It is certainly not for free.

Mr. Chair, saying all that to say— yes, revenue projections and expenditure projections can improve and they should improve. In principle, we don't have any objection to the establishment of an independent fiscal body; our concern is more about timing. I would also say that we worry about... It's not immediately clear to us how the body would work, who it would consist of and so forth. That's the only reason.

Mr. Chair, sorry, I had a slip of memory there as well. I wanted to make an additional point about deferring to any ministry for their input into revenue estimates in particular, but it's also expense estimates. If you read the PREFU document deeply, you will see the revenue estimates for all the major sources in government, and you would find that the revenue estimates for 2025 for import duties — all of those categories; alcoholic beverages, duties on tobacco, duties on gasoline and diesel, duties on motor vehicles, and the broad category of "other import duties" are precisely to the dollar equal to what the actual revenues were in 2024. Not a dollar more, not a dollar less. They were precisely equal. The Ministry of Finance questioned it and basically, we were told, *"That's what we're sticking with."*

I used that as a prime example for, in many instances, having to rely on what a particular ministry has told us. That's a long spiel, Mr. Chairman, but I hope I've answered Member Tatum's question.

Mr. A. Roy Tatum: Thank you, Mr. Chair. Financial Secretary, thank you; yes, you did.

Just for clarity, I want to ensure that the public, you, and your colleagues realise that my question isn't about blame. All right? I just want to make sure that's clear. It is about how we fix it going forward, because this is an important part of this issue of sustainability, our being able to suss out— to use a good old-fashioned word— as Government develops policies, exactly what the cost and the impact will be. The [idea] of a separate oversight body, I have no issue with, if that's the direction the Government of the country wants to go, but I certainly think we need to sort out our problems in-house.

I wrote it down and then my colleague asked about it: Is there an issue with decentralised finance

reporting and as you spoke, I got — well, I won't put words into your mouth. Could you tell me what you think some of the main issues are and how we solve them, in terms of our ability to improve forecasting? What could be done. I'm guessing you may be looking at centralising some of the finance aspects. I'll stop there and let you respond.

Thank you.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman.

Mr. Chairman, before I attempt to answer Member Tatum's direct question, I would really beg your indulgence to present some information because this is a critical area, particularly for myself and Member Bryan. He questioned me [on it] some time ago and on reflection, it wasn't answered; so I would like to answer it now. If I could ask the Deputy Serjeant to just hand these out. I should have enough for everyone.

Mr. Chairman, the Deputy Serjeant is handing out quite detailed information on the government's coercive revenue numbers. I actually printed the column letters, row numbers, et cetera. The J column is the PREFU projection. The C column is the revenues on those different items collected in Q1 of 2024. Column E is the actual revenues in Q1 of 2025, January to the 31st of March, and what the expectations were for those individual numbers as per the original 2025 budget which was compiled in November/December 2023. Taking as an example, row 7 — "Company fees payable by exempt companies", the Q1 revenue for 2025 for that category was \$110 million. The budget expectation per the original 2025 budget for Company fees - Exempt companies was \$79 million, so that gave a \$31 million variance between what the original budget expectation was and what we actually achieved in Q1. That's in column H.

From my recollection, Member Bryan's original position was: Can you tell me whether the fantastic results in Q1 of 2025 were included in your PREFU numbers because it's an incredible number. On the very last page of this stapled document, Mr. Chairman, it says that the variance on the higher coercive revenues were a positive \$60.6 million. That's an extract from the Q1 report. The important point in this schedule is, again, taking row 7 (the company fees) the actual revenue for that item of \$110 million for 2025, and comparing that to column J, which is the PREFU number. We see that the PREFU number for exempt companies for the year is almost \$124 million, so it does include the \$110 million in Q1 of 2025, and so we go down the line, Mr. Chair.

The financial services fees have obviously done quite well, so that category, collected by the general registry, was \$200.4 million in Q1. The PREFU projection for that entire lot was \$216.7 [million] so I'm concluding that as you go down this list,

the PREFU number is going to exceed the number in Q1.

Kenneth V. Bryan: Mr. Chair.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Sorry. Just let me finish Member Bryan — so if you go down, highlighted in yellow on page 3, we see the \$60.6 million variance that's mentioned in the Q1 report; therefore, my answer to what he asked is, Yes. *The fantastic Q1 results were actually contained within the PREFU projections.* Then on page 4 we see the totals. We see that the PREFU revenue projection for 2025 of \$1,121,264,000 is remarkably close to the actual revenue in column L of \$1,124,998,000. The difference between the two numbers is only about \$3.6 million.

Hence, a further point would be that the PREFU number was not recklessly or negligently done, Mr. Chair. It reflects the submissions that we got then from 12 ministries, 2 portfolios, and 7 offices. It was the submission that we got. Their actual number was even a bit less, so the result of the Ministry of Finance getting involved actually improved the revenue projection very slightly from what the CFOs had predicted, and also it was credible in relation to the 2024 actual revenue collection.

The answer to Member Bryan was, we believe we can see from these figures that the Q1 revenues sit within the PREFU numbers.

Mr. Kenneth V. Bryan: Mr. Chairman, I'm reluctant to open up this line of questioning, but I think it's good for the public to get some clarity. I don't want to take away from my colleague [since it] was in his line of questioning, but as Mr. Jefferson aligned to answering a question I previously posed, which I appreciate the clarity, I feel compelled to intervene a little bit.

As I'm trying to [follow] along your analysis with the documentation that you provided for us, I'm happy to be corrected, but I'm still not sure I get you because what you're saying with the numbers that you've given us is that the PREFU revenue figures were considered in its conclusion of a \$26 million deficit. Then you used column E to show the relevance of it to be somewhat covering, but column E is just for one quarter and column J is for the full year.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Correct.

Mr. Kenneth V. Bryan: If the full year figures you highlighted in J are what they are, particularly if you even recognise the \$60 million extra, you still have three quarters (nine months) to go. I could understand if it was quarter-to-quarter liability reference, but to

say a quarter to a full-year revenue... I'm a bit lost. Maybe you can [elaborate] further.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman. Thank you, Member Bryan;

No; the question that was put to me quite some time ago on the margins in this Chamber was — there was disbelief that there would be a deficit of \$26 million at the end of the year, given the great performance in Q1. I recall the question being, “*Are you sure that the PREFU captured the fantastic results in Q1 in the PREFU numbers?*” Because it was a \$60 million positive variance on the coercive revenue, could you make the quantum leap of saying, “*If that positive variance of \$60 million persisted to the end of the year, why don't you then have a surplus? Why don't you have \$26 million as a deficit but take into account that in Q1, you had a positive variance of \$60 [million] and put that at the very bottom so you would go: \$26 million deficit, a positive variance of 60, and then end up with around \$30 million, or whatever the difference is.*”

The problem with making that quantum leap is that, first of all, you do have precisely nine months to go, so some of that \$60 million positive variance is going to slip as you go through the year. It's not always going to be \$60 million at the end of the fourth month, the fifth month, and the twelfth month. It is not always going to be \$60 million. You are going to have a really positive number at the end of Q3 because financial services come in that quarter.

Also, Mr. Chairman, the comparison is made to a budget that was put together in 2023, so the comparison is old, right? In addition to that, we also have the expenditure side so it's not just a positive variance of \$60 million in Q1 persisting all the way through to the end of the year, we have to look at what has happened or could possibly happen on the expenditure side as well. When you put those two together, that is how we ended up, at that time, with a deficit possibility of \$26 million.

Mr. Kenneth V. Bryan: Mr. Chairman, I think it may not be fruitful for our time for me to further expand on this, but I'm going to say that I'm not sure if I'm in agreement with you. The good news is that as long as the Lord doesn't come before the end of the year, the actuals will be better analysed as to whether the projections were off or not. Ultimately, my colleague asked about the projections.

Most importantly, what can we do today, whether [it be] legislative change, cultural practises within the civil service, [or] authority from your office (based on change), to ensure that we don't find ourselves in this situation [due to] what you outlined, which is under forecasting of revenue and under budgeting of expenses; because what I have concluded,

Mr. Jefferson, is that maybe you, and your team has been taking heat for a structural problem within our system.

Therefore, the first question I ask is what authority do you have to control the information you get, which ultimately produces something that cannot be relied on even in this honourable House, whereas we have the Minister of Finance saying, “*I don't even want to accept it to do an SPS, because it's not reliable within a six-month period*” — and it may not even be your fault; and we just highlighted the fact that we may need a third assessor of revenue and expenses that should possibly be independent, so we accept that.

The question today for this Public Accounts Committee is what do you recommend, being the sole person charged with guiding the country and its leaders as to what to do because as a Minister of Cabinet I saw your frustration within the civil service. Most of it is about operational costs — and we know the problem is within the operational component because we recently saw the Government buy a \$5.5 million piece of land while suggesting there's a \$60 million deficit, but that's a capital component so I don't want to wrongfully put too much pressure on you. I know your team is under pressure.

For the purposes of what this report is suggesting, we need to have better systems so we can have sustainable forecasting and management of our money for generations to come; so again, as my colleague asked: What do you think needs to be done so we have better projections of revenue and better budgeting of expenses? That was the question.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman, and thank Member Bryan for that.

What comes to my mind as the most practical way forward is for us to report the differences in revenue and expenditure forecasting we come across to the Deputy Governor's Office as the leader of the civil service, and someone whom the CFOs and Chief Officers see as their leader.

For finance to report the differences we disagree with to the Deputy Governor, in the knowledge that he will intervene; chat with individual ministries and portfolios to try to get an agreed position.

Mr. Kenneth V. Bryan: Mr. Chairman, I will close by asking this, which is the political side, because I don't think the civil service is alone in taking the blame for much of this, and I am here to inform the public, which is what this committee is about. In the practical sense, is it factual that sometimes, even if the Chief Officer may want a particular outcome or tries to be responsible in the projections, the ultimate figure by which the budgeting of expenses or revenue projections is con-

cluded is the political arm, which would be the Minister responsible for that area? Would that be fair [to say]?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chair.

Mr. Chair, generally my experience has been that the vast majority of times the Ministers, to my knowledge, don't tend to override the "dollar figure" submissions too much. I don't have any evidence at all of a Minister contradicting a submitted projection or asking for and obtaining a different revenue or expenditure number. I am not aware of any such evidence, so I can't really answer the question either way.

Mr. Kenneth V. Bryan: With that assumption then, we assume it's solely on the civil service side of things that we are getting the, dare I say flawed, projections and figures causing the problems we're talking about?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chair, thank you. I would agree with that. Perhaps 75 per cent.

The Chairman: Mr. Tatum, go ahead.

Mr. A. Roy Tatum: Thank you, Mr. Chair.

Financial Secretary, thanks again. I will close by saying that my takeaways from what you said are: an outside, independent body is perhaps needed; the conversation with the Deputy Governor is a good idea and should be taken up — I hope it is. I heard you say there are conversations with the ESO in terms of assisting, and I think it is also a positive move. I think improving the link between the CFOs and yourself should be considered. I will leave that alone and move on to the last item I have.

I want to agree with you, sir, about the need for a war chest. Whilst I wasn't elected, you obviously know that I worked in the Premier's Office under Sir Alden and was part of the Government Caucus, so I know what the conversations were. I know about the concern of the Caucus and the Elected Members at the time, having gone through the 2008 recession, of being prepared, not wanting that situation to occur again and wanting to ensure we did a couple of things, one of which was to put aside money, expecting the possibility of a recession. Nobody expected a pandemic, but as you rightly said, thankfully, it was the case; we closed down the country and there was money there.

Given what you said earlier about the need to get back to that, could you maybe advise us on exactly what the process is in advising the Government on matters like this, if that makes sense. If you have concerns, how do you go about informing, making suggestions, and so on? It's a very straightforward [ques-

tion]. I'm not trying to get into politics with it; I would just like to know what the process is. Thank you.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman.

I will address concerns first. In that respect I think the principal way we in the Ministry of Finance do it at present, and have done for quite some time, is placing our comments about the financial implications of what the Government is about to embark on into Cabinet Papers.

All Cabinet Papers should now come to the Ministry of Finance for the insertion of comments under the "Financial Implications" section. There's a similar section for legal implications. If we have concerns, we place them in [the relevant] section of every paper. In fact, Mr. Chair, we receive Cabinet Papers for input even if they are not financially related; they all come to us, and in many instances, we say "there are no financial implications here." Our concerns would certainly be with reference to whether the Government is in jeopardy of breaching FFR ratios. That would be our primary concern, our primary way of assessing in ourselves whether there is a concern the Government should address.

In terms of advice, Mr. Chair, obviously the best way of giving our advice would be through our Minister, the Minister for Finance. Where we talked about increasing the general reserves of the country, we would advise that through a Cabinet Paper drafted for the Minister for him to take to Cabinet. "As we approach the end of the year, shortly into the New Year, we need to put aside X dollars for the general reserves." That is our best way of advancing things that we think should happen — through our Minister.

Mr. A. Roy Tatum: I have another question, but in the interest of time I'll just leave it there for now, sir. Thank you.

The Chairman: Are there any other questions? Mr. Panton.

Hon. G. Wayne Panton: Thank you very much, Mr. Chair.

I want to thank the Financial Secretary and his team. The comments made today have been quite illuminating. I think, rightly so, that we've cut across many aspects of this report which deal with financial sustainability. We're talking about monitoring and tracking expenses and revenue in the short to medium term, but also trying to identify how we ensure the long-term sustainability of the country's finances and ultimately, its success.

Mr. Secretary, in your earlier contribution I think you indicated that the end of the 2024 financial year was looking like... I can't remember whether you

said it was going to be a break-even or potentially a deficit. Then I think you suggested—

[Inaudible interjection]

Hon. G. Wayne Panton: 2024.

[Inaudible interjection]

Hon. G. Wayne Panton: It was a surplus, but I think you indicated it looked like it might not have been; then it turned out to be a surplus, which I think is indicative of what we have been discussing here: the difficulties you've identified with tracking and monitoring expenses on your side, and the well-known difficulties of being very accurate with our revenue projections. Was that a fair summary of what you indicated at the time?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chair and thanks, Member Panton. I think my comment [was] we could possibly have ended 2024 with a deficit, whereas in fact, we didn't. I guess that comment was more academic than anything else.

Hon. G. Wayne Panton: It is now, for sure.

[Laughter]

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: [Through] pure arithmetic, if that trend from 2018 to 2023 had continued into 2024 whereby every year your expenses are rising 8-plus per cent, but your revenues are only rising [by] 4.5, it would have resulted in a deficit around September/October/November 2024. Fortunately it did not happen, so the comment was more theoretical than anything else.

Hon. G. Wayne Panton: I thank you very much, Mr. Secretary. I think you would probably agree that for the financial security of the country, it will always be better to try to control your expenses. You have more control over your expenses sometimes than you have revenue, particularly given in the context of our experience of having difficulties being accurate with revenue projections. I think it is something the country and any government need to bear in mind.

Based on a question from a colleague along the lines of what suggestions you have, you referred to revenue measures and stamp duty. I think there was an indication that there was a proposal to have higher rates of stamp duty. I wanted to clarify that because I think as of back in 2021, we issue Cabinet summaries which indicate what actions Cabinet has taken and what decisions have been made, so the

public has an idea. I wanted you to be able to clarify for us whether that was making a distinction between stamp duties paid by Caymanians versus non-Caymanians? Are you able to say that?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Sorry, Mr. Chairman, just to clarify, [it's] the previous decision you are talking about, Mr. Panton, is that correct?

Hon. G. Wayne Panton: Yes.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: No, Mr. Chairman. That decision, from recollection and memory, did not distinguish.

If you were from Uganda but became a Caymanian, once you became a Caymanian, then yes, you would be entitled to a possible stamp duty break on your first purchase and if you then acquired your second property, the normal rate of 7.5 per cent would become 3.75 per cent; but it did speak to the need to be Caymanian in order to get those concessions.

Hon. G. Wayne Panton: No, Mr. Chair. Just to clarify, I'm not speaking about the concessions in respect of Caymanians who have purchased homes for the first time or even the second time. I'm talking about a proposal which you referenced for stamp duty changes; I think at one point, you indicated that there was a contemplation of moving some of it up to as high as 15 per cent. What I'm asking you to clarify from whatever was discussed at that time is whether the 15 per cent would have been relevant to all purchasers or just non-Caymanians.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman and thank Member Panton for the clarification.

I don't recall. It's a bit vague and woolly now because it's been some time since I looked at it. I know that the Lands and Survey proposal actually contained an element of Caymanians paying a stamp duty rate, whether it was their 10th, 11th, or 7th purchase. They would pay a lower rate than the present 7.5, regardless of the number of purchases they made, once they were Caymanian.

Mr. Matthew Tibbets, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, I believe Member Panton is referring to the proposal from Lands and Survey. I believe the most recent consideration was that over a certain threshold the rate would change, [while] under that threshold, it would be 7.5. I believe that's what the Member is asking.

Hon. G. Wayne Panton: Mr. Chair, just to clarify, I agree with Mr. Secretary's comments on the potential for revenue measures from the stamp duty area to be improved and be an even more significant contributor, but the comment was made in relation to increasing stamp duty to 15 per cent...

I would say during COVID and post-COVID, countries around the world have recognised that an issue that has arisen has been a housing crisis, and one of the policy levels that exists is to differentiate property tax between locals versus non-locals, and I thought that was what you were alluding to when you mentioned the contemplation of going up to 15 per cent; if that's not the case, then that's fine.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chair. Unless I have the proposal in front of me, which I don't, I can't say yes or no to that. I simply don't recall.

Hon. G. Wayne Panton: Thank you, Mr. Chair.

The Chairman: Mr. Saunders, I think you had questions.

Mr. Christopher S. Saunders: Yes, Mr. Chair, but I will yield to my colleague. He has a question that may be relevant to what's being discussed before I open a new thread.

Mr. Kenneth V. Bryan: Mr. Chairman, I thank my colleague for giving way in the spirit of comments recently made. We were trying to do structured topic areas and we kind of went off that a bit. I don't want to wait for when this question may happen later on and comment. What I would like to ask the witness is based on something recent, so it's probably best I ask it now, then try to get back on the scope of the line of questioning.

The Honourable Financial Secretary acknowledged that we recently implemented the obligation for financial comments on Cabinet Papers. Is that fair?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chair.

Mr. Chair, no, I wouldn't say it's recent. It's been in existence for a while

Mr. Kenneth V. Bryan: Fair, I accept that. For some time. The acknowledgement also highlighted by you was that there ended up being a surplus for 2024. Do I understand that correctly as well?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Yes, Mr. Chairman, of approximately \$60 million.

Mr. Kenneth V. Bryan: The one area we're going to further examine in this PAC line of questioning is projecting for cost for policy decisions.

You would recall, I think everybody is fully aware, that right before the New Year the past administration took a policy position of a 5 per cent increase for civil servants and an uplift for seamen and poor persons with benefits, which should have had, the cost implications for the future within that Cabinet paper; and whether you would be able to meet the FFR requirements as well as whether you would have a projected deficit or not based on whether the Cabinet made that decision. Would that be fair?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: That would be fair.

Mr. Kenneth V. Bryan: Thank you; so when the past administration made the decision in December to increase the civil servants by 5 per cent, which ultimately increased the pension liabilities and reoccurring costs for 2025 which were not budgeted for, you would say for certain that it was outlined in the Cabinet Papers.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chair, when the announcement of the 5 per cent COLA [cost-of-living adjustment] was made by the then government in late 2024, it was done rather quickly at an afternoon Parliament session. I was asked very quickly what would be the impact of a 5 per cent COLA, and we estimated it in the region of \$20 million.

The good news was we knew the substantial underspending of personnel costs that had been budgeted within the civil service would be able to accommodate a \$20 million additional personnel emoluments figure without need for a supplementary funding request.

Mr. Kenneth V. Bryan: Thank you, Mr. Jefferson. That paper then would have advised the Cabinet, which includes the Governor, that there would not have been a deficit projection for the end of 2025 because the monies would have been available. Is that correct?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, I believe the request I received was via a WhatsApp message from the then Honourable Premier during a Parliament Sitting and we were within the halls. I cannot say yes or no because I don't recall accurately whether there was a subsequent Cabinet Paper; obviously, there could have been as well as there might not have been, but the request for a calculation as to how much it would

cost was done via a WhatsApp message whilst we were here.

Mr. Kenneth V. Bryan: Thank you.

Mr. Chairman, through you. Are you suggesting the Government passed and approved a 5 per cent cost of living increase plus an uplift in poor persons' relief via WhatsApp and not a Cabinet Paper?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chair. I'm speaking specifically about the 5 per cent COLA, nothing else.

Mr. Kenneth V. Bryan: Thank you.

Mr. Chair, through you — and let me be direct with the question. Was a Cabinet paper approved for the 5 per cent, and in that 5 per cent Cabinet Paper approval, which had to be done, were there future cost implications for 2025 from your Ministry, saying if you implement this there would not be a deficit for 2025 or there would be a deficit?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chair.

I think I answered previously. There are many Cabinet papers that pass through the Ministry of Finance in the course of a year. My answer is honest and it's direct. I don't recall such a paper — it doesn't mean it doesn't exist. I don't recall it.

Mr. Kenneth V. Bryan: Okay, let me come off of that line of questioning because you can't answer it if you don't recall. I can't put that pressure on you.

Do you think Her Excellency would have allowed a Cabinet Paper to be approved if requests for approval, for example, the cost of living increase and the poor persons' relief uplift would ultimately result in a deficit?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman.

Mr. Chairman, the answer is: regularly, no, that would not have happened. The Governor would not have approved such a thing.

I can say though, Mr. Chairman, that there have been instances where Cabinet Papers for supplementary expenditures were approved by Cabinet that did not contain comments in the financial implications section. That has happened. Not commonly, but it has happened in a few instances. The act of preparing a Cabinet Paper and submitting it [directly] to Cabinet is not supposed to happen. The Cabinet Office should reject such papers, Mr. Chair; if a paper does not contain implications, the Cabinet Office should reject it.

I'm saying to Member Bryan that ordinarily the answer to that is no; but I have seen instances where papers have been approved by Cabinet and the comments were either absent or there were comments in those papers that did not come from the Ministry of Finance. They could have been drafted by the requesting Ministry itself.

Mr. Kenneth V. Bryan: Thank you. We have to draw some conclusions here, Mr. Jefferson. Either the comments were not there and approved by Cabinet with the Governor's supervision and acknowledgment, which does not give indication as to whether or not this major policy decision, which you suggested to [have an] above \$20 million effect—

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: About \$20 million, and that was specifically for the cost of living aspect. Nothing more.

Mr. Kenneth V. Bryan: Thank you for clarity on that. Let's just do the cost of living because that's the bulk of it, right? The poor person's relief about which the Government of the day made that policy decision is probably a quarter of this hypothetical figure, so let's just deal with the cost of living.

What I'm trying to get at, Mr. Jefferson, is whether our Cabinet, with the supervision of the Governor, had a Paper with or without financial implications for the next year — because it's going to be a recurring cost, not only on salaries but also on pensions; and what did it say, because if it did not say there was not going to be a deficit, what transpired between December, when it was approved, and March, when your report was done to cause a \$26 million deficit?

It's either the Paper suggested there was going to be a deficit and the question then becomes, how was it approved by Cabinet with the Governor's supervision or if it didn't [indicate] a deficit, what changed between those three months to cause a \$26 million deficit PREFU for 2025 because there were no major policy cost decisions between December and March.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chair, the only way to conclude this is for the committee to request a copy extract of the particular Paper being referred to.

I cannot say anything more apart from saying if it was a 2024 matter and there was a Paper, I can't see how it would make the quantum leap at that time to necessarily talk about [2025]. It would be too early to talk about the impact at the end of 2025, but the definitive way forward would be to request the Paper to answer all these questions. To see if it is forthcoming.

ing and whether the response is *yes, you can have a copy of the Paper* or not.

Mr. Kenneth V. Bryan: Mr. Chairman, I know you want to go on, but I think what the witness just said is a significant thing to the body of what we are talking about today. He just said — and clarify if I got it wrong; that he could not possibly see... With a decision like that they would be unable to estimate the effects of that policy decision all the way up to the end of 2025. That's the foundation on which we are here today.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, no, sir. That's not what I'm saying at all, sir.

I'm saying that December 2024 would have been quite early for us, not even into 2025 yet, to make a projection. Our answer to the WhatsApp query was that the approximate cost of implementing it was in the region of \$20 million and the personnel budget in 2024 and 2025, providing not all vacancies were filled and so forth, was capable of funding the request for a COLA without requiring an additional supplementary.

The Chairman: Mr. Saunders, let's move on. We're still on 1.1 and we've had two hours. We've got to pick up the pace here today.

[Laughter]

The Chairman: Our next witness is waiting outside as well, and we need a lunch break, so I'm going to ask if you could try and make it as quickly as possible.

Mr. Christopher S. Saunders: Oh, I guarantee you mine will not be quick, so if you want to do your lunch break now we can take the lunch break, because mine is not going to be quick. If you want, I can start it and continue after lunch.

The Chairman: No, we need to move, so go ahead and start and we'll take a break when we're ready.

Mr. Christopher S. Saunders: First of all, Mr. Chairman, I want to thank the Office of the Auditor General for this report, and also the Honourable Financial Secretary and his team for the answers thus far.

What I think is missing from this report, ultimately, is the political directorate, because at the end of the day, the budget is something that is approved by Cabinet and by Parliament, and the last time I checked, those are all people who are elected. To be putting the civil service in the hot seat here to answer for things that the politicians deal with is a bit unfair.

I think there are other things that the report, while comprehensive, did not take into consideration,

[like] the mindset of the Government at the time. I look at the makeup of this Public Accounts Committee and maybe it is providence that three former finance ministers are members of it. Mr. Chairman, while I cannot speak for the years when you or Mr. Panton were Ministers of Finance; but to give the public greater clarity, I can say to the country and explain the mindset that goes into these decisions and how the Government actually makes such decisions.

For example, Mr. Chairman, the report spoke about revenues growing by 25-26 per cent over a six-year period and expenses growing by 51 per cent. During my time as Minister of Finance, revenues went from \$983,712,000 to \$1,295,417,000 over a two-year period and expenses went from \$1.107 million to \$1.224 billion. While I accept that during the six-year period that was looked at, expenses went up by 51 per cent and revenues by 25 per cent, during my time revenues went up by 31.7 per cent and expenses only went up by 10.5 per cent. That is not to throw shade on previous finance ministers because, again, we don't know what the environment was at the time that people looked at. As such, every finance minister operates in a different environment based on different economic concerns.

I can say that for two out of those six years, revenue growth exceeded expense growth; and something the Financial Secretary and his team can attest to me being very keen on is something called "positive jaws", whereby the percentage increase in revenues is greater than the percentage increase in expenses. I can also say, Mr. Chairman, that I made myself and my team available to sit with every single Minister to go through their numbers; and can honestly say the two Ministers who consistently took up the offer sitting with me and going through the numbers every month were then-Minister Bryan and then-Minister Jay Ebanks.

I also think it is important to recognise that Government does not make decisions in a vacuum. There are other things to factor in. Case in point: civil service salaries. I know the issue has been coming up but something that needs to be considered which is not included in the report —and I wouldn't expect the Auditor General to be looking at it, but again, speaking for the political directorate— is that in a consumption-based economy where the government is the largest purchaser of goods and services and the largest employer of Caymanians, [how much] money goes in the local economy is very important to us when we look at other economic factors.

We talked about the government expenses growing during the six-year period, but GDP growth is not included in this report. GDP was \$4.3 billion in 2018 and \$5.7 billion in 2023, so there was actually a \$1.4 billion growth in GDP during the same time again, by government putting money into the economy. In terms of real GDP growth, which is adjusted for inflation, between 2015 and 2023 real GDP went from

\$4.1 billion to \$4.8 billion; again, while we may be looking at government finances and our government spend, in this context, we also have to look at the overall picture in terms of impact to the local economy — how it moves economic growth within the country.

For example, when we did the electricity assistance [programme] to help people when things were going up back in 2022, I think it was, whereby we worked with CUC and gave the civil service a \$450 honorarium, I think, to help with high electricity bills. If you look at previous revenues that customs would have collected during that period of time [compared to] when we assisted by putting more money in people's pockets, that summer we got some of that money back in import duties because people had more money to spend in the supermarkets and on other goods that actually attract duty. While it may have cost us, we got back some — again — through economic productivity and economic growth.

It is important for the public and for everyone concerned [to understand] that at the end of the day, when these spending decisions are made, the majority of government spending is still going into the local economy and with the multiplier effect, et cetera, it actually increases economic growth, economic productivity, which overall is good for the economy. It's not just to look at the government one way, but to look at the economic environment at the time. I am not going to sit back and say, *well, Mr. Chairman, your increase when you were Minister of Finance back then was X in terms of revenues versus expenses*, because there would have been other factors you would have considered that I would not have considered. Equally so for Mr. Panton when he was Minister of Finance. It would be presumptuous just to say, *"Well, you guys should have done this or that,"* when in fact, we only make decisions based on information and other economic factors we had at the time.

If the Government sees a situation where the private sector isn't spending money, it is the government's duty, in order to keep economic growth going and to keep the economy going, to pump more money into the economy. Now, will it affect the government's increases in revenue and expenses? Absolutely; but that's the way it is.

The other thing this report does not address, Mr. Chairman, is the private sector's responsibility. I mean, healthcare is a major issue in this country. For too long we have sat inside this Chamber and known that Caymanians have inadequate pensions when they retire. Let's say you worked 50 years with a 10 per cent contribution rate; it basically means it takes you 10 years to see one year's salary. If you worked for 50 years, that's five years' salary. Even if that money doubles during that time, you're looking at 10 years' worth of salary, yet women are living 19 years [and] men are living 14-15 years past the age of retirement. What are they going to do with only 10 years' worth of salary?

We see the rise in healthcare costs and social costs, but no one looks at the private sector's ability to take care of their employees. We expect the government to take care of its employees and, after a while, take care of the private sector's employees, too. I can tell you from CINICO's numbers that right now we literally have civil servants subsidising private sector retirees; it is unfair to the civil servants and unfair to government as a whole, when the private sector is making a ton of money. There are other structural issues that go beyond this report that it did not consider, and I think, when it comes to government spending, those things also need to be considered.

I want to personally thank the Financial Secretary and his team, because I can tell you, I worked with them and they are a good set of people, they are professional and they have done a really good job — but it's important that the public doesn't walk off just looking at the government expenses as is because at the end of the day, the numbers we're talking about go to educating and taking care of our people. This is exactly what it is. Ultimately, it's not as if the government is sending money overseas. This money is being spent on local associations and organisations. Whether it be Meals on Wheels or a sports programme, this money goes right back into the economy. People need to understand that when you talk about cutting government expenses, you're talking about possibly cutting civil service headcount or salaries, cutting public costs the government has in terms of providing healthcare and education.

Going back to the Financial Secretary's point, when you have a budgeting situation where a Ministry came in with revenues being the same as 2024 — I'm willing to bet that same Ministry went and increased their expenses based on inflation. If they're going to keep the revenue flat and increase the expenses based on inflation, what do you think is going to happen? Exactly what we have here today, so a certain amount of discipline is needed in the process, but Mr. Chairman, that discipline starts in this Chamber with the Elected Members. At the end of the day, whatever assumptions are given by the Chief Officers or the Financial Secretary, the political directorate still needs to accept it; once we come here and accept it, we own it. Every single one of us has our own point when we can opine on the budget and the government spending.

Now, something that needs to come out of this entire exercise is that certain structural changes need to be made. I support [that] every Chief Financial Officer should be a dotted line under the Financial Secretary. Why? Because Chief Officers generally do not have the technical skills to evaluate a person's financial competence. The Ministry of Finance does. They can tell you which CFOs — listen, I've had CFOs give me negative depreciation in one month. How can you have negative depreciation?! Yet those persons are still employed. In the private sector, you would be

fired for that; and we're not talking about \$10-\$20 — we're talking millions of dollars. Those are the kind of things that throw off the government numbers. Unless you have someone really technical going into the numbers every single month, we're gonna have this problem.

Financial Secretary, I want to thank you for what you have done and thank the Office of the Auditor General for at least bringing it to the fore, but the structural changes start in this Chamber, with us as politicians. We are the ones who accept it and the ones who need to fix it. That's where it needs to start, and as a matter of fact I am going to leave it there because I'm *gonna* go on a rant.

I can say there are other things that need to be factored in to give the public a more complete view, [but] we can take it up after lunch, Mr. Chairman.

The Chairman: Thank you, sir; you had no questions then? I just want to make sure.

Mr. Christopher S. Saunders: Well, I mean, if you want, we can start. I do have questions, but we're still on the very first point and there are other areas we need to get to. I really don't want to draw out the time, so I will leave my questions for now and take them up with the other points.

The Chairman: Thank you very much. Let's go ahead and take the lunch break. I'm going to cut it short, to be honest with you, and say let's be back by 1 o'clock. If we can get back quicker than that, let's do it. If Members want to say 30 minutes for lunch, that's fine with me.

All right. Well, we'll be back at 12:45p.m. Let's take the lunch break.

Committee suspended at 12:18p.m.

Committee resumed at 12:56p.m.

The Chairman: Members of the Committee, when we took the lunch break, I took time to re-evaluate where we are and how we might move things along.

The Deputy Governor was here waiting to be questioned. Since the questioning of the Financial Secretary has really taken much longer than we originally anticipated, I thought we would take the Deputy Governor's testimony first, allow the Financial Secretary to take his seat where he normally would, as part of the Committee, and once the Deputy Governor finished his testimony, we would [revert] to questioning the Financial Secretary. As it is, the Deputy Governor left the precinct — I understand to have lunch; so we are going to continue the Financial Secretary's questioning and once the Deputy Governor gets back, we will find a convenient place to pause the Financial

Secretary's testimony and take the Deputy Governor's testimony. That's the plan.

A couple of you asked what time we planned to finish this afternoon. I really think we are going to push against the four o'clock hour before we conclude; I wouldn't even say we will be finished at that point, but we will work up until four o'clock. If we haven't finished questioning the Financial Secretary at that point, we can take a decision in terms of reconvening a meeting.

We are going to continue on to section 1.2 of the Report, which deals with risk identification and assessment. That line of questioning will be led off by Mr. Roy Tatum, who will have a couple of questions for the Financial Secretary, and then we will open it to other members of the Committee.

Mr. Tatum, the Floor is yours.

Mr. A. Roy Tatum: Thank you, Mr. Chair.

As you said, this section deals with risk identification and assessment. Some context to start: The Auditor General's Report states that the government has not identified or assessed the risks to and cost pressures on its long-term financial sustainability. The report also states that **"the Government has established new processes for a government-wide quarterly internal risk assessment and an annual external risk assessment; [however], the draft external risk assessment does not include risks to long-term financial sustainability"**.

The Auditor General recommended that **"the Ministry of Finance and Economic Development should identify and assess risks to and cost pressures on the Government's long-term financial sustainability, quantify these where possible and factor them into financial planning and budgeting"**. We are pleased to note that the Ministry of Finance and Economic Development agreed to implement this recommendation by the end of this year and [also] note your response, FS, that it needs a collaborative approach across government. I would agree with you on that, sir. First question, if I could.

Could you advise us who is the current Chief Risk Officer (CRO) and give some context around what the role is and what the person is responsible for doing.

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT – (MFED)

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Member Tatum.

Mr. Chairman, through you, sir. The Chief Risk Officer is Mr. Michael Slade. He was appointed by the Office of the Deputy Governor to lead the risk assessment formulation and the documentation of government risk. It's obviously not a one-person effort; the Chief Risk Officer reports to Ms. Mary Rodriguez,

Chairman of what has been established as the Senior Leaders' Risk Committee, and at the moment has one analyst with him.

The Senior Leadership Risk Committee consists of eight Chief Officers so it's pretty wide across the government. I am on it with the usual [people] we would expect, I guess; therefore, it would be the Cabinet Secretary and the Chief Officers of the Ministry of Financial Services and the Portfolio of the Civil Service, to name a few. The committee meets four times a year to consider what it has identified as internal risks across the government; and once a year to consider what is classified as external risks to the government. To give the Committee a flavour of these risks...

As I said, external risks number 1 to 16 and obviously refer to causes of risk that exist outside of the government itself [and] I won't name them all. It speaks to the very first one as a major economic downturn, and goes to the usual ones such as a hurricane, aviation accident, major oil spill, a terrorist attack, et cetera. Sixteen have been identified and the list does not have to be stagnant; items can be added or dropped — in fact, they've added items to the list. Each of the areas identified is owned by a particular Ministry. For example, the Ministry of Finance and Economic Development is the owner of the major economic downturns risk. The Cabinet Office, with the Cabinet Secretary as its Chief Officer, is responsible for obvious things like hurricanes because the National Hazard Management falls under that Office.

Sixteen external and 9 internal risks have been derived as a result of meetings and considerations of the committee. Obviously, the distinction between internal and external risks is that internal risks relate to actions or lack thereof of the civil service that cause the government to be at risk in certain areas. One of them, for example, is internal fraud. I own that, and the Accountant General assists very strongly with it. A data breach would be another internal risk and the owner is the Chief Officer of the Social Development Ministry, and so forth.

The committee has identified 25 risks in total and what happens is that the lead person or lead Ministry essentially has to come up with a plan with the help of the Chief Risk Officer as to how a particular risk is to be addressed, and you get peer reviews. For example, Mr. Chairman, I would consider a risk assessment documented by another owner, and they have to defend their assessment. I think those are the nuts and bolts of it.

The Auditor General's Report states that presently, financial sustainability risks are not explicitly stated in the risk assessment and that is obviously true, Mr. Chairman. It is something that can be addressed and needs to be addressed, and can be added to the registers we have. In terms of risk registers, the 16 external and 9 internal risks identified thus far have been documented, and when you put them to-

gether, they represent the government's Risk Register at the moment.

Mr. Chairman, I would also say that at the moment there is difficulty in necessarily matching the risks that have been identified with their descriptors, such as a major economic downturn or internal fraud; there is no direct link between those descriptions and the budget that we will see for 2026 and 2027. Nonetheless, if we take an internal or external risk like a hurricane threat, whilst you wouldn't see a budget appropriation with the label of hurricane threat, for example, we would expect that if hazard management needs more people or more equipment, those requests would be embedded in other existing appropriation requests. Like I said, the financial sustainability risks that have been identified in the report need to be included, and I will be seeking to do so with the Chief Risk Officers Committee.

I think that would be a summary of where we are right now, Mr. Chairman. Only to reiterate that I think one of the best ways of addressing the risk is if we are able to increase our general reserves to a really good level. I don't think \$119 million is sufficient at the moment; it needs to be much higher. Building up the Environmental Protection Fund (EPF) is also a good tool for fighting risk, particularly climate-related risk — hurricanes and so forth. During Hurricane Ivan, I remember that funds were drawn from the environmental fund and were used to assist in the Islands' clean-up, in particular. I believe some of the general reserves were used as well, so building up general reserves and the EPF are decent ways of tooling yourself to face and deal with future risk.

For the Committee's knowledge as well, Mr. Chairman, at the end of July, the cash balance in the EPF fund was about \$44 million but some of that has actually been encumbered; so the Parliament Finance Committee has said *we want to use 'X' dollars for this purpose*. When we subtract those purposes from the \$44 [million], we end up with about \$35 million free funds in the EPF that have not yet been assigned a particular purpose to which they will be applied.

Mr. Chairman, in terms of hopefully the long-term aspect of it, I am probably repeating myself a bit by saying that the Auditor General's Report is correct in that we do not do any long-term planning. At a minimum, the period of time that's probably sensible is a 10-year period. What the government — past and current governments — does is, obviously, we take two-year chunks of the 10-year period and the sustainability aspect of it is assessed by reference to: has the government complied with the FFR ratios? If the answer is yes, we are considered to be sustainable. If you go two years at a time, which is the way it is currently being done, it is not advisable.

We should take a longer look because you can come across a two-year period in which you have to deal with something pretty drastic and you either have to increase government revenues pretty drasti-

cally, or you have to reduce some expenditures pretty drastically so it's a shock, a shock to the economy. Planning is meant to be long-term. Financial sustainability planning is meant to look forward to the future to try and assess expenditures arising in the future and what revenues we would need to cope with those future expenses. That's the way it should be. At the moment, we are taking two-year chunks of that period of time.

There was some consideration, Mr. Chairman and Committee members, of possibly... It's an idea that's in the minds of, certainly, staff in the Ministry of Finance, whether the government would eventually move to a four-year budget. You got two years at the moment; whether you would go to a four-year budget. That is just moving a little closer towards ultimately ten years, but you'd have four years of budget set out in one budget session. I know Jersey does it, Mr. Chairman.

Mr. A. Roy Tatum: Thank you, FS. Thank you, Mr. Chairman.

FS, I'm quite heartened to hear that there is an actual — what was it called? Senior Leaders Risk Committee. The work that I understand you to say they are doing is extremely important, but before we lose sight of the main question, which is the role of the CRO, I just want to make sure I'm understanding you. The CRO works as a part of the committee. They work with the owners of the various risks that have been identified to develop strategies to combat them and mitigate them. I think that's what you indicated, but I'm assuming the CRO is also the person who continues to drive the process to ensure that the committee not only meets, I think you said four times a year, but that in between those meetings work is actually being done to help mitigate or limit the risks that have been identified. Is that really the main function of that individual, because if it is, I think it is an extremely important role.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman. I think that is roughly right.

The principal role of the Chief Risk Officer for the first year and a bit that he has been in office has been to develop and roll out, if you like, what is considered best practice for identification of risks [and] recording it. It's a methodology that he has put in place, referred to as Enterprise Risk Management. The whole of government is your enterprise, so we are managing risk over the entire government. One of his first priorities was to set out the way in which you go about assessing, documenting and... Yes, he and the Chief Advisor — that is the title of the DG's Office's Ms. Rodriguez — they are quite pushy in wanting the Ministries, Portfolios, and Offices to get on with the risk assessment.

Mr. A. Roy Tatum: Thank you for that, FS. The work that has been done so far, is it available for parliamentarians or the general public to see, just to be able to get an idea as to exactly what benefit has come of the role and what exactly is happening? Is that available somewhere to be looked at?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman.

Certainly, I know that the work of the committee thus far would be available to MPs should that request be made. I don't have any doubt that it will be forth coming. I would say that the purpose of the work thus far is that you now have documentation of the risk that the government is facing, so there is knowledge of what the risks are. It's not the case that we have a perfect solution to all of those risks; that would perhaps take some more time, so I get back to the build-up of the general reserves, et cetera. It is one approach. It is documentation, identification, and therefore knowledge of what we are facing. That listing can obviously change, and has changed in the first year. We've added risks in the first year of documentation.

Mr. A. Roy Tatum: Thank you for that, FS. I'm going to continue this for just a short while.

What you are describing is actually extremely important. Who actually oversees to make sure that... It should not just be that parliamentarians should be just requesting. Is there an oversight body that actually oversees, makes sure that the important work that this Senior Leaders Committee is doing is actually progressing and helping to resolve/mitigate the serious issues that have been identified?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman.

I mean, ultimately, it would be the Office of the Deputy Governor. That's where the CRO is employed. That's where Ms. Rodriguez is employed. The Senior Leadership Risk Committee is chaired by Ms. Rodriguez, and the CRO is essentially a staff member along with an analyst; but ultimately, they would report to the Deputy Governor.

Mr. A. Roy Tatum: Thank you, sir. I won't belabour that anymore. I do believe there's more that could and should be done, but I'll let it be.

If you could elaborate a bit on the process in place now for your office or the Chief Risk Officer to identify, assess, and quantify risks and cost pressures to be addressed as part of the next budget cycle. Is that part of the process this individual is involved with?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development:

Development: I would have to bring that as an agenda item, for example.

What I can say is that the costs that have been identified in the Auditor General's Report, such as the effects of pay increases being awarded and the fact of health care costs rising significantly in existence, are currently not one of the identified risks. They would have to be brought to that committee for recording and a possible course of action to address it.

Mr. A. Roy Tatum: Thanks, FS. I will leave it there and let other members ask [questions], but I am pleased to hear you say that you'll be adding that additional area to your risk register (the sustainability of public finances).

Mr. Kenneth V. Bryan: Thank you, Mr. Chairman, and thank you, Mr. Jefferson for that analysis and the financial risk component.

I think the report speaks to the short term for one-year, medium term for four years, and beyond being long term. I want to see if we can clarify the different sets of risk, I think, and analysis. In my mind—and if I am confusing myself please help clarify it for me—there is stagnant risk and more variable risk, and what I mean by that is, risks that you know are constant — hurricane season, exposure to health care outbreaks, the list can go on.

I think you said you had a list of 15 [*sic*], if my memory serves me well, that have been identified; but the risks I want to talk about are the soft ones which are variable because you don't know what they are until they present themselves through a Caucus Paper that would ultimately become a Cabinet Paper like what are the risks of increasing salaries for the civil service; or what is the risk of creating an immigration policy that would add to the population growth of Caymanians by 10 per cent?

Does the government have a professional, a risk officer, or is it spread across Ministries, to help advise of those types of risk which are more in the short to medium term, but can also be in the long term because I think what you're talking about there now, those risk inputs, don't seem to be getting into the Cabinet approvals because, obviously, they will have a financial component. Can you opine at all as to what the current structure is and if there isn't one from an input of policy perspective, should there be one?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman and thanks to Member Bryan for his question.

He started by speaking about stagnant risks and then went on to soft or variable risk. The stagnant risks, Mr. Chairman, would best be classified currently under this regime as an external risk, so at the moment we're talking about a list of 16 external risks. Certainly, a stagnant one, as an example, would be a

hurricane; that's one of the 16 major economic downturns— a major oil spill, and so forth. Those are classified as external risks [because] they are caused by events that arise outside of the government itself.

Like I said before, actions or lack of action by the civil service itself are classified as internal risks; they are self-inflicted, if you like. The possibility of those happening is self-inflicted. We get things like a major project delivery problem whereby the government of the day says we would like to do this project and for whatever reason the civil service doesn't live up to it, isn't able to deliver it. The Brac High School doesn't get finished, as an example. Such an example of internal risks would probably be the result of a mixture of external and internal civil service, causing it not to happen.

Internal fraud — if we don't have proper procedures in place to prevent internal fraud within government and it actually happens, depending on the magnitude of the fraud, it could have a significant financial impact on the government. I would appreciate if Member Bryan could repeat his question about the policy aspect of it.

Mr. Kenneth V. Bryan: Through you, Mr. Chair.

Basically, it seems that you have a good process or structure for what we consider the external ones—firmer, on a bigger scale. What I'm trying to get at is the ones that are not just sitting out there waiting for you, but the ones that come by way of policy. Say, for example, there is going to be some level of financial stability and sustainability risk with, hypothetically, the East-West Arterial. You hear people talk about if you implement this, the maintenance of it, and so forth... so, is there an assessment done from a cost perspective—and further on in the report, which I know you've read—the cost of maintenance for things, et cetera, because these decisions on infrastructure are policy driven and they have not only the first cost but the continued cost — and that's a risk.

Therefore, we the policymakers, the Cabinet, the Caucus, the government, have to know what the risks are when making this decision not only for one year, not only for a two-year budget, not only for the medium term of four years, but for the next generation, because it's constantly reoccurring, so I'm asking: Is there an input into the analysis before the decision is made on a Cabinet level? Before we went to the break you [mentioned] that in the UK it goes to a board I think you said, and correct me if I'm wrong, for 10 weeks to take a risk assessment and that body comes back and advises the government before the legislation — What do we do?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thanks, Mr. Chairman.

If it's the latter aspect, currently we don't have such a body; such a review process. The closest you

would come to that review process is that the responsibility would fall on the Ministry itself that needs a particular service done or additional funds in order to do something, to put a paper forward outlining its needs. At present, the Senior Leadership Risk Committee does not take on that role, but there are areas identified that would probably fringe what Member Bryan is saying. Under internal risk, the category of major capital project delivery, (meaning it fails), is currently on our list. That would involve an assessment; how likely is it that a project doesn't get completed?

Another example would be IT (Information Technology) resilience and cybersecurity. Often times what emerges from this consideration is that we need more people or more equipment as the case may be, and find themselves into the budgets, but the committee itself doesn't necessarily sit down and start to think afield as to what the risks are. I think what the committee would probably do is consider their particular area and brainstorm, because you have risk registers that are unique to a particular Ministry. There are risks pertaining to the Ministry of Health, Ministry of Tourism, and so forth. There is enterprise risk as well as departmental risks.

Mr. Kenneth V. Bryan: Thank you so much, Mr. Jefferson. I got one more question, Mr. Chair, and I'll wrap it up. Before asking the question, maybe as a committee we should consider whether the Risk Officer who falls under the Deputy Governor's Office should be a witness, because I think there's a level of unfairness for Mr. Jefferson to opine on what should or shouldn't be done when he's not specifically charged with it. That's just my opinion. Maybe something we should consider in camera.

Mr. Jefferson, you said we do not have a similar body to that in the UK. Do you think we should have something like it? Maybe, you know, more appropriate and sized for Cayman, to help us with our sustainability [as] a financial controlling mechanism?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman.

Yes, Minister Bryan, I referred to the Office for Budget Responsibility (OBR) in the UK, which was established in 2010. There is a recommendation in the report that we should have such a body, and we said we didn't think it was practical. I think the Ministry of Finance can move away from saying we don't accept it. Our concern is the practicality of the timing.

You mentioned ten weeks is the normal time in the UK for this body to consider the policy. That wouldn't work for Cayman; I don't think so. If you have a government election in April, the government comes into office in May. If you're able to — which would be quite impressive, a government coming into office in May and developing new policies so quickly; and then have to give ten weeks, right, which is almost three

months. By then you're into October of that year and you have to be presenting your budget pretty quickly, so I'm saying ten weeks is definitely too long for Cayman, but it doesn't have to be ten weeks for Cayman. It could be three or five, but it requires some degree of coordination on the government side as well, as to how quickly it can get its ideas together.

I think we are supportive of such a body which, like I said, is usually tasked with consideration of policy; what it's going to cost. As an example, if we had such a body in place it would have been able or should have been able to advise the government of the day from 2017 to 2021, *the Public Authorities Act section 47 is going to have a tremendous impact. Have you thought about this fully?* That's one of the roles of such a body in the UK — to advise on the fiscal impact of intended policy. What is it? The other aspect is that it gets involved with the forecasting of revenues and expenses.

Mr. Kenneth V. Bryan: Mr. Chairman, the Secretary has triggered something, so I hope you can give me leeway for one more [question].

[It is] interesting that you brought up the Public Authorities Act because it is mentioned so many times as a major financial risk. Why is it not one of the 15 [risks]? Is it because it is considered more of an internal one? If so, are you aware whether the government will consider that as a financial sustainability concern for the next two years because technically, it's a law.

Either we're not going to have the Law anymore, and we make changes to that obligation, or budget for those obligations whereby those entities can say, *listen, this is legislation; you have to fund me*, because most of the entities that need such assistance are SAGCs — not profit-making entities which the government would ultimately have to budget for. Are there any discussions around that risk?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman. Thank you, Mr. Member Bryan.

I think I said earlier that it was an area that I would bring up with the committee to see their feelings on it, but just to elaborate a bit more because we may be killing the bird now, as opposed to later in the questioning. Obviously, the primary focus of budgeting for section 47 of the Public Authorities Act would be on the statutory authorities and government companies, so they would include in their budgets what the impact would be of getting equal to government, but certainly, being realistic as well, government ultimately ends up feeling the pinch as well, because many of the major authorities and government companies have a budgetary relationship with government.

As an example, the Health Services Authority provides a tremendous amount of services to the gov-

ernment for health reasons, and we have to pay for them. If their costs go up because of section 47 implementation and they are producing outputs, and the government buys those outputs, then it's going to be buying additional costs. Cayman Airways is another one. I know that is the case and so ultimately, the additional cost of the section 47 implementation easily finds itself back into the central government's own budget under the category of Outputs from Statutory Authorities and Government Companies.

Mr. Kenneth V. Bryan: Thank you, Mr. Chairman.

Mr. Jefferson, I was trying to find in the report the entities and the total amount... I don't know if the Auditor General could identify the specific location or what the estimate would be if all of those SAGCs that are not profitable actually came in line with the Public Authorities Act, but it's a substantial amount of money.

Not a question but more of a statement bringing it to the attention of the government; for the government to say what it plans to do about the Public Authorities Act as to its legal obligations for the next budget.

Thank you, Mr. Chair.

Mr. Patrick Smith, Auditor General: Through you, Mr. Chair. We don't have the exact number in the report, but we do know it is tens of millions.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chair, I have a bit more information because the Accountant General wrote to the statutory authorities this week and asked them.

As an example, even a year earlier, back in March 2024, the submissions were in respect of the 2023 year and it looks as though most of the major statutory authorities had replied at that point. The implementation of section 47(1), which is getting the actual salary equal to the civil service scales, was \$4.1 million in respect of 2023, but the costlier aspect they reported collectively was section 47(3), which is health care and pension being made pretty equal to the government.

Prior to the Public Authorities Act (PAA), most of the statutory authorities and government companies' employees contributed to pensions and health care. The reverse is the case in government. Civil servants don't contribute out of pocket to pensions nor health care, so the two were not equal, and the cost of doing so in respect of the 2023 year was about \$20 million. When we wrote this week and said, *give us an update of the additional cost* — we tried to make it clear, I'm not sure whether it was completely understood at the other end — *you would incur to bring these sections into force*, so:

- what was your cost prior to the PAA; and

- after the PAA implementation, what is your cost. What is the increment cost as a result of implementing?

For section 47 (making the salaries equal), the estimated amount for 2024 was \$10 million, and for 2025, the forecast was about \$10.4 million. Then we moved to section 47(3), which makes the health care and pension aspects equal. The cost for 2024 was \$1.3 million, and for 2025 it was \$2.8 million. Some of the numbers are a bit confusing, especially with the \$19 million in 2023. It may be that these additional costs are in comparison with the 2023 year, but the point is valid that the costs are substantial.

Just a bit of history, Mr. Chair, I think the irony of it is that in the Public Authorities Act, section 47 was actually meant to reduce costs in the SAGCs, but I think the error was made in the thought process... The concentration was at the very top; the employees at the very top of the SAGCs, where it was said that many at the CEO level, at the MD level, were making salaries in excess of the Governor. That wasn't right and we had to bring it down; but the reality we now find is that the staff, the rest of the organisation, were on lower salary scales than central government so when you made the two equal, the SAGCs cost actually increased.

Mr. Kenneth V. Bryan: Considering that you came to that conclusion, it was very succinct. I hope someone takes that clip and sends it viral because my next question is: Do you think we need to either do away with the PAA or go back to the old system because, obviously, I don't think we are saying we can afford it or... What is your viewpoint? Maybe I should just leave it there.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chair.

Mr. Chair, obviously, the PAA covers more ground than just section 47. There are other aspects such as how the Authorities should be conducting their business, how their Board should operate, et cetera, so I don't think you would necessarily want to do away with that aspect.

The question about whether you want to rescind section 47 in a year's time is a very problematic one policy-wise for any government because now, as a result of it being implemented, the staff in those Authorities and companies are in a better financial position, so to say a year from now, *well, we're gonna take it away from you...* It's going to be a hard decision for any government to make a policy decision to say that section 47 is no longer in effect. That's where the hurt would be; so you remove it from the legislation and if a SAGC then says, *Okay, it's gone from the legislation, I don't have to do this legally but I'm going to maintain where we were before using the government scales and so forth; I'm going to try to maintain that,*

the SAGC would have a hard time explaining to its staff why they should swallow that.

Mr. Kenneth V. Bryan: Thank you so much and I'm glad that you clarified, I wasn't suggesting the whole Public Authorities Act but section 47, so thank you for highlighting that.

You're saying that it's going to be difficult, and I agree it is, but we got to do something. I don't know who will be advising the government on what they should do, because this is the liability component that the Office of the Auditor General's report speaks to and there needs to be an answer and a direction from a policy perspective. I guess it's not your place to answer that, but I would encourage the government as well as yourself as the financial advisor to the government, to make sure that's in their policy position, because it's a liability and if they do not recognise it in their SPS or their budget, they're doing a disservice to the country because it's going to be a cost factor.

Thank you, Mr. Chair.

The Chairman: Okay. FS, I have one question for you, then I'm going to take a break because the Deputy Governor is here. I just wonder about these risks. I don't remember if you said it or not; if you did, I apologise, but I'm going to ask a simple question.

Are the risks you have identified through the group ranked in any way in terms of their potential effect or outcome if the risk does materialise so as to make sure the government is providing the right resources to address or mitigate the risks they have identified? Are they ranked in any way?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman. No; no, I did not address it earlier, so you did not miss hearing it.

The part of the process of documenting the risk is not just to identify it with a description, but to consider areas such as how likely it is to arise and different gradings given to it— medium, high and so forth. Another area is what its impact is in terms of a dollar figure if it does happen. That process is standard now. I can't definitely say what is ranked number one in the external risk; I can't go and say that has the greatest impact, but the process of considering how likely it is, what the impact would be, and a possible impact on the economy, yes, that's part of the process.

The Chairman: Thank you very much, sir. I'm going to excuse you for the time being.

I understand the Deputy Governor (DG) is here, so I would ask that he be allowed into the Chamber at this time.

Thank you.

[Pause]

The Chairman: Good afternoon, Deputy Governor. Welcome to the Public Accounts Committee. I do apologise to you, sir, for keeping you so long. I know you were waiting since before the lunch break, so apologies from us.

As you are aware, Deputy Governor, we are discussing the Auditor General's Report, *Improving Financial Accountability and Transparency: Long-Term Financial Sustainability*. There are a few sections here that were raised by the Auditor General in his report that we wanted to seek your input and your views on.

Deputy Governor, you probably heard while sitting out there that the Auditor General mentioned that over the six-year period from 2018 to 2023, expenses of government grew at twice the pace of revenue. Expenses increased by 51 per cent; revenue increased by 25 per cent, which raises concerns about long-term sustainability of government finances.

I'm keen to hear from you, sir, your thoughts on the current revenue versus expenditure trend and its effect on the long-term sustainability of government finances.

OFFICE OF THE DEPUTY GOVERNOR

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, thank you and good afternoon to all members of the Public Accounts Committee; members of the Audit Office, and FS and his team. Franz Manderson, Deputy Governor and Head of the Civil Service, (PoCS) and with me is Mr. Michael Slade who is our Chief Risk Officer.

Mr. Chairman, it is a very good question. I think the Auditor General has laid it out very clearly that there is an issue we should all be aware of. It is certainly not sustainable if the government continues to have rising costs and the cost is more than your revenue. I guess the thing to look at is what is driving some of these factors. We have:

- Rising health care costs. Everyone in the Committee would be familiar with the infamous NGS-55 whereby the government is carrying out its responsibility to take care of those who can't take care of themselves;
- The cost of our statutory authorities, some of which are not able to pay all their bills, so they rely on the government to fund them;
- Capital costs, of course; the government has to continue to build and provide more services for our people; and
- Staffing costs — the area I'm responsible for.

As the country develops and the population increases, the civil service can't decrease. We will require more policemen to ensure our people are kept safe — I think the RCIPS (Royal Cayman Islands Police Service) is doing a really good job there.

As we build more and higher buildings, we will need more fire officers. As our tourism rebounds, we will need to continue to look at our ports — at how we process people coming into the Islands. We can do some innovation in those areas, but mostly we are going to need people to greet our visitors coming in to the Islands. It is something we must look at.

We have not raised revenue substantially in many, many years, Mr. Chair. You were a member of a government that for eight years, I believe, never increased revenue. I don't think that model is sustainable either. We haven't raised a number of fees in many years, and I know it is something we should look at very carefully; however, to answer your question, it is something we spend time thinking about; how can we be more efficient, you know.

The government of the day is looking at innovation — how can we utilise AI (Artificial Intelligence), how can we drive more innovation across the service? Are there areas that we can turn over to the private sector so they can do some of the work we do? It is a real challenge for us in the civil service, and something that the government as a whole certainly thinks about, and I think it will be reflected in the upcoming budget. It is something we have been talking about as we prepare for the budget that is coming to Parliament shortly. I think you will see some innovations or new procedures, maybe even revenue measures, as we continue to grapple with the challenges we are facing, but the question is: Is it controlled, and I would say, yes.

The members of this Committee would know the fight that we have on a daily basis, meeting with Ministers who ask the tough questions — *Do you really need this? Is it something you can do without?* I think our budget process is robust. We get challenged by our elected leaders, as we should, when we put forward a budget.

Like I said, I think our growth is controlled by this Parliament but it is an issue for us to look at very carefully how we continue to do our best to contain spend while looking at revenue, because I think everyone agrees the way we're going now is not sustainable.

Mr. Kenneth V. Bryan: Thank you, Mr. Chairman.
First off, I want to say good afternoon, DG.

The Deputy Governor, Hon. Franz I. Manderson: Good afternoon, sir.

Mr. Kenneth V. Bryan: It's an honour to officially work with you in this capacity.

The Deputy Governor, Hon. Franz I. Manderson: It feels a bit weird.

Mr. Kenneth V. Bryan: I miss seeing you in Cabinet.

I just want to clarify something before I get to the questions: You said our Chairman's administration didn't raise revenue. I think you meant they didn't raise taxes *but they raised revenue*, and it is an important distinction because the ability to raise revenue without taxes should be seen as a success, right? That's the Progressives' government.

With that being said, I think you're suggesting that at this moment it is unsustainable because the expenses which you have outlined are justified with the growth of the population, the services that we offer, a first-world nation, and a first-class civil service, and it should be paid appropriately, and I support that.

Are you saying, then, that the government has to start thinking of more revenue opportunities? I think you're saying the amount of money we spend on the service is appropriate, the right amount, because it's not like you have staff that are not necessary; and they're not getting overpaid. I don't think you're saying that, so the only way to fix this equation is to increase revenues, correct?

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, through you. I think increasing revenue is one thing, but I also mentioned efficiencies. How can we be a bit more efficient? Are there things we can hive off to the private sector and embracing innovation — doing more with AI to ensure that our growth is constrained as much as possible.

Mr. Kenneth V. Bryan: Thank you for that and good point: efficiencies do cut costs.

However, the highest costs we have within the service are mainly salaries — working Caymanians. I don't think anyone in this room would want to suggest that we're going to cut any jobs from Caymanians or reduce their salaries, so you may be able to do some efficiencies moving forward rather than saying, *you know, we're gonna cut back*, but any growth that we need, use it in a more efficient way, which leads to my first question.

Something I noticed as Minister, and I speak from experience: Are you comfortable with the transfer of civil servants' skill sets from one place to another, because you will have changes in government and these civil servants who were at this Ministry don't get transferred to another one. You then have a decent [group] of people who are not as efficient as they need to be. When I say not as efficient as they need to be, [I mean] they're not being utilised well; they are totally efficient but they are not being utilised. They sit there and, from a value perspective per dollar they get paid, we could probably get more out of them and that's what we need to offer services, right?

Do you think you can be more efficient by saying, *Okay, I have some people in that Ministry who are not being utilised as greatly as they need to be; rather than hiring in this Ministry that says they need staff, why don't we transfer from here to over here so we*

don't add the cost? Do you think you're doing a good job with that?

The Deputy Governor, Hon. Franz I. Manderson: Sir, I think we do. Can we get better? Of course, but I think we do. Something happening at the moment which happened during your administration is that we are sharing many services.

Take the Ministry of Sustainability, for example. Your government created it and I think it has been a great benefit for our country in bringing sustainability and climate resiliency to the forefront. That Ministry was able to borrow resources from other ministries — a CFO and HR were shared with another Ministry. I think it is a model we need to continue to push across the civil service for the points you just raised: to ensure we are utilising our staff to the very best of our ability.

This is happening daily where as we look to keep our costs down, rather than taking on a new staff member, we are looking to say, *can you give John Brown a bit more responsibility?* If you give him a \$400-a-month duty allowance, and he takes on the majority of the work, it is better than paying someone \$5,000 a month. We are looking at things like that at the moment. It is happening, so I embrace what you said.

It is the way to go to constantly see that we are getting the very best from our employees. Giving people stretched goals is not a bad thing because if you don't give them a bit of a challenge, they don't know how good they can be, how well they can perform. I've seen great examples where people have said, *Oh, DG, I'm not sure I can do that* — then they do an absolutely amazing job, but it's about having trust and confidence and giving our people an opportunity to shine, so, sir, we are together on that.

Mr. Kenneth V. Bryan: Thank you so much, DG.

Through you, Mr. Chair, I agree with you fully. The [civil] service is being paid adequately. Obviously, the administration I was a part of gave them the COLA (Cost of Living Allowance).

The Deputy Governor, Hon. Franz I. Manderson: Yes, sir — thank you.

Mr. Kenneth V. Bryan: Some people were not happy about it and allocated it as a fault for the sustainability of the future finances. I do not accept it and I don't think you do either, but what we are acknowledging based on our conversation is that we're not going to reduce.

What we have to do is keep at bay. I think it is what the memo was sent out by the now Premier to say — can we not add any more to the costs? However, we still haven't fixed the equation, because right now the projections are that we're not in a good place. We're not bringing down the expenses because bring-

ing down those expenses, particularly the operational component, means cutting back, and we're not going to do that to our people, so it means we have to fix the other side of the equation.

Correct? Yes?

The Deputy Governor, Hon. Franz I. Manderson: You have to do a bit of both.

Again, it is saying our costs are going up; let's stop the growth. Let's try to get it down without compromising services so our fire service, we're not going to compromise there; our prison service, we're not going to compromise there. We're not going to compromise on our teachers. We're not going to compromise on our police, and they may ask, *well, what else is left?* There are always agencies where we can say, *you may not need that secretary or that receptionist at the moment. Can somebody fill in just for a while?* In those kinds of areas we can look to see whether we can delay until we are in a better position, but yes, also looking at revenue.

Mr. Kenneth V. Bryan: Thank you, DG. Through you, Mr. Chair.

I accept that. It is the operational component controls, but you said we need to do a little of both; so you would agree that the government really needs to find some revenue to get this back into the position the Financial Secretary has advised us — if we really want to address the debt, get ourselves to a place where we can be sustainable, we got to get those revenues up.

How do you see it outside of increasing taxes; because there's only one way, either through taxes or through the business models that currently generate revenue, whether it's duties from goods, land transactions, company fees, or tourism accommodation taxes. The only other way is taxation of the people, and we don't want that. Do you have any guidance, or what do you think the government needs to do with respect to increasing its revenues?

The Deputy Governor, Hon. Franz I. Manderson: Sir, I think there are a couple of ways. I think immigration should be the first area that we look at. We haven't raised work permit fees, probably since I was at Immigration.

Mr. Kenneth V. Bryan: Okay.

The Deputy Governor, Hon. Franz I. Manderson: I don't think we have had a real, hard look at that.

I will give an example: My office has been doing some work around naturalisation and we have found that the UK charges maybe double what we charge for naturalisation so as you can imagine, sir, I'm writing a Cabinet Paper to say I'm going to align Cayman with the UK. Again, it's those areas I think we can look at, which are not going to affect your average

Caymanian. It's not going to directly raise the cost of living for some of our people.

Obviously, if you raise work permit fees dramatically it could be passed on to the consumer, but I think we could find a middle ground to look at some things that people will be able to implement without passing it on to the consumer; but immigration is the number one area that I think we should look at.

Mr. Kenneth V. Bryan: Thank you, DG.

I want to switch gears now a little bit to some of the cost pressures of the future. You've publicly said, I think in a media house, that the crunch we're having for the future liabilities for pensions is because of lack of funding. How do you feel about the future of our pension liabilities for the [civil] service?

The Deputy Governor, Hon. I. Franz I. Manderson:

Thankfully, Mr. Chairman, we have an excellent team at the Public Service Pensions Board. I want to applaud the work of Ms. Jewel Evans Lindsey, an outstanding Caymanian who works really hard to protect our pension fund. We are blessed that the fund routinely gets double-digit returns on its investment. It is very stable. It runs really well. The government has been putting money in from time to time to help reduce our liabilities, and it has continued to go in the right direction.

In terms of the overall viability of the fund, I feel really good. I'm sure the Pension Board and its team are doing a great job. Our investments are sound and we have been working very well with the Board to ensure they get the right people on board—that it is very important—to be a bit more efficient in allowing people to have access to their pensions in a timely manner; but in terms of pension, I feel good. We need to have a plan to ensure the liability continues to be reduced, but as I said, successive governments have been putting money into reducing our pension liability.

Mr. Kenneth V. Bryan: Thank you, Deputy Governor. I'm quite sure you had a chance to look at the report.

The Deputy Governor, Hon. Franz I. Manderson: Yes, sir.

Mr. Kenneth V. Bryan: The first thing you see on page one is a set of graphics that talk about our current positions, at least over the time period they were looking at it.

One of them is the estimated Caymanian population aged 65 or over by 2023 [sic], and I'm certain, based on the number of great employees we have in the civil service, many of them are going to be civil servants. With their contributions into the pension right now, at the cost-of-living projections 10 years from now — Are you comfortable the future of those civil servants who today are between 45 and 55, is

going to be okay and adequate from a pension perspective?

The Deputy Governor, Hon. Franz I. Manderson:

As you know, I have a vested interest in this. Next year I intend to join them, so...

[Laughter]

The Deputy Governor, Hon. Franz I. Manderson:

The answer to your question is yes, I feel confident that the Public Service Pensions Board can meet its obligations.

However, there is liability so, as I said earlier, we need to continue to put more money into the Pensions Board so that we will continue to reduce the liability. Once we do that, once there are regular contributions to ensure the liabilities are reduced, I think the fund is sustainable.

Mr. Kenneth V. Bryan: Thank you, DG. I'm going to move on now to another section, a different area.

The Deputy Governor, Hon. Franz I. Manderson: Yes, sir.

Mr. Kenneth V. Bryan: I see you have your Senior Risk Officer with you.

The Deputy Governor, Hon. Franz I. Manderson: Yes, sir.

Mr. Kenneth V. Bryan: Please. I think this is the first time I would officially meet him in his capacity.

The Deputy Governor, Hon. Franz I. Manderson: Yes, sir.

Mr. Kenneth V. Bryan: Before you came in, the Financial Secretary spoke about external and internal risk. One of the areas that I am truly concerned about and want more clarity on is what I guess you would consider internal risk, which is the day-to-day Cabinet Papers and how they will affect future liabilities and so forth.

The Deputy Governor, Hon. Franz I. Manderson: Yes, sir.

Mr. Kenneth V. Bryan: Do you think there is adequate advice on all Cabinet Papers from the relevant risk officers or within the relevant Ministries as those Papers are done as to the liabilities of any one policy decision made by Cabinet?

The Deputy Governor, Hon. Franz I. Manderson: That's a good question, sir.

First of all, sir, let me welcome Mr. Mike Slade. It is actually the first time that I am aware that

we have had a Chief Risk Officer on staff and he is a member of my team. I also want to give a shout out to our young Caymanian Ms. Teresita DaSilva, a wonderful young Caymanian we recruited, who's understudying Mr. Mike Slade. He has been doing a great job training her.

Tough question, sir. Are we doing our best...

Mr. Chairman, through you. I think we were doing the best with the knowledge we had at the time. What our Chief Risk Officer has brought to us is a different level of thinking. In the past, we have been in a very reactive mode — *Oh, a group of Cubans has arrived; we need a place to put them, we need some tents, we need a secure place. We need all these things.* What he has been developing is a framework to ensure that we identify the internal risks that could be facing our country and ensure we have a plan in place to address them.

Mr. Chair with your indulgence, I want to give the Committee just an idea of some of the risks we have worked very hard to identify:

- Major economic downturn;
- Financial services scandal — as you know, sir, if we start losing revenue from our financial services we have major issues;
- Disruption to the food supply — ships can't get into our country with food;
- Electricity infrastructure failure;
- Disruption to the water supply;
- Submarine cable failure;
- Hurricanes [and other] inclement weather;
- Aviation accidents;
- Mass influx of illegal migrants;
- A serious crime event — a mass shooting for example;
- Terrorist attack;
- Harmful disinformation;
- Public health emergency;
- A major oil spill;
- A major cyber incident.

Mr. Chairman through you, those are some of the external enterprise risks we have identified. We are then assigning them owners. Mr. Slade's job is to sort of oversee and help drive. He is not an expert on dealing with illegal Cubans but the Ministry of Home Affairs is; therefore, his job is to work with that Chief-Officer to ensure he has put in place the necessary measures to ensure that if a group of Cubans arrives tomorrow, we know exactly what we are going to do — and I'm using that because it's probably a matter of time before it happens, right? It happened before; it could happen again.

We have good risk registers and everything to do with hurricanes. We are all well-versed in what we would do if a hurricane is coming our way, but have we really looked at the risks if for a few days aeroplanes and ships could not get to our country with food, you know? What have we really done about

that? The work that Mr. Slade and his very small team are doing along with chief officers in this area is transformational; and Member Bryan, I can tell you, sir, it is working. It is changing the way we think in the civil service, which means we are now getting better with the advice we are giving to Ministers.

Mr. Kenneth V. Bryan: Okay.

The Deputy Governor, Hon. Franz I. Manderson: I can tell you, sir, we are getting better and I use myself as an example.

When I'm thinking about my retirement — you and I talked about this many times; however, I look at the risks. Now, I guarantee you, five years ago, I would never have thought about the risk the way I'm thinking of it now, and I said, *if I give the Governor three months' notice...* Really, my contract says 30 days' notice. I could have given the Governor 30 days' notice, but I would think the risk to the civil service in not having a smooth transition of Deputy Governors is severe.

That is why I gave almost a year's notice so there would be a smooth transition of authority because, remember: if a Chief Officer is promoted to Deputy Governor that person too, will have to be replaced. There are many things happening when the Deputy Governor leaves the service, so I'm trying to manage the risk of having instability in the civil service if I leave.

Mr. Kenneth V. Bryan: Well, thank you for that explanation.

The Deputy Governor, Hon. Franz I. Manderson: Sorry it is a long answer.

Mr. Kenneth V. Bryan: No, no, it's a good one. It gives context and remember, we are here on behalf of the good people, not just for us in this room, so they get context. They hear this, they understand.

I think you primarily focused on the external there rather than the internal, which was my primary focus, but it is good that you explained it because I think what you're saying in examining the external—

The Deputy Governor, Hon. Franz I. Manderson: I gave you the external. I have the internal risks as well, if you want me to list them.

Mr. Kenneth V. Bryan: Okay, but I want to opine a little because the reduction of risk [means] you assess them, you put policies in place to reduce the chances of it happening. This report is about sustainability from a financial perspective whereby, if it does happen to flatline any ripples in normality, you have a contingent plan in place.

It's almost like insurance, and that's what we and this report are here to say — what are you doing

for long-term external or internal risk to ensure it doesn't give a shock to the system and everything still runs smoothly? Granted, reduction of risk by preparation and identifying; but there are some which you may not be able to avoid, for example, preparing for Cubans to arrive, and actually being financially prepared to deal with it when they arrive, are two different things.

The Deputy Governor, Hon. Franz I. Manderson: Exactly, sir. Yeah, yeah.

Mr. Chairman, I don't think we're saying that we are going to prevent these things from happening. What we are doing is preparing if these things happen. We will certainly try to ensure there is not a terrorist attack; but I don't know what we can do... For example, we can't prevent a hurricane from coming, but if it does, we need to be ready.

The Auditor General has made good recommendations and if there's anything I have learnt during my time as Deputy Governor, it is to follow the recommendations the Auditor General has made. She's made some very good recommendations around our risk and if we can work with the FS and his team to implement what the Office has recommended, then I think we would be in a much better place than we are today.

Mr. Kenneth V. Bryan: All right, DG, I'm mindful of my colleagues so there are a couple left to wrap up. We're going to switch gears again.

Are you aware whether the Governor's Office intends to bring outside expertise to help the finance team with projections because you know there's been much talk about the projections and their effect. We recently had an election and a report that has projections in it ultimately affected the voters and how they thought about a returning government and so forth. Are you aware whether the Governor is intending to bring in special help?

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, through you.

In consultation with the Financial Secretary and the Governor, the answer is yes. It is being actively done by Her Excellency and her team. I confirmed it this morning before coming here just to ensure there was no misunderstanding, and I can assure the Committee that the Governor's Office is looking at how it can be done; what assistance can be given to us to ensure we improve in this area. I don't think everyone is saying that we're doing an absolutely world-class job in that area; we need to get better, so the answer to your question is yes, sir, the Governor's Office is involved.

Mr. Kenneth V. Bryan: Okay. Thank you, DG. Last two questions now — from me, at least.

The Deputy Governor, Hon. Franz I. Manderson: Yes, sir.

Mr. Kenneth V. Bryan: Through you, Mr. Chair.

The last major policy decision of the last administration obviously had a major component with the current talk of deficits — Pre-Election Economic and Financial Update (PREFU) at \$26 million; recent confirmation by the Minister of Finance suggesting potential projections of \$60 million. Happy to hear today that we're hopeful such may not be the case, which is good for the country.

However, a major policy decision on which I think we both agree was the cost of living increase for the civil service which amounted to around — is that the right word, around — \$20 million in cost, which obviously in a \$26 million deficit is a significant amount because if you didn't do that, then one would assume that the PREFU would only have been a \$6 million deficit, right? What we are trying to establish is whether the Cabinet at the time considered that policy decision.

This report is about sustainable practices and decisions [meaning] we know what we are doing so every cost effect isn't bad for the future. Did that big policy decision have financial implications in the Cabinet Papers — and I'm not sure how far I'm going into the realm of Cabinet discussions' confidentiality; but I think it is important that this Committee understands that one of the foundational principles of what the Auditor General is suggesting we should be doing is to know what the financial implications are of any policy decision, especially ones that could [cost] about \$20 million.

Are you aware of whether there were any financial implications attached to the Cabinet Paper before the decision was made to increase the cost of living by 5 per cent, and if so, what did it say?

The Deputy Governor, Hon. Franz I. Manderson: Well, Mr. Chairman, it was my Paper, so I am very familiar with it.

Mr. Chairman, I beg your indulgence to give some context on something I'm very passionate about: My job in the Civil Service is to oversee the performance of the Service, but also to look after its staff. We don't perform at the level that we are at the moment without talent, and our ability to attract and retain talent whether from within or outside the Cayman Islands depends on remuneration. As simple as that.

Mr. Chairman, when I became Deputy Governor in 2012, I used to watch civil servants pay for breakfast out of their change purse. That hurt me. We had just rolled back salaries by 3.2 per cent and the team was hurting. I made it a mission — certainly myself and my team — that that would be a thing of the past. I'm proud to say, Mr. Chairman — and I try to go to the canteen as much as I can — I don't see that

anymore; and it is because successive governments, and I thank them from the bottom of my heart, took decisions, whether popular or unpopular, to do the right thing for the people of the Cayman Islands.

I think Mr. Saunders said it earlier: when you take care of the civil service with the numbers that we have, we are actually taking care of almost the entire Cayman Islands. Almost everyone in the Cayman Islands is touched when a civil servant gets \$100 more, okay? Based on that, I challenged the PoCS team to look at where we were with our cost of living and I had a discussion with the Premier at the time, Ms. Juliana O'Connor-Connolly. She said, "*I will talk to my colleagues; give me some scenarios*", so we did some numbers with a 2.5 per cent, a 5 per cent, and a 7 per cent increase and we gave them to her.

After discussion with her colleagues — and I will use this word very importantly — it would be *sustainable* if we settled at 5 per cent because, given the track record of HR costs and managing HR costs effectively that we have, there was no doubt in my mind, my Chief Officers' minds, the Premier's mind, [and] the government at the time, that we could afford this and we could pay for it with how our HR cost was projecting and looking, but based on the previous track record as well. Having got that direction, the Cabinet Paper was developed. It went to the Ministry of Finance; they opined on it and said, *we don't see any issue with this Paper. If we give the COLA, it will not go against the principles of financial management*. In other words, it won't affect our surplus at the end of the year.

I would not have taken a Paper to Cabinet that said otherwise. The Premier would not have agreed if we believed it would put us in a deficit, so to answer the member's question: It was my Paper. It was done exceptionally well by the PoCS team and I was proud to take it to the Cabinet and that it was approved — and what we have seen today is that we were right. Despite giving a projection of \$20 million on the COLA, the July results show that [even] paying the COLA for half a year we are still \$11 million under budget — *\$11 million*; so technically, we could be spending \$11 million more on HR at the moment but we are restrained because we know the government has other obligations.

Remember, too, that coming out of my HR cost is the increase we gave to pensioners as well, so it's not just \$20 million coming out of my HR [budget]; yet we have realised \$11 million in savings as of July — and you can hold me to it: I have no doubt that by the end of the year that \$11 million would have increased substantially and it would have been shown that the decision made back then by the government of the day was a good and *sustainable* decision.

Mr. Christopher S. Saunders: Mr. Chairman, through you. I want to close the loop on this COLA issue.

If memory serves me right, a Private Member Motion came to this Parliament asking for a 13 per cent increase over a three-year period and it passed unanimously. The last time I checked, Parliament is senior to the Cabinet, so the will of the Parliament overrides that of the Cabinet. This Parliament approved 13 per cent over three years. At that point, a Cabinet Paper became almost non-existent because the will of Parliament was clear.

Therefore, the only question I want to ask is when is the civil service getting the other 8 per cent and the reason I'm asking is:

1. 26 per cent of my constituents are public servants;
2. We have a minimum wage increase come January.

I have single mothers who have to either hire babysitters or pay helpers, et cetera, with an increase in terms of minimum wage, so I need to know when my constituents are going to get that 8 per cent. I'm not worried about the 5 per cent — that's gone. I want to know when the other 8 per cent is coming, so...

Through you, Mr. Chairman, to the Deputy Governor: Can we get an update as to the other 8 per cent, because lest we forget that one year alone, inflation was 9 per cent.

The Deputy Governor, Hon. Franz I. Manderson: That's right.

Mr. Christopher S. Saunders: You know what I mean, so we are playing catch-up.

The reason we went to 13 per cent was because inflation went up to 13 per cent over a three-year period and we recognised that we couldn't go there in one go, but had to get there gradually and so the plan was 5 per cent one year, 4 per cent the other year, and another 4 per cent the [other] year so the question for me in all of this is, when is that 8 per cent coming?

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, through you. Even with the 5 per cent, if you look at the cost of living since 2018, we are still 5 per cent behind in catching up with the cost of living, so the numbers the Member has given would seem to be correct, and that's only if I go back to 2018. If I go back further, it is going to be 7 or 8 per cent.

The Auditor General in her report talked about the absence of a pay policy. I think what she meant was a COLA Policy, so we have developed a COLA Policy and we will present that to the government because the member is correct in that we are still far behind the cost of living. *We are very mindful of the instructions from Parliament, and so I will do my best to ensure the government of the day considers the COLA Policy, and ensure that we do our best to meet the Parliament's wishes.*

Obviously, I cannot give assurances. Additional HR costs are a matter for this body. I can only spend what Parliament gives me in terms of HR, so during the budget time there will be [opportunity] to discuss those kinds of issues; but my job is to present the government with options and I give the undertaking to the member that it is going to happen.

Mr. Christopher S. Saunders: Sorry — and the 8 per cent?

The Deputy Governor, Hon. Franz I. Manderson: Well, I don't want to get into specifics. We're talking about sustainability, so I want to ensure whatever we are putting forward is sustainable.

Mr. Christopher S. Saunders: Through you, Mr. Chairman to the Deputy Governor.

The thing is, when the government puts \$20 million into the civil service, using a conservative multiplier of 2.5, which is about what it calculates to, \$50 million goes into the local economy and the government gets back a portion of it. Anywhere from 10 to 15 per cent; whether through fees, duties, or whatever, the government does recoup some, but that money goes very far in the economy. Those are the kinds of things that are very difficult to quantify.

What is easy to quantify, and we have started looking at, is our people's quality of life. We have already started looking at that and the truth of the fact is with the high interest rates, high house insurance, et cetera, I am hoping the private sector will follow suit and also start paying their people more. This is a situation where we still have not caught up on the inflation that has passed. People are still struggling, and I can tell you because I see it every day. Right now people are contemplating which bill to pay, from which bill not to pay. What we need to do right now is try to get more money in people's pockets so I'm more interested, like I said, in how we can get more people up-to-date going forward.

Government has done a good job in terms of setting \$3,000 a month as a minimum and I really hope to God the private sector will follow suit, because if you even look at what the minimum wage will get to, many people are still going to be living below the poverty line.

Mr. Kenneth V. Bryan: Mr. Chairman, a great position to put, but I wouldn't mind continuing my line of questioning. I was getting ready to wrap up, and you were so succinct about your position that the decision made for the cost of living increase was sustainable. You also said there was financial input in that Cabinet Paper that suggested there would not be any deficit. Obviously, I supported it because I was in Cabinet, and I do believe the civil servants deserve every penny they get. As a matter of fact, I [concur] with my colleague, member Saunders, that I think we need to

start thinking about the other 5 per cent for the civil servants in a sustainable way, right.

What I'm trying to get to is not whether the civil service should have got it. They should have got it, they got it, and no one should ever take it away from them [because] they work really hard. Where my problem lies is, DG, if at that time (December) — you have January, February, March — if that Paper said there would be no implications of a deficit for the future, then what could potentially have transpired in the months where there were no other major policy decisions made due to the election sensitivity period? How in the world do we get to a PREFU that suggested a \$26 million deficit? I tie that back to the question I asked about whether the Governor's Office is bringing specialists for projections because by all means, I'm not here to get into the blame.

I think what we have to recognise is [that] our system is flawed; and with a flawed system and the public depending on authorities such as PREFU reports, financial reports, and the Auditor General reports to make decisions on their government, at the very least they have to be perfect for them to make the right democratic decision. Now that I've said that, I'm going to wrap up with this last question.

The Deputy Governor, Hon. Franz I. Manderson: Yes, sir.

Mr. Kenneth V. Bryan: I have in my hand a copy of an article by the *Cayman News Service* dated the 27th August, 2025 — "Premier Reveals Long Policy Wish List for Change". Some serious comments on it, too. Some even have the little punchy faces like you have across the [civil] service, you know, your smiley face, angry face, and some seriously angry faces. If you want, you and the public can take a peek.

The last paragraph in the article reads — and I want to give you an opportunity to clarify it or not:

"Manderson said that one of the main reasons why the public finances are currently 'in a crunch' is because of the unbudgeted increase in payments to pensioners and civil servants last year by the minority UPM administration, which was propped up by the PPM Opposition at the time."

First off, before we go back to what you said — that everything looked good on the Cabinet Paper before we approved it... How do you feel about that? Is that factual?

The Deputy Governor, Hon. Franz I. Manderson: I can't even remember saying it but if they said I said it, I'm not going to question [it]. I recall mentioning those two areas because it's a fact. Remember now, when we looked at the HR projections we certainly saw that we could afford it based on savings that we had banked and our track record; but it is \$20 million. It meant we would have to be even more constrained to

ensure that we could meet these costs. I think in 2024 we saved close to \$40 million in HR, so there was no doubt in my mind that we could afford to do it, but it was not budgeted, so we had to find the money within our existing budget for both of those things.

The government decided not to increase the budget so, obviously, if things get very tight they're going to look at us [and ask], *Well, what were the policy decisions you made that made things get a bit tight*, and I can't get out of the fact that those are two of the drivers. They are not the only drivers — it is the healthcare costs, the cost of the SAGCs, all the other things that we have to pay from time to time, so I don't think I'm going to dispute that because it is a fact. It is.

However, you said it earlier; I believe at the end of this year we're going to be fine.

Mr. Kenneth V. Bryan: I agree with you.

The Deputy Governor, Hon. Franz I. Manderson: I don't think I can get away from saying that those two things had us tightening our belt the very best that we could, but not putting us in a deficit.

Mr. Kenneth V. Bryan: I'm concerned about splitting hairs, but here's what I'm getting at, right.

It's either, one, that Cabinet Paper and the advice that was given to the representatives in Cabinet, who are the people's voices, to make the decision on that costly \$20 million... The technocrats either advised them that it was not going to be a factor, which is what you just said, or it was going to be a factor. It can't be both, right?

Of course, it was not budgeted for, but at the time, there was an assessment — can we afford it?

The Deputy Governor, Hon. Franz I. Manderson: Yes.

Mr. Kenneth V. Bryan: The decision given and the financial response given to the Cabinet Ministers were: *Don't worry, we're going to be fine*.

The Deputy Governor, Hon. Franz I. Manderson: Yes, sir.

Mr. Kenneth V. Bryan: That didn't happen, did it?

The Deputy Governor, Hon. Franz I. Manderson: No; what was said was, *if we give this COLA we will not breach any of the principles of financial management*, and one of those is to have a surplus, right? To have a surplus — and I think that is true today.

I think what I said is true, but hindsight is 2020. Should we have said, "it won't breach; but it's going to mean that we are going to have to keep our feet to the fire a little bit to make sure everything is okay"? Yes, I guess we could have gone further with it because I think we all agree [that] if you spend \$20

million more than you did last year, there is going to be a consequence.

However, sir, like I said: It was my Cabinet Paper and I take full responsibility for bringing it to Cabinet. I listened to what the FS and his team said to me; I would always consult with the FS and his team and the government at the time decided — they could have met with a greater number, but we all agreed that 5 per cent was the right figure and it was sustainable and I think history will prove —

Mr. Kenneth V. Bryan: That we were right.

The Deputy Governor, Hon. Franz I. Manderson: We were right.

Mr. Kenneth V. Bryan: DG, thank you so much.

I take this opportunity because I'm not going to ask any more questions. Congratulations on your retirement, fine sir.

I want you to know that, by all means, the decision was never second guessed. The civil service deserves it. What I'm trying to point out in my synopsis today is simply this: We have to fix our projections' system because truth be told, when the end of this year comes and it shows that there is going to be at the very least a break even or a surplus, the public will be like, *but hold on; that's not what they told us*.

We made the decision to make sure your hard-working civil servants, who are majority Caymanian, get paid appropriately; and I have no shame in making that decision — and the actuals that are going to come out, are going to be in our favour. I'll leave it there.

Thank you, DG.

The Deputy Governor, Hon. Franz I. Manderson: Sir, thank you, and thank you for the kind words. Thank you very much.

Mr. Christopher S. Saunders: Mr. Chairman.

The Chairman: Yes.

Mr. Christopher S. Saunders: The government is spending \$1 billion a year on operational expenses. Ten per cent is \$100 million, \$20 million is 2 per cent. If you want to have this discussion, the main culprit is the \$80 million a year we are spending on NGS 55 and HEA 2. That represents the private sector not taking care of their employees' post-retirement, which I consider a bigger threat to this country's long-term financial stability than pumping money back into the economy via our hard-working public servants, and I go back to the point in this report. No one wants to say it, but I will: The private sector needs to start taking better care of their employees in their retirement age.

We have ageism in this country for the simple fact that once people reach a certain age, the private sector is quick to push them through the door because their health insurance premium costs too much. That is why this Parliament agreed unanimously to create the health care protection fund — to start offsetting those costs, because I can tell you that \$80 million over a 10-year period is \$800 million; it will be hitting a billion anytime soon at the rate we are going. More than anything, that is an issue and I want to make it clear out there because I am coming back for the 8 per cent for my public servants. I don't want anyone to even believe that this \$20 million is really what is putting the government in a financial bind, when there are other issues that need to be dealt with.

Switching gears, Mr. Chairman through you to the Honourable Deputy Governor.

The retirement age for civil servants is set at 65. As a former civil servant, when I joined, the government had only one plan which was the defined benefit plan whereby you needed a seat-in because the actuaries needed to see when your vested period was, which I think you were fully vested at 33-and-a-third years.

The government [then] went to a defined contribution plan for new civil servants with a 12 per cent contribution rate similar to the private sector where there is really no retirement age, only the age at which you stop paying pension. That is what it is in the private sector. When is the government going to implement a move within the civil service for those on the defined contribution plan, because if you're contributing 12 per cent every year, it's going to take you about eight years to save one year's worth of salary.

Even working with the 50-year analysis I did earlier, civil servants on the defined contribution plan are still not going to be covered when they reach the age of 65. We have women living until [age] 84 and men living until [age] 79, so civil service males [go] 14 years past the age of 59 and females [go] 19 years past the age of 65. Recognising that even the government pension is going to be short with a 12 per cent contribution rate, what steps are going to be taken to allow them to continue working till they're able, because ageism is a real issue. I recognise some folks in the uniformed [services] will have challenges — I mean, you do not expect a 70-year old man to be climbing up a fire ladder unless he's really fit or [practises] Tai Chi or something; but at the end of the day that is a bigger risk.

I raise this, Mr. Chairman, because while the ESO looks at the overall dependency ratio, when you go through the Labour Force Survey Reports and look at the dependency ratio they calculate (I think the last one they calculated was 28 for the 2024 Labour Survey); if you were to extract the non-Caymanians, we have a dependency ratio of 50 per cent, which is another issue for this country's long-term sustainability.

These are the kind of issues we need to be focusing on if we really want to get to the crux of the matter in terms of what we can do to survive. We have around 14,000 Caymanians who will be hitting 65 in the next 12 years, and it is going to be a bloodbath for whichever government if we don't start taking corrective action from now.

While the DG can't speak for the private sector, at least for the public sector while he's still there, and for the civil servants under his care, [could he say] what is the long-term plan for public servants who are on the defined contribution plan?

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, through you, and thank the Member for that question. Actually, I think he has raised this issue now for a couple of years.

[Inaudible interjection]

The Deputy Governor, Hon. Franz I. Manderson: Yes; and we did respond. We raised the retirement age to 65.

Mr. Chairman, before I answer, I want to endorse the statement he made earlier in terms of what is happening in the private sector where they are kicking their staff out when things get expensive. We ended up picking up the tab and next thing I know, the private sector says government costs too much. Well, if you give us all your aged employees to take care of, we are going to cost more, so I'm with the Member that we really need to get a handle on this and come up with solutions for it.

I just want the Member to know that I agree. I've seen really sad examples of good people being kicked out the door at 60 or 65 and being told, "*You have to go; your pension is going to be \$1,200 a month and your health care cost is \$1,300 a month for you and your husband.*" What is that family supposed to do if they don't have a serious nest egg, so I think it is an issue this Parliament and the government will have to grapple with.

Mr. Chairman, we were doing quite a bit of work on the raised retirement age. I am putting my hand up saying we paused it; we had other pressing issues to deal with, but now that the Member has raised it, I'll give him and this Committee a commitment: [give me a few months to research and come back with some, some timelines](#). Just to say that I am not against it at all.

Please don't hold me to these numbers, but I would think we have close to 200 persons in the civil service right now who are over 65 and are doing an outstanding job for us; and some of those persons can't afford to retire — because of necessity they have taken on the responsibility for an aged relative or some of their grandchildren. I want to see people retire when they want to, not being sort of forced out the door, you know, so member: I'm with you. Give me a

few months, sir, and I'll come back with some solutions and some timelines. Yes.

The Chairman: Okay. Let's move on—

Mr. A. Roy Tatum: Mr. Chair. Sorry.

The Chairman: You have a question?

Mr. A. Roy Tatum: A quick comment before we move on.

The Chairman: Okay. Make your comment; the next section is for you, really, so go ahead and lead into it when you are ready.

Mr. A. Roy Tatum: DG, the sad situation that you mentioned occurs in the private sector, occurs in the SAGCs as well; so I would implore you, sir, as you deliberate about extending the retirement age for those who want to stay employed, to have a chat with the SAGCs to see whether we can apply a single policy across the public sector. Thank you.

The Deputy Governor, Hon. Franz I. Manderson: Of course. Yes, sir.

The Chairman: Yeah, we are going to move on to section— which I think we have probably spoken about and addressed to a great extent. We talked about risk identification and assessment.

Mr. A. Roy Tatum: We have, but I have one or two additional questions if I could. I will read the preamble anyway.

The Chairman: Okay.

Mr. A. Roy Tatum: Just for consistency, this is the risk identification assessment section. I'm dealing with the right one? Yes, I am.

The Auditor General's Report states that the government has not identified or assessed the risks to and cost pressures on its long-term financial sustainability. The Report also states that **"the Government has established new processes for a government-wide quarterly internal risk assessment and an annual external risk assessment. The draft external risk assessment does not include risks to long-term financial sustainability"**. The Auditor General recommended that, **"The Ministry of Finance and Economic Development should identify and assess risks to and cost pressures on the Government's long-term financial sustainability..."** — and as we heard earlier, I think we agree, so I won't continue with that. I'll just start with the questions for the Deputy Governor.

I would also like to welcome Mr. Michael Slade. Good to meet you, sir. DG, if you could,

please, provide additional updates other than what's been provided earlier on the roll-out and implementation of the new risk management framework?

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, thank you.

I'll ask Mr. Slade to chime in if I miss out anything. To answer the question: The team comprises the Chief Risk Officer and an analyst working out of my office to build a stronger and more consistent approach. In agreement with the Deputy Governor they have three priorities:

- Facilitating an annual cross-government view of acute external risks that require a whole-government response;
- Facilitating a quarterly internal assessment of risks to the effective running of the civil service such as talent, internal fraud, IT resilience, and cyber security;
- Providing the framework for ministries and portfolios to maintain their own risk registers, which are now being moved into a central system for consistency and visibility.

The foundations that are now being embedded are consistent registers, cross-government assessments and oversight, and better visibility of risk. That is what we're doing now. We have "owners" of these risks, who are our Chief Officers. The internal risks are: major capital and project delivery, IT resilience and cyber security, business continuity, internal fraud, strategic misalignment, data breach, talent, employee safety and well-being, and sound financial management. Each one of these has an owner, Mr. Chairman, who my Office can hold accountable to ensure they are doing the work they are charged with after our Chief Risk Officer sets the framework in which they should operate.

I attended a meeting yesterday because I am the owner of strategic misalignment, which talks about whether the civil service is equipped to deliver for the government; to make sure that we are aligned, working together, breaking down silos, making sure that we're all aligned in delivering for the government. That is the job of the civil service: to deliver for the elected government.

It was a very informative meeting and one of the areas that we looked at was cost which has been raised here on a number of occasions, and sustainability. Something we talked about, for example, was the decentralised models of HR and finance, and looking at efficiencies in those areas. I won't go into much detail there, I just want to give the Committee a flavour that we are asking ourselves the tough questions and looking at risk — the external risks and internal risks; and we have owners of those risks who we can hold accountable and ensuring that the ministries themselves are developing their own risk registers to ensure areas...

As you know, major capital project delivery has been a big hot topic for years but there's a team now focused on dealing with that. The Auditor General's Office has flagged project management for a while so now it is a risk that we have identified major capital project delivery and we're working to ensure that we address that in a very appropriate manner.

Mr. A. Roy Tatum: Thank you very much for that, DG. I don't know if you were listening earlier on when I mentioned a concern I have which is that there is a Senior Leaders Risk Committee.

The Deputy Governor, Hon. Franz I. Manderson: Yes, sir.

Mr. A. Roy Tatum: The CRO works within that infrastructure and they report to you. I was asking earlier whether there is another oversight body and the reason I was saying it [is because] the risks that you are mentioning are hugely important for the country.

The Deputy Governor, Hon. Franz I. Manderson: Yes.

Mr. A. Roy Tatum: I would hope, and if you aren't, I would ask for an undertaking that at a minimum you report pretty regularly to the Cabinet in terms of the work of the steering committee and the CRO. If you could talk to us a bit about the elected arm, and whether they are being [made] aware of the work of the committee and the progress being made.

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman through you, just to talk a bit about the purpose of the Senior Leadership Risk Committee.

The committee oversees the top risks facing the Cayman government. It reviews assessments, conducts deep dives into the key risks, and oversees implementation of the risks' framework. The committee works on behalf of the Deputy Governor and comprises eight Chief Officers from across the civil service including the Financial Secretary, the Cabinet Secretary, and the Chief Officers for PoCS, Ministry of Financial Services and Commerce, and the Ministry of Planning, Lands, Agriculture, Housing and Infrastructure. The committee meets five times a year. Just a little highlight on what the committee does.

Mr. Chairman, I think it's a very good suggestion. We already briefed our National Security Council on the work of Mr. Slade and his team; I cannot say for certain that we have briefed the new Caucus. I'm not sure but certainly, we will do so and I will also give an undertaking that [at the next Meeting of Parliament, I can give a statement to the House about the work of the committee and some of its accomplishments thus far](#). I think everyone should know exactly what's going on and if we have not briefed the Caucus or the Cabinet yet, I'll make sure that it happens.

Mr. A. Roy Tatum: I appreciate that. I strongly believe it should be a regular brief, not a one-off. At a minimum, the Cabinet should certainly be aware of what is happening there. They are the elected government and the elected arm needs to know what is happening with these important things.

If I could, please. I want to go back to the first thing I asked because I'm not sure; if you did, I missed it. I asked if you could provide an update on the rollout and implementation of the risk framework. If you said it and I missed it, I apologise. Just summarise it for me, please.

The Deputy Governor, Hon. Franz I. Manderson: Yes. I'm going to ask Mr. Slade to answer because, obviously, he's the expert on this. Go ahead.

Mr. Mike Slade, Chief Risk Officer, Office of the Deputy Governor: Thank you, DG. Mike Slade, Chief Risk Officer for the Office of the Deputy Governor.

Thank you for the question. Through you, Mr. Chairman. The risk framework has three elements: the first is the external assessment, which looks at acute sudden events that might require a whole-government response. We look at those annually, and the ambition is to try and drive better preparedness in terms of being able to respond to those risks if they happen. That is now an established annual process, so that element of the framework is fully implemented.

The second is looking at internal risks to the effective and efficient running of the civil service. These are typically more organisational risks — Do we have the right talent and capability to be able to deliver? Are we protecting government data properly? Do we have good IT resilience and cybersecurity defences? Those types of things. Again, those assessments are looked at quarterly, and that element of the framework is implemented and operating fully.

The third is providing guidance to ministries and departments to maintain their own risk registers. Ministries and departments are responsible for identifying and assessing their own risks, but we provide guidance and a central system that enables them to do it. That is what we are focusing on at the moment; it is not fully implemented.

We know some ministries and departments have risk registers while others are still developing theirs. We know there's a gap there and that's the focus of the current rollout — to provide training beginning in October that will allow us to both close the gap and improve the quality of those risk registers. We are working per a plan — the risk committee has signed off that plan so they're providing oversight for how we implement it; but we're aiming to have 32 prioritised departments within the system operating to the new framework by the end of this year with the rest to follow early next year.

That's the status of the rollout. The first two elements are complete; the third one is in progress,

and we're hoping to make good progress by the end of this year with full completion early next.

Mr. A. Roy Tatum: Thank you, DG; thank you, Mr. Slade.

I'm encouraged and have been encouraged by several things here today. I'm encouraged that you are in the role and this is being looked at. It's hugely important and the public should really be aware of it, so thank you very much. I'll stop there.

Mr. Kenneth V. Bryan: Mr. Chair.

The Chairman: You have the next one.

Mr. Kenneth V. Bryan: I have one quick question.

Mr. Slade, can you say what your resume background is? I would like to know, and I think the public should know. You occupy a very important position for the future of this country's financial stability, so we'd like to know a little more about you.

Mr. Mike Slade, Chief Risk Officer, Office of the Deputy Governor: Thank you for the question.

Through you, Mr. Chairman. I have a risk management background. I've been in risk management and assurance for 23 years. I've set up risk management programmes in both the public and private sector; I worked in central government in the UK, and also worked in industry. I used to work in aerospace, so I've worked for private enterprise as well. I'm a Chartered Internal Auditor by profession, and I have a Master's in risk and resilience.

The Chairman: Mr. Tatum, I think you have the next section too, looking at section 1.5 — public sector debts and obligations (post-retirement obligations); although I think we have spent some time discussing it.

Mr. A. Roy Tatum: Yes, I think we have, sir.

The Chairman: You are satisfied with that, then?

Mr. A. Roy Tatum: I am satisfied. I don't know if other members are, but I think we've covered it quite a bit.

The Chairman: Okay. I have the next section, which is the public sector pay costs. I believe we already discussed that, Deputy Governor. You told us where you were with it and the establishment of the pay strategy.

The Deputy Governor, Hon. Franz I. Manderson: Yes, sir.

The Chairman: I want to go to 2.12 then, which is tertiary health care costs. I'm going to turn to Mr. Panton to lead off with it.

Hon. G. Wayne Panton: Thank you, Mr. Chair.

Mr. Chair, if I could. I tried to get your attention twice. I want to step back for a moment and say thanks to the DG and Mr. Slade as well for the presentation; I was curious. First of all, DG, I can confirm that I'm not aware of any presentation yet to either Caucus or Cabinet.

The Deputy Governor, Hon. Franz I. Manderson: Okay.

Hon. G. Wayne Panton: Although I can't be 100 per cent sure about the latter.

I'm curious in that context. Obviously, we identify risks to ensure that we either mitigate the impacts or eliminate them if possible. I don't want to waste too much time on this, but could you give us like 30 seconds. Having done all of this, are we doing things like assessment, scenario planning, you know...

What happens if we're in this, because we do many things like planning for hurricanes and all that. We have those elements covered, but are there any other sort of scenario planning or assessments being done which would help to provide some sort of practise, for example, in mitigating or eliminating risk.

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, I'll ask Mr. Slade to answer that, please.

Mr. Mike Slade, Chief Risk Officer, Office of the Deputy Governor: Thank you, DG. Thank you for the question. Through you, Mr. Chairman.

Yes is the short answer. The external risk assessment is scenario-based, so the lead ministry for each risk is responsible for defining a worst-case scenario for that particular risk and assessing it using a common framework. Part of sort of testing our preparedness might be to do simulations or drills on, you know, what would we do in that particular circumstance and would it work? That is absolutely part of risk management. Assessment, but also management of those risks.

Hon. G. Wayne Panton: Thank you. Finally on that, how often do you propose to be reporting on risk to either Caucus or Cabinet, or both?

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, through you.

Mr. Chairman, I think we are in a good place now. We've made good progress whereby it is time to update the new government on where we are so when we get back to the office we can contact the Caucus Secretary about scheduling a time to come in. Then I would think we would want to update the Caucus, Government, [and] perhaps Parliament probably twice

a year at least as to what's happening, if not more frequently.

Hon. G. Wayne Panton: Well, I think more frequently. Maybe quarterly in some cases; I guess when things might be relevant but perhaps there are some that would [require], you know, every six months or something.

Mr. Chair, gentlemen, thank you for your responses. I really appreciate it — Mr. Chair, apologies for that quick side step.

Going on to the tertiary healthcare cost issues... Mr. Chair, the Auditor General's report states that the government does not adequately plan for commitments and cost pressures in the short and medium term. For example, actual expenditure on tertiary medical care was significantly higher than the budgeted amounts in each of the six years from 2018 to 2023, requiring supplementary budgets each year.

We also know this to be true for the current year. We noted agreement with Recommendation 2 that all commitments and cost pressures in the short and medium term should be included in the budgets; however, the Ministry of Finance and Economic Development noted this is the responsibility of each Chief Officer as outlined throughout Part IV of the Public Management and Finance Act. We know that you plan to obtain written assurances from the respective Chief Officers that all short to medium-term commitments and cost pressures are included in the submitted financial plan and budgets.

Mr. Chair — Oh, wait a minute...

Mr. Chair, can I ask for confirmation?

I think this particular one was not noted for the DG to be responding? According to our schedule the Financial Secretary and his team were to be responding, but I'm open to clarification.

[Inaudible interjection]

Hon. G. Wayne Panton: Yes, but I'm just talking—

Mr. Patrick Smith, Auditor General: Mr. Chair, I think we're looking at page number 16, [item] 2.1.2?

Hon. G. Wayne Panton: 2.1.2? Yeah.

Mr. Patrick Smith, Auditor General: Yes, sir.

Hon. G. Wayne Panton: Yes; and just to be clear, the—

Mr. Patrick Smith, Auditor General: Yeah. This is for the DG.

Hon. G. Wayne Panton: It will be the Financial Secretary who we are addressing in this case — albeit he's relocated. Is that correct?

Mr. Patrick Smith, Auditor General: No, sir. This is also for the DG to answer in his capacity.

Hon. G. Wayne Panton: Not on my— anyway...

I think the issue DG, is one that we're obviously very familiar with, namely the under-budgeting in relation to the — *infamous* I believe was the term you used — NGS 55 and HEA 2 amongst maybe one or two others, that relate to health care. It is an issue that I think the Financial Secretary noted earlier in his contribution, sees things like NGS 55 being budgeted at 20, 30 per cent or more than that, sometimes, as what the actual cost is.

From your perspective, sir, and I'm open to the FS responding as well, how are we going to address this in terms of trying to ensure that we have more realistic budgeting on this, because the impact of it is not only that we have to come back and have supplementary funding, but we have decisions being made on the basis of budget numbers which suggest there's room in the budget to accommodate other, perhaps less-priority issues. I think that leads to a situation where the budget is not particularly accurate and we have to come back and find space for supplementary spending to make up the shortfall or the gap which we know exists to begin with.

How do we, you know, ensure that the budgets are reasonable and reflect the best estimates; and what plans can we have to ensure that we try to make this more realistic in the future. I mean, I can say, as a former Minister of Finance, that in the four to six months that I dealt with the issue, something I tried to do was to push the budgeting up to at least 75 per cent, but I know it's not just an issue for yourself and the civil servants and the Ministry of Finance.

In many respects it is a lack of political discipline but, collectively, it's an issue that we have to deal with and you know we've had comments from others today indicating these are real risks. The level of growth in those costs is astronomical and, you know, we're talking about the country's financial sustainability. It is one of the big risks in relation to it. Any thoughts on our solution?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, maybe the DG and I

can help one another since this is a question that would be posed to both of us. Just some quick stats which I think everyone is familiar with.

When we started the 2024 year the budget for Tertiary Care at Various Institutions was \$18.6 million. That was the budget for 2024. The actual spend at the end of the year on that same budget item was \$57.9 million.

Mr. Christopher S. Saunders: Sorry, Mr. Chairman just for my understanding.

Mr. Kenneth V. Bryan: Mics.

Mr. Christopher S. Saunders: Sorry. Are we talking about civil servants' post retirement, or about NGS 55? This is NGS 55 we're talking about? For civil servants? Civil servants get paid out of NGS 55? Oh!

Sorry. You are saying budget, so I'm trying to figure out how NGS 55 comes into this.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: The stats I just gave relate to NGS 55.

Mr. Christopher S. Saunders: But...

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: I'm saying that the original budget was \$18.6 [but] by the end of the year the actual expenditure had grown to \$57.9 million and obviously, we had a number of supplementaries for NGS 55 during 2024.

If we move to the 2025 financial year, the NGS budget for the year was only \$14.4 [million]; the actual expenditure to the end of July was \$30.1 million and, if that rate continues uniformly, we're going to end up with around \$51.6 million for the year. We will remember that in June there was a Finance Committee approval for, I think, maybe \$20 million or so, to get us to a realistic level round about now, and I believe there will be more requests for NGS 55 before the end of the 2025 year. Is Member Saunders still...? Okay.

I think the question was what do we do about it? How do we get this to be a realistic number on day one; on the 1st of January each year?

Mr. Chairman, I think I would call this a very high-visibility number known to all MPs in the House and if the government was to bring a budget for NGS 55 for 2026 of \$20 million, MPs are going to know it is totally unrealistic, so my simple solution will be that I and others would impress upon the government — and I have no indication that they intend to do so — that the number needs to be much higher than \$18.6 [million] in 2024 and \$14.4 [million] in 2025. It needs to be in the region of \$50 million.

I don't think there's any necessary systematic change that we need to make in order to achieve this. In this particular instance, I don't think we need to make many systematic changes to get something more realistic. In the past, NGS 55 has been attacked simply because it is a convenient way of getting a reduction in the gap between revenues and expenditures. It's just one item. It's very convenient; so is Transfer Payments, et cetera. If you get into attacking the cost of outputs, the amount of work that has to be done, Mr. Chairman, in revising those outputs to get a reduction of 'X' dollars is much more work. If this is all about convenience and closing the gap between rev-

enues and expenditures, I think that's the best I can offer, sir.

Mr. Kenneth V. Bryan: Mr. Chairman, if I —

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: It'll be highly visible by MPs.

Mr. Kenneth V. Bryan: Mr. Chairman if I may, to the FS — and he's 100 per cent correct.

For the listening audience and from a conventional perspective, we're talking about \$50 million [and] what they should do or shouldn't do. There is a common practice in this area — particularly with something that is variable, whereas you can't identify specifically what it is going to be because you don't know how many people are going to get sick — which is, at the very least, the last two years' average. Right?

That should be the estimate because when we think about it, when the public sits and sees the government's budget for NGS 55 or HSA or what was the other one? Poor persons' relief. I can't remember which were the two. Those line items that you were saying are conveniently used because they can always come back here. No one's going to question—

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: No, sir. No, sir; I'm not saying that no one is going to question them. I'm saying that at the beginning of a budget process, you normally would have a gap which you need to reduce in order to get a surplus and items like this are a quick fix. That's all I'm saying. It's a quick fix. If you need to achieve a reduction of \$35 million, this is a quick victim to pick on.

Mr. Kenneth V. Bryan: I agree with you. I don't want to put words in your mouth. That was my word. From the political side of things, people go, "*Oh, well, nobody is going to fight if you come for a supplementary to get healthcare for people as opposed to something else where you go, 'Is that really needed?'*" That's what I'm saying; but what is important today is what would be the conventional way to budget for it appropriately and the only way you can do so with something as subjective as that, whereas you don't know, is to use the last year's averages. Would you agree?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, through you. That's a sensible way of doing it, Member Bryan.

In a couple of seconds: the NGS 55 expenditure in 2022 was \$51.6 million. In 2023, it was \$55.5 [million]. In 2024, it was \$57.9 [million], so it is a very high number for the last three years, and if I go back to 2021, it was down to \$39 million, so it has jumped.

Between 2021 and 2022, it's gone from \$39 million to almost \$52 million and has increased steadily since 2022, so yes, you are absolutely right. The correct way to budget for it is to say in the past couple of years this has systematically been the number and [since] we have not made any policy changes as a government to reduce the level of care that we give to the public, we probably need to expect the same \$50-plus million dollars a year.

Mr. Christopher S. Saunders: Mr. Chairman, through you.

When you take NGS 55, which as the FS just said is about \$50 million a year and add HEA 2, which is the HSA portion of healthcare, I think that's another \$20-something to \$30 million a year?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, in 2024, (the year ended), HEA 2, which is medical care for indigents provided by the HSA, was \$25.5 million.

Mr. Christopher S. Saunders: Okay, so \$75 million between the two. Then you take the government's post-retirement health care benefits owed to civil servants; that's \$2.4 billion that's due over the next 20 years. Again, you also have the retired civil servants who we basically pay for — it is contractually owed to them for their service to this country.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, I know that Member Saunders is a detail man. The number for pensioners, the premium that the government paid to CINICO in 2024, was \$46 million.

Mr. Christopher S. Saunders: Okay; so, basically, between the two items, you are talking about \$115 - 120 million between NGS 55 and HEA 2 plus the civil servants — everybody. You are talking about \$115 million.

CINICO is regulated by CIMA and has certain reserves and regulatory requirements it has to meet. The point I keep making is that when you look at the civil service portion which is funded through CINICO, each year, CINICO keeps raising the cost to the civil servants anywhere from 6 to 7 per cent. When you take into consideration that the SHIC (Standard Health Insurance Contract) plan, which is the standard health insurance rate which insurance companies are entitled to pay by law — they're only allowed to pay whatever the SHIC rate is. That rate has not gone up in 20 years, so my question has always been, why is the civil service being charged an extra 6, 7 per cent each year?

If you break down CINICO's numbers and look at the actual plans, between veterans, seaman,

civil service pensions, and everyone else, we are actually losing money on the SHIC plan that we provide to the private sector retirees, and in order for CINICO to meet their regulatory requirement for CIMA they in essence end up charging government more money, because they're losing money on the SHIC plan for the private sector retirees. The question is then: is the government getting value for money for the amount of money it is now paying per civil servant, whether retired or in service?

Recognising [inaudible] round the play with CINICO, et cetera, the point is that every year the civil service cost keeps going up to keep CINICO compliant with CIMA, when in fact it is the civil servants now subsidising the cost of the retirees who are on the SHIC plan. The question is how long is any government — this government and successive governments — going to sit back and allow the civil servants who do not have access to different facilities; do not have freedom of choice; who are stuck going to one place, to subsidise people who basically have different places to go to through NGS 55? I mean, how long are we going to continue with this?

I think that is really not a question for you but for us, as elected members to deal with; but we can no longer have the civil servants, who are getting crunched every year, to carry these costs and the private sector then come and complain about government costs going up when they're not taking care of their employees. I mean, ladies and gentlemen, at some point we need to put our feet down. This is unsustainable.

Hon. G. Wayne Panton: Mr. Chair.

The Chairman: Go ahead, sir.

Hon. G. Wayne Panton: Thank you, sir, and thank you to the Financial Secretary for his comments.

I think we all recognise that many of the issues around this sit within these Chambers, but it is an important, integral, part of a proper budgeting process for us to get this right. I agree that certainly a fairer, more objective approach would be to take the last couple of years' average, maybe even 3 years. That's certainly going to be much better than budgeting it at 30 per cent, or whatever. Really, at this point I'm not sure the Deputy Governor or Financial Secretary will be able to give us much more in respect of that, except to recognise these are issues that we have to be cognisant of.

Of course, the issues raised by Member Saunders are absolutely important as well, but they do not specifically relate to the issue of properly budgeting NGS 55.

Mr. Christopher S. Saunders: Sorry, Mr. Chairman. Financial Secretary, just to confirm, you said we are

paying \$46 million per year for civil servant pensioners?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, it was \$46.3 million for the 2024 year for pensioners.

Mr. Christopher S. Saunders: Okay. Deputy Governor, correct me; we have over 2,000 pensioners or thereabouts, correct?

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, through you. Thereabouts, yes.

Mr. Christopher S. Saunders: I want this to dawn on Members.

We are spending \$46 million per year to take care of a little over 2,000 civil service pensioners, yet when you add NGS 55 and HEA 2 together, we're spending \$75 million to take care of the private sector's pensioners. Do you guys realise what that number looks like? \$46 million to take care of our own and \$75 million for someone else's? Is this what we're going to continue to do while sitting inside here?

Around 2,000 people cost \$46 million; how many people are we [covering] for \$75 million? And you know the scariest part? If my memory serves me right, it was around 2,000 people we were covering on NGS 55 and HEA 2. Yeah! I think it was a little over 2,000 people who received the coverage for both NGS 55 and HEA 2, meaning 2,000 civil servants cost \$46 million, and 2,000 private sector people cost \$75 million? All right...

You know what? Jesus, take the wheel.

The Chairman: All right, we're going to move on to the next topic. Did you have any other questions, Mr. Panton, with regard to tertiary care?

Hon. G. Wayne Panton: No, Mr. Chairman.

The Chairman: Okay. We're going to turn our attention now to long-term financial sustainability. Mr. Bryan will lead off that inquiry.

Mr. Kenneth V. Bryan: Thank you, Mr. Chairman.

Deputy Governor, the Auditor General's report stated that a fiscal review body can **play a pivotal role in ensuring transparency, accountability and informed decision-making by policymakers** (our Cabinet Ministers). Review bodies **generally produce reports on long-term financial implications of government policies** which ensure that financial implications of proposed policy actions are effectively evaluated by legislators before they agree to them and implement them. The report done by the Auditor General identifies that many countries and jurisdictions do this, including Bermuda and Jersey.

The Auditor General's Office recommended that the government **create an independent mechanism**. We spoke with the Honourable Financial Secretary earlier today during questioning, and he supports an amended version of it that would obviously be best suited for the Cayman Islands. Would you agree and support such a thing because the factors that were considered when this was rejected — I'm not sure where your authority as the Deputy Governor was considered in the review body concept that the Auditor General's Office is suggesting would make us more sustainable and accountable in our financial decisions.

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, I'm just going by memory. Was this recommendation accepted by the government? No, we didn't accept it.

Mr. Kenneth V. Bryan: No.

The Deputy Governor, Hon. Franz I. Manderson: That was my recollection.

The Chairman: It was one recommendation that was not accepted by the government.

Mr. Kenneth V. Bryan: I'm happy to read the responses.

The Deputy Governor, Hon. Franz I. Manderson: Yes, please sir.

Mr. Kenneth V. Bryan: The recommendation was that, **"The government should create an independent mechanism for fiscal review and forecasting to provide assurance on its long-term financial sustainability,"** and the management response was, **"Management does not agree with this recommendation - as it is deemed impractical for the Cayman Islands. The practical difficulty is the very short time frame such a body would have to carry out its review prior to the finalisation of the Government's budgets."**

Now, just to further opine on it for edification purposes, the Financial Secretary did a very good job explaining the limitations of [how], when a government comes in [they] have to put together a policy within 3 months, but now we know the law has changed to 6 months. In the United Kingdom, they have a 10-week review structure. Obviously, we could potentially make amendments to the Cayman Islands timeline because we're a smaller jurisdiction, fewer reports, ref numbers, and so forth.

The question is why was it rejected and if so, is that still the position of your office?

The Deputy Governor, Hon. Franz I. Manderson: I'm not sure it was my office that rejected it though, was it?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: No, Honourable Deputy Governor.

Mr. Chair, it was the Ministry of Finance that said no, but earlier today I said we were willing to walk back that recorded rejection and change our mind provided it became clear to us how the review body would work in practice. Was it going to be nimble? That's our concern; it's about it being quick, and able to practically give us what we want. It's not an objection in principle, not at all.

We have to decide who the review body consists of. Right now my mind is stuck on accountants, economists — where are you going to get them from? Is it from Cayman, is it overseas? When do they get a set of work given to them to assess and how quickly can they assess it? It's just the practicalities of it, not an objection in principle, so we're willing to say 'yes'.

Mr. Kenneth V. Bryan: Mr. Chairman, first I want to apologise to the Deputy Governor. It was not the Deputy Governor's Office that rejected it, and rightfully so. The question line is to you at this moment.

Obviously, we heard the Financial Secretary say he's willing to support or accept an amended version of it. I guess the question is, would you give support to the team to deliver such a recommendation that will make us more sustainable from a financial perspective?

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, the short answer is 'Yes'.

The Member will know I have a great relationship with the Head of the Public Service in Bermuda who was here last year, so I can see us collaborating. You said the committee is present in Bermuda; maybe we could simply follow some of Bermuda's rules and regulations. I'm sure I would get cooperation from their Head of Public Service, who can put the teams together and come up with a solution.

Mr. Kenneth V. Bryan: Well, with that being said, I think we've come to a great conclusion in respect to this area with a commitment by yourself and the Financial Secretary accepting it is something that is doable at a modular level for Cayman.

Would you give this Committee your commitment that you will draft a paper for Caucus to consider based on the fact that it is a recommendation from the Auditor General that will allow us to be more accountable? Obviously, it is up to the Government to choose whether they're going to take it, but giving them the research necessary to say: *here's one of the recommendations, here's how it's done, here's how we can implement it, it will strengthen your financial position*

of accountability and look good as a Government. Would you give us that commitment?

The Deputy Governor, Hon. Franz I. Manderson: Well, *I can give the undertaking that the Financial Secretary will draft the Paper.*

[Laughter]

The Deputy Governor, Hon. Franz I. Manderson: Yes, sir. I'm happy to do that. We're all smiling, so that's good.

Mr. Kenneth V. Bryan: All right.

Mr. Chairman, I don't think there are any more questions for the Honourable Deputy Governor on our schedule, but I want to say I am very pleased as a Member of PAC with the information provided today. If they didn't get all of it, I hope the listening audience would take the weekend and listen to the whole hearing because your contributions truly give an insight as to where we are financially and where we need to go.

I know we're not over yet, but I want to say thank you Deputy Governor for everything you've offered in the line of questioning.

Mr. Chairman, over to you.

The Chairman: Thank you, Member. Deputy Governor—

Mr. A. Roy Tatum: Mr. Chair.

The Chairman: Go ahead.

Mr. A. Roy Tatum: Sorry. I'll be a spoiler but shall not be long. I missed a question earlier, so I will take the opportunity now.

It was mentioned the Governor will be facilitating some assistance with forecasting, et cetera from the UK. Could you elaborate a bit on exactly what that is, and how soon it may be happening? Is it just starting?

The Deputy Governor, Hon. Franz I. Manderson: Thank you, Mr. Chairman. I want to again thank the Audit Office for the report and their recommendations.

Mr. Chairman, if you remember where we were, not too long ago we were unable to get our accounts submitted on time; the quality was not good. We've come a long way and the reason we've come a very long way is because when we were told we needed to improve, we put our hand up and said *"Yes, we need to improve. Now let's find a way to get better at it"* and we got better at submitting our accounts. The quality of our accounts got better — we got better at the annual reports, we got better at getting them to Parliament, and last year saw a record number of annual reports filed which I think we will exceed this year; it should be 100 per cent.

Why I'm saying this, Mr. Chairman, is because the civil service has a proven track record of improvement and we do it, like I said, by putting our hand up. [We] don't bury our head in the sand and hope it's going to go away, because it won't. We have Members here who, correctly, are going to hold us accountable to get better. Member Bryan said it: We're spending other people's money and we need to ensure that we do so in the most judicious fashion. People out there are hurting, so every cent that we can save and spend on our people is a good thing. With that in mind, sir, I want to assure you that we will find a way to get this right in terms of our forecasting.

Where we are is that Her Excellency has agreed to take this forward with us — I record her thanks. Her team is speaking with their counterparts in the UK to see what section of their government is best poised to help and what level of help, the duration, can it be done, do we need them to come here or can we do it remotely, how the whole thing will work. We have to engage more with the Financial Secretary and his team, and the CFOs, to come up with a good plan to say exactly: here are the issues, the things we want to resolve, and here is where we want to get to.

Everyone agrees this is an urgent matter, so again, I will commit that the next time Parliament meets I should be able to give an update as to where we are in getting the team mobilised and making progress in this area.

Mr. A. Roy Tatum: I thank you for that.

The Chairman: Deputy Governor, I thank you for being with us this afternoon. I'm sorry we kept you so late, but I thank you, too, for the candid way in which you answered our questions. It was a pleasure to host you this afternoon.

Thank you once again and I personally congratulate you, too, on your impending retirement. I know you're looking forward to it. I know I will see you before that.

The Deputy Governor, Hon. Franz I. Manderson: Yes sir.

[Laughter]

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, thank and all members — thank you.

Again, it's always a pleasure to come here. We all want the same thing: better services for our people, doing it in the most efficient way, and making our people's lives better, and it is something that we public servants have the privilege of being able to do. I'm honoured to be here and look forward to the recommendations that will come from the hearing, so thank you.

The Chairman: Thank you, too.

Mr. Kenneth V. Bryan: Mr. Chairman, if I may make a suggestion. I've had an opportunity to look at the rest of our schedule and because we've been so efficient— I know where we stopped, but almost everything that is left on the schedule, unless other Members disagree, we already asked the Financial Secretary in one way, shape or form.

Now, if there's further finer details I think we can continue at members' discretion obviously, I'm not taking over your rule; but there's only one area I see that we haven't really spoken about at all, namely 3.2, which is the changing demographics in the Cayman Islands and the liabilities around it which was allocated to me to deal with. I don't know if you agree with my assessment, because I think we gave a 4 o'clock timeline. Maybe, if members are in agreement with that, we could potentially complete our task on time. Just a suggestion guided by your leadership, sir.

The Chairman: Member Bryan, I agree with you. Either through the Financial Secretary or the Deputy Governor, pretty much everything from sections 1 and 2 we have completed; 3.2 – Changing demographics, we definitely have not.

Mr. Patrick Smith, Auditor General: Mr. Chairman, yes. I believe Sections 3.2 and 3.3 are areas we have already touched on in depth. The changing demographics; infrastructure development and maintenance and —

[Inaudible interjection]

Mr. Patrick Smith, Auditor General: Yeah, I think we also missed 2.2 - Financial reporting in the short and long term [sic]. Three sections in total that we haven't touched at all.

The Chairman: Okay. That's true. We need to cover 2.2 and then 3.2...

Mr. Patrick Smith, Auditor General: Yes, that's correct, Mr. Chairman. Three areas, sir.

The Chairman: Okay, I'm happy to do that. It will save us having to come back tomorrow to finish it. Let's go ahead then, with section 2.2.

Mr. Tatum, I think you had to kick off with that, but before you do, can we take a 5-minute break?

[Inaudible response]

The Chairman: All right, five minutes.

Meeting suspended at 3:40

Meeting resumed at 3:56

The Chairman: The meeting has now reconvened; we are going to pick it up questioning the Financial Secretary on section 2.2 – Financial Reporting in the short and medium term. For that, I'm going to turn to Mr. Tatum who will ask the initial questions.

Mr. A. Roy Tatum: Thank you, Mr. Chair.

As was said, this is on Financial Reporting in the short and medium term. The Auditor General's Report states that the government reports on its short and medium-term financial performance; however, this is done through the consolidated financial statements for the entire public sector (EPS) and unaudited, quarterly, finance reports. The Auditor General cautioned that the EPS financial statements were backlogged and have an adverse audit opinion, meaning the financial information presented cannot be relied upon.

The Report also states that the most recent EPS financial statements presented to the Parliament were for 2018. This means there is no published or reliable information on the state of government finances. FS, I would be grateful, sir, if you would provide some insight into plans to improve the quality of the entire public sector financial statements given the situation we are in.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman.

Mr. Chairman, I'm going to ask the Accountant General whether he could deal with that question because it is principally an area whereby the Treasury liaises with and produces work for the Audit Office to do. Obviously, Mr. Chairman, for the public, the consolidation in entire public sector accounts involves aggregating with adjustments and revisions—aggregating the accounts, the financial statements of Central government itself, along with the 25 or 26 statutory authorities so that you get a whole or entire public sector view.

There have been a number of reasons why the EPS financials have been given an adverse opinion for many years, and I'll speak to one, Mr. Chairman: The most significant reason is the non-recording of the post-retirement health care obligations directly on the face of the government Balance Sheet. It's currently being placed, as you've known for many years, in the Notes to the financial statements. It is known that the amount is substantial — over \$2 billion. It is assessed every year by actuaries the government hires (the actuary happens to be Mercer); therefore, it's not as though the amount isn't known; it is known.

The Auditor General's opinion is that it needs to be on the face of the financial statements and our concern in the past has been, sir, and you've heard me say it many times before, that putting \$2 billion plus on the face of the financial statements as a liability figure could have the effect of taking the govern-

ment's net assets down to zero, maybe even to negative, which would be a breach of the requirement to have positive net assets.

I spoke to the current Minister of Finance this week and asked if the government was agreeable to me approaching the Foreign, Commonwealth & Development Office (FCDO) to say —you've heard this before, but for the benefit of the public— *if we do this and get negative net assets, is it going to constitute a breach and therefore we are going to fail the FFR?* Obviously, our desire is that it doesn't constitute a breach, but we want to check before we go ahead and do it. The current Minister of Finance came back later in the week, probably Wednesday, and said that the government was not minded to do it which was kind of a dampener. Whilst respecting the wishes of the Caucus and the Cabinet, obviously, I nonetheless intend to ask informally what would be the view of the FCDO. I speak to the FCDO monthly, so I still intend to [ask].

The view of the current Minister of Finance is that we should do a wholesale review of the International Public Sector Accounting Standards (IPSAS). Does IPSAS represent the best possible standard for Cayman to be going by? Is it more harm than good? Do a side-by-side comparison between IPSAS requirements, and say, whatever standards the UK government uses. The UK government does not, to my knowledge, record its post-retirement health care liability on the face of its balance sheet but simply accounts for the cost annually. That's the way we are currently progressing each year, and we see the number is growing, and growing, and growing.

Mr. Chairman, there were several others. I'll ask the Accountant General if he would speak to the other reasons for the qualifications and what plan has been submitted to the Auditor General's Office.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Good afternoon, Mr. Chairman and Committee.

Before I start, I just want to point out that the Ministry of Finance and Treasury are consolidation agencies for all the information provided to us by all the various CFOs across government.

One of the issues we've had, as I've mentioned here before, is that CFOs are only reporting less than half of the information they're accountable for. Each Ministry has an executive level, which is the parent company, and an entity level, which is, let's say, the subsidiary or child or whatever you want to call it. CFOs are only reporting on the entity level, which is the child level or the subsidiary of the parent and so what is not being audited at each Ministry level across government are things like transfer payments, non-governmental organisations (NGOs).

Those kinds of things are across government [and] each Ministry has individual ones as well as the revenues for each of those individual ministries, so things like tourism accommodation tax and so on, are

not being audited by each Ministry. If a CFO received an audit on their TAT to say that it was qualified, they would make whatever changes were necessary to ensure it was unqualified.

In Treasury, we're just a consolidation agency. We are unable to fix those kinds of issues because we are a decentralised environment. We don't have the authority to effect any change in those kinds of things, so what we want to do is change the audit from the entity level where it currently is to the executive level. That would mean that when a Chief Financial Officer submits accounts to the audit office they would be submitting the full set of books for their Ministry, which would only make sense because they would then be accountable for all the accounts which fall under that specific ministry. That is a change we are looking to make in legislation, and it will be coming in the near future, so we appreciate your support on it when it comes. It is necessary for us to affect the change we need to see in the revenue element, as we are being qualified on the completeness of revenue.

As the Committee will recall, we submitted in the past the Corrective Action Plan. I am happy to go through it now. It may be a bit tedious, but I'll try to run through it quickly so I don't take up too much time.

The first matter was the exclusion of the Public Service Pensions Board's administrative balances from the consolidation. Our most recent update as of September was: We are awaiting the Office of the Auditor General's (OAG's) evaluation of the inclusion of the Public Service Pensions Board activities in the 2021 EPS accounts.

The next one is poor control over the property, plant, and equipment — those are the evaluations of the property, plant, and equipment that we have. Our most recent update: Numerous issues now reported by OAG on Road Valuation Report, despite previous confirmation of final review of audit file. There was a time when we submitted all the road, property, plant, and equipment valuations and we were of the understanding that the Audit Office was okay with it. We recently heard that this is not the case, so we recently asked the OAG to go ahead and proceed with signing off the EPS accounts. As some of the issues such as the post-retirement health care liability were so pervasive we knew it would be an adverse opinion either way we asked the OAG to basically proceed with signing off on the 21 accounts so that we continue to move forward, [and] so that we can focus on actually getting a clean opinion.

The OAG advised that the roads network valuations were not up to their standard so just yesterday or the day before, I believe, we asked them to give us the specific standards that they want as we are now starting the 2026 evaluations for the property, plant, and equipment for all of government, and that includes the road network. That way we can ensure that we comply with whatever standard the OAG gives for

the roads network as well as the property, plant and equipment.

Just as a reminder to the Committee. A few years back, the Ministry of Finance started doing centralised valuations for property, plant, and equipment — and that included the road network as well. Basically, if we had left it to the various ministries it was not something that was happening on a regular basis, so to ensure that we complied with the standards which are that we have to do evaluations every 3 to 5 years, we took it on, we pay for the whole thing and we do all the valuations for all of government, including the roads network. We had the National Roads Authority who we considered the experts in roads to do the evaluations for the road network. We've now been advised by the OAG that that's not up to their standards, so we've asked them to give us the standards they require so we can ensure we comply with that for the 2026 valuation which is about to kick off.

The next item is the post-retirement health care benefits that the FS just spoke about, so I'll skip past it since he already discussed that.

The completeness of revenue. As I mentioned earlier, we want a situation where we can audit at the executive level. That will ensure that CFOs put more emphasis on the completeness of their revenues because they're not being audited on it presently. Only the Treasury is being held responsible for these revenues, which we don't have the ability to actually make any changes to. However, in Treasury, we have added a Deputy Director for the revenue unit, so we've been trying to go about a process to try to get CFOs to make changes even though we don't have any direct oversight of them.

Currently, Judicial has been finalised; and Department of Vehicle and Drivers' Licensing (DVDL), Tourism, Finance Administration, Treasury, Health Regulatory Services, and Planning Administration reports are currently being reviewed. This is with regard to the revenue for those agencies. We are trying to take a softer approach right now because we don't have any teeth in the law to say that the audit is going to be conducted on your executive revenue, and so we are working on that.

The provisions and contingencies, environmental liabilities, and legal claims. The Ministry of Sustainability's responses were provided to OAG, so we are waiting for their feedback on that.

EPS '22 and '23 accounts to be updated for new provision amounts. I believe that is all the items on the list of qualifying points.

Another one is consolidated financial statement disclosures, I believe. I don't have an update on that so we'll be looking into that more as well.

That was to give a brief overview of where we are with the EPS account qualifying points. We are actively working on it, and we do feel that moving the audit to the executive level will go a long way towards ensuring that the EPS accounts will be clean going

forward. As I said, we're just a consolidation point. Each Ministry would then be responsible for actually having its accounts clean, which would ensure that we are able to just consolidate the information provided to us.

Thank you, Mr. Chair.

Mr. Kenneth V. Bryan: Mr. Chair, obviously, we recognise thus far that we need some changes to the authority so [the Ministry of Finance] can have more say over these obligatory reports, particularly because their department is taking all the licks for it publicly and otherwise. Can the FS say whether or not he thinks a four-year budget would be of any benefit in allowing them to have more opportunity to catch up with these reports which are so essential to the long-term projections of sustainability?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman.

I think my brief answer would be, no. I don't think it would particularly cause a speed up. The idea of the four-year budget was mooted more along the lines of it giving a longer view of government's finances as opposed to a two-year period, whereby you can see what the finances—the revenues and expenses of the government—are going to be over four years and that is a better view than a two-year view. We would still want the annual audit requirement to exist; we wouldn't propose that it go away. It is possible that until the issues are resolved, we could get similar issues in a four-year budget that is audited annually.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, I just want to point out that with regard to the move from auditing on the entity level to the executive level, there will be ministries that receive qualified accounts for a while until they get their accounts right. I don't want it to come as a shock to this Committee or the public when they are currently getting clean accounts on a portion of their books, but then turn around and get qualified opinions for a few years until they get their executive revenue sorted out.

That's something to be looking out for as well—that some ministries will have qualified accounts going forward.

Thank you, Mr. Chair.

Mr. A. Roy Tatum: Mr. Chair, thank you.

Just to make sure I am following along correctly. I looked at this and saw that the most recent EPS financial statements presented to Parliament were in 2018, seven years ago if I did my maths right—a number of years ago and I assume that when that one was presented, the post-retirement health care obligations were an issue then, correct? I personally see that as a red herring. I don't have an issue

with it being in the Notes. I'm not an accountant; I understand accounting principles, but I have no issue with it being in the Notes, so I will bypass that.

Therefore, the main issues as to why none have been presented, I believe, if I am understanding correctly are—I assume they are being compiled but is that assumption wrong? I mean, has there been none compiled since 2018—you referenced you are about to begin 2025 or something? If I am explaining myself properly...

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, through you,

We are compiling the accounts. All the accounts have been submitted every year. We submit the EPS accounts by the 31st of May, which is the required date. What we are waiting on now is the audit of those accounts. We are currently in 2021, and yesterday, I think it was, we emailed the Audit Office after receiving a list of, I think it was, eight or nine items that were still outstanding on the roads network specifically; and we asked them to go ahead and just conclude the 2021 accounts because at this point those accounts are already four years old. Let's just go ahead and move on.

If they have that many concerns at this point with the road network, we will just continue to drag out these audits forever. Thus, we asked the Audit Office to just give us their standards so that we can ensure for 2026 we hit the nail on the head and our roads network is in compliance with what standards they want. We are hoping to be able to get that removed going forward so that would be presumably for the '26 financial year. However, we are compiling the financial statements every year. We submit them by the required deadline of 31st May to the Audit Office, so it is just the audits that are now moving forward. Once the Audit Office signs off on the 2021 accounts, we will start focusing on the audit for the 2022 accounts.

Mr. A. Roy Tatum: That clarifies things, thank you. I would add [that] I do not think your request is unreasonable in terms of the really old things. Let's just move past it and try to sort it out.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Thank you, Mr. Chairman.

The Chairman: FS, have you looked at the UK's financial statements and their audit reports?

I heard you talk [about] looking at doing some evaluation of whether IPSAS is the appropriate standard that we should be [following]. I know the US—and the UK, particularly—do not follow IPSAS. They seem to have made up their own accounting principles as they have gone along and some of them have been incorporated into law, is my understanding, so they

are effectively able then to manage their accounts and manage the kind of opinion that they are going to get from their Auditor General. I know that they do not take their health care liability onto the balance sheet; it is not there, and last I looked, I think it was like a \$2 trillion negative net worth. It was an incredible figure I saw, and yet they are able to get either an unqualified or qualified report on their financial statements.

The last time I looked at it was 2020 or 2021 statements, so I am not sure that there would be the best place to look to in terms of looking for guidance from it. I mean, I personally like the idea that we are using a recognised international standard in the preparation of our accounts and do believe that we must work towards complying with it to enable us to get a clean opinion; otherwise they will continue to be of no real value to anyone in terms of being able to make decisions and understand more clearly what the accounts really mean.

Mr. Patrick Smith, Auditor General: Sorry, Mr. Chairman.

I just wanted to indicate as well that for 2023-2024, UK government financial statements were disclaimed by the auditor general; so again, to your point, if you are looking for an example to follow, I'm not sure if that is the one you want to take.

In terms of the standards, I know because it was already proposed about potentially looking at what the UK and US do... Yes, they have national standards, but with national standards they are still based basically against international standards. They just have internal persons who go through and make amendments and tweak them and so forth. My position has always been that having national standards is a risky proposition because it begins a bit of a slippery slide when you start to say, *let's exclude certain things* in order to basically avoid getting a qualification point.

I think, the Cayman Islands being an international jurisdiction that attracts international business, you want to ensure that financial statements are actually in accordance with a reputable, recognised international standard.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, through you, I believe at least at some point in the recent past, we were of the understanding that Cayman Islands had advanced farther into IPSAS than any other jurisdiction had gone. When we discussed the possibility of considering different standards, I believe a more comparable one was the International Financial Reporting Standards (IFRS), which would be even more internationally recognised than IPSAS, just because IPSAS is specifically focused on governments; but it does have quite stringent requirements for social benefits and so on. Thus, consideration is being given to possibly going to a standard like IFRS or something like that.

The Chairman: I hear you, but IPSAS itself too embodies IFRS. The differences relate to the type of entities you are auditing — government public entities rather than private or companies, so I am not sure that going to IFRS strictly is the right answer either.

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr. Chairman, as you correctly stated, IPSAS are government-related standards, but IFRS are what we are looking at to see whether those are options for us. The social benefits under IFRS obviously would not be the same as IPSAS because it is a government thing— and it is very demanding, just the social benefits alone under IPSAS. It is something we are investigating but at this point I don't know if that is the best way forward so as we move forward with our consideration then we will update the Committee accordingly.

The Chairman: Any other questions then? *[Pause]*

Okay. Members of the Committee, I want to turn next to [item] 3.2 — Changing demographics. Mr. Bryan, I am going to turn that over to you as it was an area you were interested in.

Mr. Kenneth V. Bryan: Thank you, Mr. Chairman.

The Auditor General's Report states that the population is growing and the Caymanian population is ageing. You heard me speak about the interesting statistic of how many persons will be retiring in 10 years and in the year 2033, (8 years). This may have an impact on the demand for public services. An ageing population will likely have an impact on health care and social care costs. How are these changes in the population factored in our forecast for demand and cost of public services, Mr. Jefferson? Are you aware? How do they forecast that — are they being forecasted?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman.

It certainly fits in with the thrust of the Auditor General's report, which is about long-term sustainability. Mr. Chairman, long-term sustainability, you know, if we are going to do the job properly, it requires a dedicated effort. My honest answer is that the Ministry of Finance at present and for the remainder of this year is going to be preoccupied with SPS, budget and so forth, so I do not see us being able to take on that role anytime soon—the role of looking at all of government's costs and revenues over a long term. The area of changing demographics and the effect of ageing population is just one area in that massive and wide consideration of government revenues and expenses. Until we can actually do that long-term planning, you could almost argue that it deserves a dedicated unit to carry out that function. It's not a, *I do it for*

two weeks and put it down and pick it up four weeks later. It needs dedication; it needs constant updating. Such an operation would involve updating your assumptions to go into it. It really is quite an involved process.

In the meantime, I would expect, Mr. Chairman, that Lead Ministries, as I refer to them, such as Health and Social Development, we would expect to see them place larger amounts in their budgets for the increasing age of the population over time. We would certainly expect our health care costs to increase. As [the] population grows — and not just ages — we would expect to see more requests for scholarships. We are seeing more requests for policing, road maintenance, government-assisted housing; but until you can get, I would say, a central body to do long-term forecasting for the government, our focus should be the ministries responsible for those types of services. I would expect those to include larger and larger amounts in their budgets.

Mr. Chairman, just to give an indication in terms of the health care premiums for civil servants, and that would give an indication of the effect of ageing. In the current year (2025), if a person is 65 plus, the monthly premium that is paid for that individual is \$1,906 per month. In the 2026 budget, the rates determined by CINICO for premiums now have the 65 plus category broken down into some other categories such as 65 to 69, 70 to 74, and 75 plus. Whereas if you were 65-plus before, paying \$1,906 per month, in 2026 that would increase to \$2,081 and in 2028, it would increase to \$2,076.

The point I am trying to make is that even within the civil service and the retirees' population, we can see the effects of the ageing increase in the amount of premiums that have to be paid as persons get older and older; and not only that, we would expect some of them to need financial assistance as they get older so we would expect the financial assistance budget to grow in future years as well. That is my position.

The healthcare premiums next year have been included in the budget circular; they have. We attached an appendix to the circular that says, *Here are the different premium rates that you must charge for your employees falling in certain age bands*, and those rates have increased anywhere between seven and eight per cent. I can say to the Committee right now that the civil service in compiling those budgets is feeling the pinch, is feeling the tightness of having health care premiums go up. I would expect that a similar thing would apply, too, if you were out in the private sector and you were getting older; you're going to pay higher premiums.

The government will expect to have to pay more social assistance programmes, et cetera, so that is the way I would expect things to go for the next couple of years. Lead ministries, I would think, would need to submit bigger budgets. They will get the pres-

sure from the public for additional help, and they will know what is needed.

Mr. Kenneth V. Bryan: Thank you, FS.

Through you, Mr. Chair, unfortunately, what I got from that is that we do not have—and I am not sure if there are any plans to at this point; I am happy if you [would] indicate that—a dedicated team to monitor this at all times. What I heard is, what will ultimately happen is we just keep adding more and more money to these costs because naturally, the closer they get to that year, rather than forecasting down the road, they will have a closer assessment when the population increases and the number goes up. I think the acknowledgement that we do not have a dedicated team tells us that we should have one, and maybe from today's hearing, maybe the Government may consider doing that. I think it is something that this report is basically trying to get to. It is all about the long-term sustainable financing for the country.

You brought up an even bigger problem, deeper analysis, from a sustainability perspective that needs to be taken into consideration, and it goes into this: There is an appetite in the Cayman community right now which is anti-growth. As we continue to incur these expenses as the days go by, based on the projections now — we have the large number of persons retiring in eight years. Where is the money going to come from? When most of the things that we do...

I know this is going to be a bit of a controversial comment, but I don't know how much more we can squeeze out of financial services; the public is having a field day with the immigration elements and the revenues we make from it; tourism (from a cruise tourism perspective) seems not to be truly supported; and then there is this attitude of who we are building for, not recognising that growth is what we make money from. What you said to me, Mr. Jefferson, is we are going to need to keep on adding money as the years go by, but I don't know where this money is coming from. I keep asking: Are we intending to either make this economy grow to where we make the revenue or are we going to tax the people to find the money for it? All indications are that *expenses are coming*. Anything you can add to that?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, through you.

Just to clarify that what I meant was that until you get a "central unit" as I describe it, that is involved with forecasting government's expenditures and revenues over a long period of time—10 plus, years—until you get that—[and] ordinarily that unit should be able to say, *in year five this is what we expect health care costs to be* and so forth—until [such a] unit is established, I would expect to see costs increase and included in the budgets.

I am expecting that the lead agencies, Ministry of Health, Ministry of Education, Social Development, whoever is impacted, would be coming with increased amounts and placing them in annual budgets as opposed to, if there was the establishment of a central unit, that unit would say, *Okay, in year five, we think that you need to be budgeting 'x'* versus Ministry of Health, we are going to rely on you to do that. That is the point I was making.

Mr. Kenneth V. Bryan: I do take that point because we are not in disagreement; we agree. All we've just basically said is that one is long-term, and one is short-term. I am saying that for us to make the right decisions today to be prepared for the long term, we need long-term analysis; and I agree that they are doing that in the short term now as they do budgets and so forth. However, you missed the other question that I asked along with it, which is it's not whether you do it short term or long term, but the fact that it is coming and where is the money going to come from to deal with it? This is why it is even more important to have a long-term assessment because it gives you time to prepare.

For example, we are a consumption-based economy with financial services related to it, with some small parts of it being tourism. If we don't understand the magnitude of the problem that is coming in five to 10 years, the decisions that we are making now against certain decisions, hypothetically... Let me just be controversial: cruise tourism or hotel buildings or any other infrastructure for that fact which causes import duties, more employees, work permit fees, consumption of goods and services where we make the revenue, because we do not have any oil, we don't produce anything, and growth is the only way in which we continue to make money.

Unless we want to do the opposite, which is cut back, and we made very clear today that there are very limited ways we can do that. Hence, if we see the expenses coming, but we are not projecting for it in the long term, could we be setting ourselves up for disaster? Now, I am not suggesting to overdevelop; no, I'm not saying that, but I can't even say whether stopping or curtailing the growth of your economy is good or bad because I cannot tell how much money I am going to need in five to 10 years. That is why this dedicated projections team is important. You see what I am saying?

I am more concerned today than I have ever been about the retirees in five years and 10 years and those who need health care, because there is a current attitude and appetite against growth in Cayman (it is the big ghost in the room), not recognising this is how this country was developed. Growth, if managed properly, can be a good thing. Anyway, I'll stop there.

I want to go into immigration. Are you aware whether there is any analysis in our immigration policies that ultimately allows people to become Cay-

manian? Once they become Caymanian, they have access to healthcare, social services, their children can go to school... all these other liabilities. Are you aware if there is any risk analysis on the type of policies, whether they should be restrictive because of the cost component in the long term; or open because we can afford it and the benefits are otherwise? Are you aware of any analysis on projections of financial obligations to people becoming Caymanian?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: No, Mr. Chairman. The short answer to that is, no, I am not aware of it. Doesn't mean that it doesn't exist.

Mr. Kenneth V. Bryan: Fair enough.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Not addressing the question you just asked, I do know that there are planned changes to immigration regulations in respect of bringing in additional revenue to the government from certain fee changes and so forth; not a substantial amount from the estimate that I saw. That is said just as a "by the by" to say that there are some changes planned to the immigration regime, but the analysis that you spoke about whereas the government has sat down and done an analysis of what it cost the government—I think that's what you are getting at—for someone to become a Cayman, I haven't seen that.

Mr. Kenneth V. Bryan: Okay, thank you. That's a legitimate answer.

There is another point where people within our society have always talked about this dependability on revenue from work permits. We are going through a very sensitive period in Cayman's history about immigration. People don't like the fact that our population is where it is, and much of that population growth has come from work permit holders, and much of that money that comes from work permit holders is what we help to sustain the things that we are having right now.

Do you know if there is any analysis on the impact if the government tries to alter the population in some way or control it, restrict it, or even increase it and whether that is analysed in the financial component?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, the closest that I can get to answer that would be to give member Bryan what the work permit fee income has been in recent years. It speaks more to the dependency that you just spoke about as opposed to the analysis that you want. I think, obviously, many of the questions you are ask-

ing are best answered by someone from the Ministry of Immigration, but none of them are here today.

To give an indication of how significant work permits revenue has been in the past, in 2022 it was \$90.7 million; in 2023, it was \$94.4 million; in 2024, it was actually \$107.7 million. Toward the end of July this year, it was \$56 million so you are probably targeting around the same, \$98 million, at the end of this year. If I took the time, I could look at what the PREFU projection was, but I am saying it is going to be \$90-plus million a year; so yes, it is a significant component of government's revenue and if the government makes decisions that cause work permit fees to decrease and decline—

Mr. Kenneth V. Bryan: Or don't approve them at all...

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: It would need to [either] make up for it from some other revenue source, or reduce expenditure by a similar amount so as not to decline its fiscal position.

Mr. Kenneth V. Bryan: Correct, and that is what I am alluding to. That such analysis needs to be done because they are talking about those types of things now. I guess when we get to Parliament we can expand on that further.

I would just like to highlight one thing before I change the angle in my last set of questions, Mr. Chair, [it] is that was even one of the suggestions for increased revenue today: increasing the fees around work permits which will further increase the dependency on that revenue. It is really a very hard thing for policymakers to make major changes if they feel the population says, *okay, you know we're too many people here or we don't want to give away so many work permits and focus more on Caymanians.*

For years people have said, *the reason they get all those work permits is because they need the money; they nah business with Caymanians.* I think it is important that the public knows or at least the government should have someone making that analysis if they got to come back to the public and say, *no, this is a source of revenue for us; or, if we don't support that growth or work permit numbers, we will have to make sacrifices or [generate] revenue elsewhere,* because the public needs to understand how our economy works.

Sorry, go ahead. I see you want to say something.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Sorry, Mr. Chairman.

Your comments are understood clearly. In my opinion, what the public is concerned about, its thoughts, is the number — *the number* of work per-

mits, as opposed to the dollar figure necessarily. If you were able to magically reduce the number of permits that currently exist but retain much the same level of revenue through higher work permit fees I don't think the public would be too concerned about the fact that it has gone from 40,000 work permits to 21,000, if you're still getting the same \$90 million. Their concern is about the number.

Mr. Kenneth V. Bryan: Fair enough, and that is a very good assessment, but in this case, we are not trying to balance out by saying reduce the number, increase the revenue so you can get back to the same amount. We are talking about actually getting more money, so it becomes even more complicated, but I agree with you. If you're strategic, you could be able to reduce the numbers and get either the same amount of revenue you need, or even more from another revenue base.

Let's change to another area which has to do with the debt—and I hope I am not going back over the subject area. Can you confirm what the Cayman Islands' current debt is right as per the last report?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman.

Mr. Chairman, I'll just give a few years. The debt of the government as of 2021 was \$222.7 million and it rose to \$506 million in 2022. In the report, the Auditor General mentions the doubling of debt. That was because remember the previous administration put together a COVID assistance loan in 2022 and virtually left it untouched apart from \$10 million. When a new administration came in in 2021, a decision was made to draw down the remainder of that facility. The drawdown in 2022 was about \$329 million. The loan is for 15 years [and] the interest on it was a fixed amount of 3.25 per cent. The money was drawn down and reinvested whereby the government was actually able to earn a higher return than the 3.25 per cent interest it cost.

At the end of 2022, that \$506 million had dropped to \$453.1 million, which I think is the number mentioned in the Auditor General's report. At the end of 2024, it had declined to \$405 million approximately. At the end of July this year, it had fallen to \$378 million and these declines are as a result of scheduled repayment of the debt principal. I can also say to the Committee that the 2024 and 2025 budget envisaged the government borrowing \$150 million over those two years to pay for its capital programme.

The plan was for the government to borrow, I think, \$23 million in 2024 and \$127 million in 2025. The government went through all of '24 and did not borrow at all, and seven months into 2025 the borrowings were also nil, so for 19 months there were no borrowings on a facility that was approved for \$150 million over the two years. Very early in August, a loan

drawdown was made and the amount was relatively modest — US\$25 million.

Mr. Chairman, I do not foresee the government drawing down the full facility of the \$150 million at the end of this year (2025). I do not see that happening.

Mr. Kenneth V. Bryan: Okay, that is great news, FS. I am happy to hear it. The last figure we had in 2024 was \$475 million after scheduled payments.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: \$404 million.

Mr. Kenneth V. Bryan: I think you said there was another scheduled payment in July that brought it down to \$375 million?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: \$378 million.

Mr. Kenneth V. Bryan: Plus the US\$25 million that we recently drew down.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: In August, yes.

Mr. Kenneth V. Bryan: Okay, so we are still below the \$390 million amount. About that, right?

The reason I say that is because I think it is an unfair criticism that the Cayman Islands are getting — regardless of which government it is, this one, the last one, future ones, it doesn't matter — and I want you to give me your opinion. FS, the total amount associated with COVID by loss of revenue and by costs incurred as a result of COVID-19 was \$333 million so if COVID didn't come, if I'm just being a simple old maths person here, the country potentially could have been, equal for equal, less than \$50 million in deficit. Would that be a fair assessment or is it a far stretch?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: It is difficult for me to do that assessment in my head right now. I don't know how you arrived at the figure of \$50 million but—

Mr. Kenneth V. Bryan: I can repeat it. Let me try it one more time.

Based on the current estimates of our debt, based on what you told us, the last figure and the recent US\$25 million, we are about \$390 million in debt. Is that right?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Yes. Round it to \$400 million.

Mr. Kenneth V. Bryan: Okay, let's call it \$400 [million]. The estimated cost of what COVID hit the country with was \$202 million — to help the Caymanian people get through COVID, whether it was payments, grants and so forth for COVID relief for people, [stipend for tourism workers who were not working, all these other things—plus the loss of revenue of \$131 million; the report suggests an effect of \$333 million.

I'm asking, is it too far to assume that if COVID did not happen we would have been in what you probably call "good management of the country's finances"? Would you agree with that?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, when we look at 2020 as an example, which was the COVID year, the deficit for that year was \$58 million. The next year, 2021, it was \$19.5 million so the numbers you just mentioned — costs incurred, revenues lost — would certainly take care of those deficits and turn those deficits into surpluses. There is no doubt about that.

Mr. Kenneth V. Bryan: Thank you. I'll wrap up by saying this: I'm trying to give the country a level of ease. Caymanians are very conservative. We don't like to know we are in debt at all, which is a good thing, a good financial practice; but, as an expert in this field, you must watch global circumstances. Compared with other jurisdictions in respect to Cayman's debt, how are we compared to the rest of the world?

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Thank you, Mr. Chairman. That's a good question. I appreciate it.

Mr. Chairman, it caused me a bit of concern that the debt, as mentioned in the Auditor General's report, doubled in recent years, although it is a fact that it was because of the 2022 drawdown. The \$329 million that I spoke about was drawn down in 2022, and the honest answer is that the drawdown in 2022 was not necessary to recover — it didn't have to happen to recover the COVID expenses and the revenue losses; that was not the real purpose of that drawdown.

The real purpose was to say we have an opportunity to draw a substantial amount of funds before it expires and the cost is relatively low at 3.25 per cent. If we can take those funds and reinvest them at a much higher interest rate and net terms, the government is ahead, and the Cabinet of the day approved that drawdown— and it existed for a while. That was the real reason for the drawdown, but it can cause some concern in the public when the report

says the “debt doubled.” It just sounds bad. It sounds dramatic.

If you were to put that in perspective in terms of a debt to GDP ratio, the Cayman Islands are extremely modest in terms of its low debt to GDP ratio and that is what you want. In Japan, the debt to GDP ratio is 216 per cent, which essentially means that Japan would have to take two years of the value of goods and services produced in each of those years—and remember that those goods and services don't all belong to the Japanese government, right. In theory, it would take two years' worth of the goods and services produced by Japan to pay off their debt.

In America, it is 124 per cent; so America would have to take all its year's goods and services' value to pay off its debt and it would still have 24 per cent left. The UK has a debt to GDP ratio of 96 per cent. If we go closer to home, Jamaica has come down quite a bit; they are now at about 68 per cent debt-to-GDP. Bermuda has done quite well, Mr. Chair. My last read was that their debt to GDP ratio is now down to 35 per cent; and Barbados has also declined — they are now at about 100 per cent. Cayman is about 7.68 per cent, so if we were to ask for a list of the countries with the lowest debt to GDP ratio, Cayman should be on that list.

I think the ones that are lower than Cayman are Brunei, and possibly Hong Kong; but Cayman is very good in that respect so the doubling of the debt suggests a dramatic problem. We are still subject to the 10 per cent debt servicing ratio. Whatever the size of the debt, we are still meant to comply with that. Obviously, if we could have a lower debt it would be even better but our current debt is not posing a problem right now.

The Chairman: FS, I did the exercise a few years ago and we were certainly in the top 10, and the countries that were ahead of us were countries that had no debt. I am talking about places like the Emirates where they had no external debt, and I think if I remember correctly, the island of Jersey did not have any external debt at the time; so there were solid reasons why we were not higher, but we were within the top 10, I recall. At that time, our debt to GDP ratio was around 5 per cent.

Mr. Kenneth V. Bryan: Mr. Chairman, I thank the FS for all of that in respect of this subject area. I know we are going to move on to this subject area, but I want to put some context.

Though that may sound good, we should never be comfortable. Being a jurisdiction [that's] conservative in our way we handle money is the one thing that has made Cayman who we are. Those old seamen used to pinch and pinch and pinch, and save and save and save, and that culture should never be lost... as well as recognising that there are expenses coming up. Though that may sound good to the rest of

the world, we don't want to be there, so we have to be mindful of that.

I want to put the low debt ratio into perspective compared to the need of the people. What I mean by that is, when your people need help, do not be afraid that you have to spend more money to make sure they have a quality of life, even if it means a little further debt, because it makes no sense to have good financial ratings while your people starve to death or do not have a roof over their house or they are stuck in traffic every day.

As we sit here and critique our extreme measures on financial sustainability, it's good, but bearing in mind the reason why it is all right sometimes when things are hard for your people to go a little further in debt to take care of them because that is the whole purpose of running the country, until things get better and we find a model whereby we can get the finances up again. When governments make decisions to give a civil servant a 5 per cent increase because they have not had one in, I think it was four years, before COVID or something like that, or a poor or older person's relief because they can't survive in the Cayman Islands with \$1,200 because the cost of living is so high, maybe we should be mindful of our critiques. I'll leave it there.

Thank you so much. I don't know if any other Members have any questions in that area, but I'm completed, Mr. Chairman.

The Chairman: Thank you, Mr. Bryan.

We will move forward and we are on to the last segment to complete this hearing today, item 3.3 - infrastructure development and maintenance. I have Mr. Panton to lead that line of inquiry.

Hon. G. Wayne Panton: Thank you, Mr. Chair.

I would note that the budgeted amounts of expenditure did not include the COLA at the time, but it did include the borrowing. Just to put that in context.

Mr. Chair, thank you. I know it's getting late; I'm going to try to get through this fairly quickly. The Auditor General's report states that the long-term financial consequences of building new infrastructure assets are not always adequately considered when making those investments, and those costs can be substantial, so the Auditor General recommended that the Ministry of Finance and Economic Development prepare what they call a “long-term capital investment plan” and noted that the plan should inform capital investment decisions including in relation to the affordability of major capital projects. It wasn't the first time the recommendation had been made. It had first been made back in 2017.

Mr. Chair and colleagues, the Ministry of Finance back in March '22 began including a capital project tracker in its unaudited quarterly financial reports which included a list of capital projects, total project cost, completion time, costs incurred to date, and

estimated capital expenditure over the following five years. Although that is not the same thing as a long-term capital investment plan, it was noted to be a good start; it seems though that there was a decision made in 2024 to remove that tracker from the reports. In fact, it was removed from the third quarter (Q3) report in 2024.

Mr. Chair, I guess the question to the Financial Secretary and his colleague is why was the Ministry of Finance only partially accepting the recommendation in the sense that they came up with the tracker rather than a full long-term capital investment plan and why was the tracker removed in the Q3, 2024 report.

Mr. Kenneth Jefferson, Financial Secretary and Chief Officer, Ministry of Finance and Economic Development: Mr. Chairman, thank you to Member Panton. I will make comments on the tracker and the Accountant General will make comments on the plan.

Mr. Chairman, the decision to remove the capital tracker from the third quarter 2024 report was made simply because it did not include absolutely accurate information, and we did not have sufficient time to go back to the relevant ministries to seek their correction prior to the gazettal date, which is a legally-set date occurring 6 weeks after the end of the quarter. For example, Mr. Chair, for a particular capital project the tracker would show the costs to 1st January 2024, the beginning of the year; the costs incurred to, say, the end of the third quarter of 2024; and what the costs were expected to be in the entire year (2024). Then you would see a number for the cost expected in Year 2, Year 3, until completion, and finally there would be a cost that essentially adds across those numbers to equal the cost that you would expect to see capitalised.

In many instances for the third quarter [figure], the arithmetic was wrong; they didn't add across so we decided, rather than publish information that was incorrect. Although it would appear at the very end of the quarterly report, we couldn't rely on, *well the reader is going to be tired and not going to look at the very last page*. We said we were not going to get the answers in time to publish it by the gazette date, so we removed it deliberately. I am pleased that the tracker was back in the subsequent quarterly reports for 2025, Q1 and Q2, so it is certainly not a permanent removal.

Hon. G. Wayne Panton: Thank you FS for that clear answer.

Mr. Chair, I guess just one follow-up question. Does that mean there are reasons not to further develop a long-term capital investment plan as recommended?

Mr. Matthew Tibbetts, Accountant General, Ministry of Finance and Economic Development: Mr.

Chairman, through you, the FS asked if I could assist with responding to this.

I want to go back to the 2017 report since it was referenced in the report we are looking at today. In the 2017 report, *"Major Capital Projects Follow Up"* produced by the OAG, I believe, in October 2017, there are two recommendations related to the long-term capital investment plan. The first one was that **government should develop a long-term capital investment plan that includes the elements outlined in a specific paragraph (82) in that report; that this be updated on a regular basis; and made publicly available.** The other in 2017 was [that] **the government should also identify who is responsible for developing and maintaining the long-term capital investment plan, ensuring that there are strong links between the budgeting frameworks, and that the capital investment is affordable while maintaining financial sustainability of the Cayman Islands in the longer term.**

Mr. Chairman, in both of those recommendations, the Chief Officer for the Ministry of Commerce, Planning and Infrastructure was the individual identified as being responsible for this long-term capital investment plan. Additionally, client Chief Officers were identified; the Financial Secretary was also listed further down, but at the time the main person responsible was the Chief Officer for the Ministry of Commerce, Planning and Investment.

In this year's recommendation, we have seen a change, whereby it now says **the Ministry of Finance and Economic Development should prepare a long-term capital investment plans. This plan should inform capital investment decisions including in relation to the affordability of major capital projects and the capacity of government and the industry to deliver them. This would significantly improve the government's ability to plan for and report on long-term financial sustainability.** The Ministry of Finance accepted the recommendation in that we completely agreed it was a good idea; we included it in our monthly reporting to Cabinet for the last, I believe, three years now and we are happy to actually put together such a plan going forward.

In our response we said we would try to have it in August '27 for the 2028-2029 budget, and that if possible, we would actually try to get it for the 2026-2027 budget, and that is because we are doing a budget modernisation exercise. We hoped we would actually be further along with our budget modernisation exercise to the point where we would be able to include this long-term capital investment plan in that document; however, we are not at that point yet.

We also have some concerns with regard to whether a long-term capital investment plan will actually be adhered to because we have elections every four years. Unless we know who, the next government is going to be, or that the current government is going to remain, there is a possibility that this long-term cap-

ital investment plan may change every four years. With the change to the budget where we are looking to modernise it, and go to a four-year budget period, it would be an easy fit to say we can do a four-year plan that would be relatively straightforward; but I believe the intention behind this is a much longer one.

Something that would allow us to provide a long-term capital investment plan would be a country plan, which we do not have. I personally think it would be beneficial to have whether it is considered bipartisan or by the population itself to say we want these specific things delivered in the longer term, but a country plan is what is needed, I think, in order to put together a reasonable and deliverable long-term capital investment plan simply because it is something you know that the population wants so you would have specific things like infrastructure, schools that everyone is going to aim to deliver no matter who the people in Cabinet at the time.

I believe a country plan is needed to put together a long-term capital investment plan, but the Ministry of Finance is happy to take the lead on this as much as we can and comply with what is stated in paragraph 82 of the original report; and as much as we can, we would like to include it into the budget modernisation. I see there would be benefits in the four-year budget at that point, specifically because we would actually have a specific plan for four years where we would be doing our capital investment. I know that is only considered medium-term really, but it does give us a good start towards making that long-term.

Again, if the Cayman Islands government or the Cayman Islands could get a country plan [that] would really be where we would start to see benefits. Things like ISWMS [Integrated Solid Waste Management System] for example. We worked on that probably for the better part of 10 years, and then we didn't move forward with it at some point. If we had a clear plan that everyone agreed on, then we would know up front whether we can afford it—which is one of the issues with ISWMS, those kind of things; and we would be able to put that into a plan to move forward; but I think a country plan is necessary for an effective long-term capital investment plan.

Hon. G. Wayne Panton: Mr. Chair, thank you very much, and thank the members of the Financial Secretary's team and the members of the Auditor General's Office. Appreciate it very much.

The Chairman: Well, ladies and gentlemen, that brings us to the end of today's hearing. It has been a marathon session, I have to say. I think it is certainly the longest one that I have attended or led as well, but we got through it.

I am going to draw our meeting to a close. Thank you all for attending and for persevering throughout the day. We do have an administrative

meeting that we need to discuss, so I will just cut things off at this point in time.

Thank you all.

The Committee adjourned at 5:14pm.