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service spend wisely

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KEY FACTS



51%

Increase in entire public sector expenditure between 2018 and 2023.



25%

Increase in entire public sector revenue between 2018 and 2023.



4 years

The Government reported surpluses between 2018 and 2023.



54%

Increase in public sector pay costs between 2018 and 2023.



74%

Increase in expenditure on healthcare between 2018 and 2023.



\$2.1 billion

Net book value of core government property, plant and equipment as at December 2023.



\$278 million

Estimated core government capital expenditure in 2024 and 2025.



\$453 million

Government borrowing as at December 2023.



\$2.7 billion

Core government post-retirement liability as at December 2023 (healthcare \$2.4 billion, pensions \$327 million).



19%

Increase in the Cayman Islands' population between 2021 and 2023 (after the COVID-19 pandemic).



29%

Estimated Caymanian population aged 65 or over by 2033.

GLOSSARY OF TERMS

Adverse audit opinion	<p>The audit opinion is the overall conclusion of the Auditor General on the financial statements (in common with an independent auditor governed by International Standards on Auditing).</p> <p>An adverse audit opinion means that the financial statements contain such significant deficiencies and errors that they should be considered unreliable and untrustworthy for the user.</p>
Core government	<p>Ministries, portfolios and independent offices of the Cayman Islands Government are referred to as core government.</p>
Entire public sector (EPS)	<p>The EPS is made up of core government and all statutory authorities and government companies (SAGCs).</p>
Framework for Fiscal Responsibility (FFR)	<p>The Framework for Fiscal Responsibility (FFR) is a fiscal policy framework between the Cayman Islands Government and the UK Government that sets out a range of measures to strengthen public financial management in the Cayman Islands.</p>
Gross Domestic Product (GDP)	<p>The World Bank defines Gross Domestic Product (GDP) as the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. In other words, GDP represents the monetary value of all goods and services produced in a country during a specified period.</p>
International Monetary Fund (IMF)	<p>The IMF is an organisation of 190 countries that works to foster global monetary cooperation, secure financial sustainability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. The IMF supports its member countries by providing policy advice, research, forecasts and analysis, and by lending to countries to help them overcome economic difficulties.</p>
International Public Sector Accounting Standards Board (IPSASB)	<p>The IPSASB is an independent standard-setting board that develops International Public Sector Accounting Standards (IPSAS), guidance and resources for use by public sector entities around the world for general-purpose financial reporting.</p>

Organisation for Economic Co-operation and Development (OECD)	The OECD is an intergovernmental organisation with 38-member countries. Its mission is to promote policies that will improve the economic and social well-being of people around the world. The OECD undertakes studies and analyses to predict future trends that affect businesses and governments.
Plan and Estimates	A key budget document under the <i>Public Management and Finance Act</i> , presented by the Minister of Finance to Parliament. It summarises the specific outcomes that the Cabinet is seeking to influence, specifies appropriation lines to be included in the appropriation bill and presents forecast financial statements. The Plan and Estimates document also explains how the outcomes, forecast financial statements and appropriation lines link with the Strategic Policy Statement (SPS).
Public Management and Finance Act (PMFA)	The PMFA governs the financial management and accountability of public funds in the Cayman Islands. The Act provides the legal framework for how public resources are managed, allocated, and spent by the Government, ensuring transparency, accountability and efficiency in the use of public funds.
Statutory Authorities and Government Companies (SAGCs)	The SAGCs are entities owned by the Government that are not in core government. Statutory authorities are created through specific Acts (e.g. the Water Authority was created under the <i>Water Authority Act</i>). Government companies are created under the <i>Companies Act</i> (i.e. like any company operating and present in the Cayman Islands, such as the Cayman Islands Stock Exchange Ltd).
Sensitivity analysis	Sensitivity analysis is also referred to as “what-if” analysis because it is a tool used in planning and budgeting to manage uncertainties. In sensitivity analysis, you start with the most realistic forecast and then vary assumptions to assess the impact on the forecast. This allows the forecaster to consider the impact of the best-case and worst-case scenarios in addition to the most realistic scenario.
Strategic Policy Statement (SPS)	The SPS is a key budget document prepared under the PMFA. It is prepared before the budget and lays out, among other things, the Government’s broad and specific outcomes, economic forecasts and core government financial targets, and how these comply with the principles of responsible financial management. It also includes the total amount of executive expenses and the approximate amounts allocated to each Cabinet member, including the Offices of the Auditor General and Ombudsman.

EXECUTIVE SUMMARY

Over the past few decades, global recognition of the importance of a long-term financial outlook has grown. This is because of past financial crises and the recognition that government finances face significant risks, which could intensify in the decades ahead. Therefore, it is important that governments manage their finances to meet service delivery and financial commitments in the short, medium and long terms without the need for large and sudden policy changes.

There is no single definition of long-term financial sustainability, but several organisations have defined it and provide guidance on how it should be planned for and reported on. For example, the Organisation for Economic Co-operation and Development (OECD) defines financial sustainability as “the ability of a government to maintain public finances at a credible and serviceable position over the long term”.¹

In 2010, a report by the Miller–Shaw Commission raised serious concerns about the Cayman Islands Government’s long-term fiscal sustainability.² The report stated that “the Cayman Government is on a path that is no longer fiscally sustainable” and that “the government has huge unfunded liabilities, specifically its civil servants’ defined-benefit retirement and healthcare plans”.

In 2019, the Office of the Auditor General (OAG) started an overarching performance audit on improving financial accountability and transparency. In May 2020, we decided to split the audit findings into three reports, each covering one overarching audit question. The OAG published the first report, on the budgeting process, in December 2020, and the second report, on financial management and reporting, in May 2021.^{3,4} This report is the third in the series and covers long-term financial sustainability. The report focuses on the Cayman Islands Government’s approach to planning for, monitoring and reporting on long-term financial sustainability and aimed to answer the following three audit questions:

- Does the Government clearly understand and manage the risks to and cost pressures on its long-term financial sustainability?
- Does the Government use clear and effective planning to ensure its long-term financial sustainability?
- Does the Government monitor and report on its long-term financial sustainability?

¹ *Government at a Glance*, Organisation for Economic Co-operation and Development, November 2013.

² *Addressing the Challenge of Fiscal Sustainability of the Cayman Islands*, Miller-Shaw Commission, February 2010.

³ *Improving Financial Accountability and Transparency: Budgeting*, Office of the Auditor General, December 2020.

⁴ *Improving Financial Accountability and Transparency: Financial Management and Reporting*, Office of the Auditor General, May 2021.

We carried out research and analysis for this audit. In addition, we used findings from the previous two reports in this series and other OAG reports to inform our conclusions on the long-term sustainability of public finances. For this report, we have focused on the six years from 2018 to 2023.

KEY MESSAGES

We make six recommendations in our report. These relate to assessing the long-term financial impact of risks and cost pressures and estimating and budgeting for the financial consequences of policy commitments, strategies, plans and legislation. We also recommend reporting on long-term financial sustainability and creating an independent mechanism for fiscal review and forecasting. We repeat a recommendation made previously in 2017 about developing a long-term capital investment plan that has not been implemented.

Risks to and cost pressures on long-term financial sustainability

The financial performance of the Cayman Islands' public sector was mixed over the six years from 2018 to 2023. The entire public sector (EPS) reported a surplus each year, except during the COVID-19 pandemic years (2020 and 2021). Over the same six years, public sector revenues increased by 25 per cent and expenditure increased by 51 per cent. This trend has led to a significant post-pandemic reduction in surpluses and indicates a risk to long-term financial sustainability.

In November 2024, we reported that the Government had developed a new framework for risk management, which it plans to roll out across the civil service in 2025.⁵ The new approach includes carrying out a quarterly internal risk assessment and an annual external risk assessment. The draft external risk assessment identified a major economic downturn as a risk, but it did not include risks to long-term financial sustainability. However, it does assess the impact of global economic risks on government revenues.

The Government has not identified or assessed the risks to long-term financial sustainability. Therefore, we have done this. We have summarised some risks and spending pressures below that may affect the long-term sustainability of the Government's finances.

Costs resulting from legislative and policy commitments

Implementing new legislation or changes to legislation and policy can have significant financial consequences in the short, medium and long terms. Governments need to have a clear understanding of these costs and ensure that they are affordable now and in the future.

⁵ *The Government's approach to sustainable economic development*, Office of the Auditor General, November 2024.

In December 2020, we reported that it was unclear if the financial consequences of policy commitments and legislation had been adequately considered and budgeted for by the Government.⁶ For example, implementing Section 47 of the *Public Authorities Act* (PAA) is likely to cost tens of millions of dollars annually. This has not been adequately budgeted for.

The Government introduced a range of measures in response to the COVID-19 pandemic. For example, it amended the *National Pensions Act* in 2020 to allow people to withdraw funds from their private pensions early and take pension holidays. This was intended to alleviate the financial pressures that many people faced during the pandemic. However, it may have long-term financial implications for the Government, as some people may have insufficient pension funds in the future, resulting in them needing financial assistance.

Rising public sector pay costs

Between 2018 and 2023, total public sector pay costs rose by over \$228 million (54 per cent). By 2023, public sector pay costs amounted to \$650 million, accounting for approximately 49 per cent of total expenditure. During this period, the size of the public sector grew by 18 per cent. Over the same period, the Government also implemented pay awards for civil servants to better align salaries with the cost of living. Over the six-year period, these pay awards and other government-wide honorariums increased the core government pay costs by an estimated \$56 million. Further pay awards for civil servants were announced in 2024, which will further elevate public sector pay costs by an estimated \$22 million in 2025. Many of these increases will also have long-term financial implications for post-retirement benefits.

These pay awards affect the EPS. Most Statutory Authorities and Government Companies (SAGCs) have aligned their staff salaries with civil service pay scales to comply with Section 47(1) of the PAA. However, it is unclear if SAGCs can afford to implement all pay increases, as they were not included in budgets. In November 2024, we reported that 10 SAGCs reported deficits in 2023.⁷

Rising healthcare costs

As at December 2023, government spending on healthcare costs accounted for around 24 per cent of core government expenditure. Between 2018 and 2023, public sector expenditure on healthcare increased significantly, by 74 per cent, to \$246 million. This included money provided by the Government to the Health Services Authority to deliver health services, tertiary medical care at overseas

⁶ *Improving Financial Accountability and Transparency: Budgeting*, Office of the Auditor General, December 2020.

⁷ *Financial Reporting of the Cayman Islands Government: General Report 31 December 2023*, Office of the Auditor General, November 2024.

providers, health insurance for civil servants, seamen and veterans, and health insurance for civil service pensioners.

Liabilities

Government debt peaked in 2011, and it gradually declined over the 10 years to 2021. However, government borrowing has more than doubled since 2021. As at December 2023, core government debt was \$453 million. The Government announced that it plans to borrow a further \$150 million in the 2024–2025 budget period to support planned capital and infrastructure projects. The repayment of this debt may put pressure on finite resources and may need to be prioritised over other policies and programmes in the longer term.

The Government has significant long-term liabilities for civil servants' pensions and post-retirement healthcare insurance. As at December 2023, the Government's post-retirement healthcare liability was estimated to be \$2.4 billion, and the present value of the unfunded pension liability for the Government's defined benefit plans was \$328 million. In November 2024, we reported that the post-retirement healthcare liability for 10 SAGCs was \$401 million as at December 2023. Some SAGCs also have pension obligations for their staff, amounting to almost \$16 million as at December 2023.

Changing demographics

Changes in a population's characteristics affect the level of government resources needed to sustain it. For example, an increase in the number of people creates greater demand for public services and certain groups of people are more likely to use government services.

The population increased by 29 per cent between 2018 to 2023 to 84,700, and by 19 per cent between 2021 and 2023. This creates more demand for government services such as schools, affordable housing and healthcare. It also puts pressure on the transport system, road networks, waste management systems and internet connectivity services. We estimate that by 2033 around 29 per cent of the Caymanian population could be aged 65 or over. This may put additional pressure on health services and social services in the longer term.

The costs of building and maintaining infrastructure

The costs of building and maintaining infrastructure assets are likely to be significant over the medium to longer term. As at 31 December 2023, the Government reported capital assets with a net book value of \$2.7 billion. Within this, land is valued at \$1.1 billion. The remaining \$1.6 billion of assets have limited useful lives, and many will require maintenance and renewal at some point. In October 2017, we

reported that the long-term financial consequences of building new infrastructure assets are not always considered adequately when decisions on investments are made, and these costs can be high.⁸

Planning for, monitoring and reporting on financial sustainability in the short and medium terms

The *Public Management and Finance Act* (PMFA) sets out the Government's budgeting and financial reporting framework. The PMFA also requires that the Cabinet manage the financial performance and financial position of the core government, that is, the civil service, in accordance with six principles of responsible financial management.

The Government plans its financial sustainability over the short and medium terms by setting out plans and forecasts for three years in each Strategic Policy Statement (SPS). Each SPS includes forecasts of the Government's revenues, spending, investment in capital infrastructure, debt levels and compliance with the principles of responsible financial management over the next three years. SPSs also include a discussion of assumptions for medium-term projections and international developments that pose risks to economic forecasts. We found that SPSs include the elements required by the PMFA, but that some information could be improved. For example, they include estimated total costs of planned capital projects over three years but do not include details of costs or timescales for each project.

The Government does not adequately plan for commitments and cost pressures in the short and medium terms. For example, it is unclear if the Government has developed a pay strategy for the entire public sector and factored this into its budgets. In December 2020, we reported that budgeting for tertiary healthcare needed to improve, as annual overspending was significant, requiring supplementary budgets.⁹ This is still the case.

The Government monitors and reports on its current financial health and reports forecasted financial results in the short term. It does this through its unaudited quarterly financial reports and consolidated financial statements for the EPS. The quarterly financial reports provide good, real-time information. Since 2023, the reports have also provided an assessment of compliance with the six principles of responsible financial management. However, the financial information included in the quarterly reports is unaudited. We have stated many times in our reports that the quality of the EPS financial statements needs to improve and that the audits of the EPS financial statements are backlogged. The most recently audited year is 2020. The most recent financial statements tabled in Parliament, and therefore published, are for 2018. In addition, the audit opinion on these financial statements is adverse, meaning that the figures cannot be relied on. Therefore, there is limited reliable information available in the public domain on the Government's short-term financial health.

⁸ *Major Capital Projects Follow Up*, Office of the Auditor General, October 2017.

⁹ *Improving Financial Accountability and Transparency: Budgeting*, Office of the Auditor General, December 2020.

Our analysis of EPS financial statements over the six years from 2018 to 2023 shows that the Government complied with most of the principles of responsible financial management. The Government reported deficits in 2020 and 2021, which resulted from additional expenses incurred during the COVID-19 pandemic. In addition, the cost of borrowing was more than required in 2019 because the Government also repaid the bullet bond in that year.

Planning for, monitoring and reporting on long-term financial sustainability

Reporting on long-term financial sustainability is important, as it helps to inform citizens of what the Government is doing to ensure sustainable government programmes. The International Public Sector Accounting Standards Board published Recommended Practice Guideline 1 (RPG 1) in 2013. RPG 1 provides guidance on reporting on the long-term sustainability of a public sector entity's finances.

Many jurisdictions report on their long-term financial sustainability and have fiscal review bodies in place to monitor financial sustainability. However, the Cayman Islands Government does not plan for or report on its long-term financial sustainability.

It is unclear if decision-makers have information about the long-term financial implications of legislation, policies and strategies before approving them. Some information on financial implications may be presented to the Cabinet when they consider draft documents. However, bills presented to Parliament do not contain information on the financial implications of proposed legislation. We also noted that the implementation of some long-term strategies and plans may require government investment. However, this is not quantified and the financial implications will not be included in budgets.

In 2023, the Ministry of Finance and Economic Development prepared a long-term projection of the impact of a solid waste management project known as ReGen on the Government's compliance with the principles of responsible financial management. This was a good start to planning for long-term financial sustainability, but it has not continued.

INTRODUCTION

1. Over the past few decades, recognition of the importance of a long-term financial outlook has grown. This is because of past financial crises and the recognition that government finances face significant risks, which could intensify in the decades ahead.
2. The Organisation for Economic Co-operation and Development (OECD) reported that the global financial crisis of 2007 adversely impacted citizens' confidence in their national governments; confidence declined, on average, from 45 to 40 per cent.¹⁰ The International Monetary Fund (IMF) reported that, on average, countries experience a significant fiscal shock (amounting to around 6 per cent of gross domestic product (GDP)) once every 12 years, with a large shock (costing over 9 per cent of GDP or more) occurring every 18 years on average.¹¹
3. Therefore, it is important that governments maintain financial stability in the short term and financial sustainability in the medium to longer term. This is crucial for providing important public services, creating financial reserves for economic challenges and keeping the overall economy steady. It also enables governments to deliver services and benefits across different generations, promoting fairness for everyone. Sustainable public finances establish the conditions that allow governments to meet their broader economic, social and environmental objectives. Furthermore, they allow governments to prepare for future challenges – such as an ageing population and increasing demand for health and social care services.
4. For this audit, we defined “short term” as a period of one year or less. We use “medium term” when referring to a period of more than one year up to four years, and “long term” for a period of five years or more.

THE IMPORTANCE OF LONG-TERM FINANCIAL SUSTAINABILITY

5. The OECD defines financial sustainability as “the ability of a government to maintain public finances at a credible and serviceable position over the long term”.¹² The OECD has also stated that fiscal sustainability is “a multi-dimensional concept that incorporates an assessment of solvency, stable economic growth, stable taxes, and intergenerational fairness. Financial sustainability has not only financial implications, but also social and political ones related to both present and future generations.” The OECD recommends that fiscal projections are tied directly to the annual budget

¹⁰ *Government at a Glance 2013*, Organisation of Economic Co-operation and Development, 2013.

¹¹ *Analyzing and Managing Fiscal Risks – Best Practices*, International Monetary Fund, June 2016.

¹² As footnote 10.

process, to ensure that governments give adequate attention to the fiscal consequences of current policies.¹³

6. The International Public Sector Accounting Standards Board (IPSASB), the standards-setting body for government financial reporting worldwide, defines long-term financial sustainability as “the ability of an entity to meet its service delivery and financial commitments both now and in the future”.¹⁴ According to the Scottish Fiscal Commission, financial sustainability involves assessing whether, based on current policy, government revenue raised will match spending requirements over the long term.¹⁵
7. The Australian Government stated that fiscal sustainability is the Government’s ability to manage its finances so it can meet its spending commitments, now and in the future, without large and sudden adjustments to policies.¹⁶ It further stated that financial sustainability is critical, as it:
 - ensures the ongoing delivery of essential services by preventing the need for sudden adjustments to the level of government spending and reducing the risk of interest costs crowding out higher priorities;
 - promotes macroeconomic stability through the credibility of public finances and greater certainty of future policy settings;
 - creates fiscal space to provide economic support during economic downturns and crises; and
 - supports intergenerational equity by ensuring the burdens of taxation and the benefits from government services are fairly shared between generations.
8. In 2002, both the IMF and the OECD published guidance on long-term financial sustainability. The OECD recommended that governments prepare a long-term report at least every five years to assess the budgetary implications of demographic change and other potential developments over the next 10 to 40 years.¹⁷ The IMF similarly recommended the use of longer-term projections to assess sustainability.¹⁸ Since 2002, the OECD and other organisations have continued to develop guidance,

¹³ *Fiscal futures, institutional budget reforms, and their effects: What can be learned?*, Organisation for Economic Co-operation and Development, 2009.

¹⁴ *Recommended Practice Guideline: Reporting on the Long-Term Sustainability of an Entity’s Finances*, International Public Sector Accounting Standards Board, July 2013.

¹⁵ *Fiscal sustainability*, Scottish Fiscal Commission, <https://www.fiscalcommission.scot/explainers/fiscal-sustainability/> (accessed on 10 February 2025).

¹⁶ *Intergenerational Report 2023: Australia’s future to 2063*, Commonwealth of Australia, 2023.

¹⁷ *Best Practices for Budget Transparency*, Organisation for Economic Co-operation and Development, 2002.

¹⁸ *Assessing Sustainability*, International Monetary Fund, May 2002.

and the practice of planning and reporting long-term financial sustainability has increased significantly.

9. In 2013, the IPSASB issued Recommended Practice Guideline 1 (RPG 1), which provides guidance on reporting long-term financial sustainability, including the nature and extent of risks that an entity may face.¹⁹ It highlights the need to report on the capacity and vulnerability of three interrelated dimensions of long-term fiscal sustainability: service, revenue and debt. We discuss RPG 1 later, in the chapter on **Planning for, monitoring and reporting on long-term financial sustainability**.

THE CAYMAN ISLANDS CONTEXT

10. The Cayman Islands Government introduced the *Public Management and Finance Act (PMFA)* in 2001. The PMFA sets out a budgeting and financial reporting framework for the public sector. It was amended in 2017 to introduce a two-year budget period from 2018. The budgeting framework requires that budgets be prepared for two years with an estimate for the third year.

11. The purpose of the Ministry of Finance and Economic Development (MFED) is to:

- develop, implement and maintain macroeconomic and budgetary policies and maintain measures;
- manage the finances of the Government; and
- exercise supervision and control in all matters relating to the financial affairs of the Cayman Islands.²⁰

12. The Office of the Auditor General (OAG) has published several reports that have commented on the Cayman Islands Government's budgeting and financial management and reporting framework. In those reports, we identified risks to short-term affordability and to financial sustainability in the medium to longer term. For example:

- In October 2017, we reported that budget and major capital project approval processes were not aligned, there was no long-term infrastructure investment plan to inform decisions and reporting on progress on major capital projects could be improved.²¹
- In December 2020, we reported that the budget framework focused on outputs rather than on outcomes, that estimates of recurring operating expenditure were not robust, that capital projects were not properly budgeted for and that revenue estimates needed to be improved.²²

¹⁹ As footnote 14.

²⁰ *Annual Report 2023*, Ministry of Finance and Economic Development, August 2024.

²¹ *Major Capital Projects – Follow up*, Office of the Auditor General, October 2017.

²² *Improving Financial Accountability and Transparency: Budgeting*, Office of the Auditor General, December 2020.

- In May 2020, we reported that, although the Government publishes quarterly financial reports, these could be used better to inform decision-making. The core government had enough assets to cover liabilities, but the full liability for retirement benefits was not reported, and government borrowing had declined significantly.²³
- In June 2020 and May 2022, we reported that the COVID-19 pandemic cost the Government at least \$333 million in additional expenditure and lost revenues.²⁴
- Our annual General Reports on the annual financial statements report on the financial performance of the public sector. The most recent report, published in November 2024, reported that some Statutory Authorities and Government Companies (SAGCs) consistently report deficits, which gives rise to concerns about their financial stability.²⁵

13. In 2010, the Miller–Shaw Commission provided guidance on how the Government can address fiscal sustainability.²⁶ One recommendation was to reduce operating expenses significantly.

14. Exhibit 1 shows the financial performance of the entire public sector (EPS) over the six years from 2018 to 2023 and budgeted figures for 2024 and 2025. It shows that the Government reported surpluses in four years and deficits in the two years during the COVID-19 pandemic. It also shows that the Government budgeted for small surpluses in 2024 and 2025. EPS expenditure increased by almost \$440 million (51 per cent) over the six-year period to just over \$1.3 billion in 2023. Revenue increased by \$274 million (25 per cent) over the same period to almost \$1.4 billion in 2023. Government expenditure has risen at twice the rate of revenue, which is unsustainable in the long term.

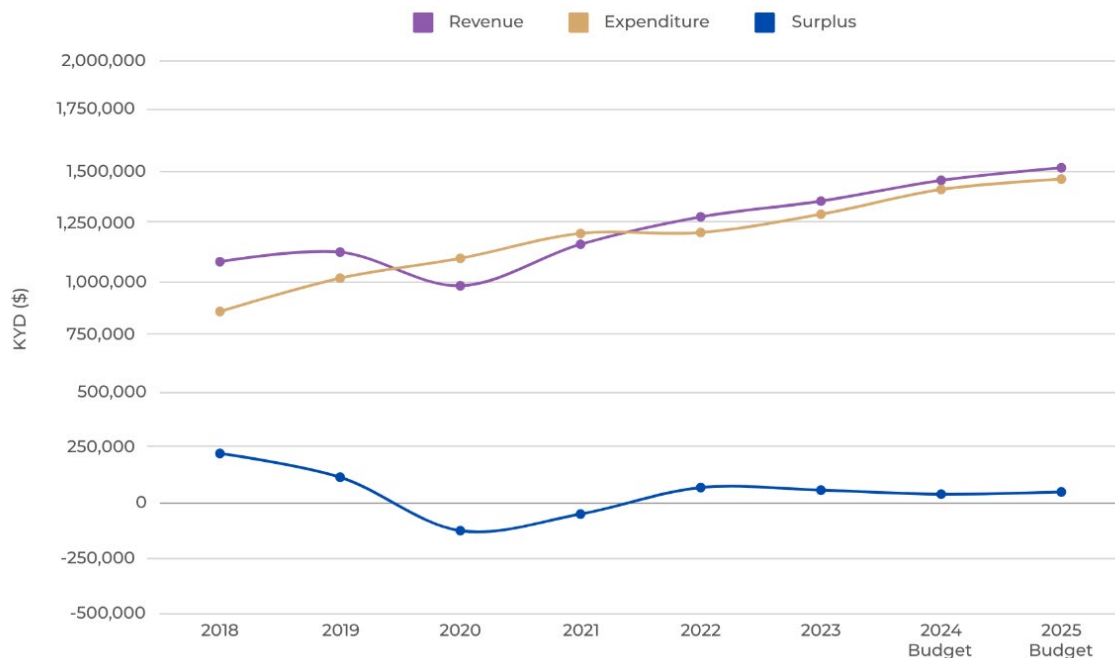
²³ *Improving Financial Accountability and Transparency: Financial Management and Reporting*, Office of the Auditor General, May 2021.

²⁴ *Overview of the Government’s costs in relation to COVID-19*, Office of the Auditor General, July 2020, and *The impact of the COVID-19 pandemic on Government finances: Update to March 2022*, Office of the Auditor General, May 2022.

²⁵ *Financial Reporting of the Cayman Islands Government: General Report 31 December 2023*, Office of the Auditor General, November 2024.

²⁶ *Addressing the Challenge of Fiscal Sustainability of the Cayman Islands*, Miller-Shaw Commission, February 2010.

Exhibit 1: EPS revenue, expenditure and surplus, 2018 to 2023 (actual) and 2024 to 2025 (budget)



Sources: EPS signed financial statements for 2018 to 2020, EPS draft financial statements for 2021 to 2023 and Plan and Estimates document 2024–2025.

Note: The EPS financial statements for 2018 to 2020 received an adverse audit opinion. The audit of the EPS financial statements for 2021 to 2023 is ongoing; the audit opinion for 2021 will be adverse.

ABOUT THE AUDIT

15. In 2019, the OAG started a performance audit on improving financial accountability and transparency. The audit planned to assess how effective the Government is at budgeting, financial management and reporting, to enhance transparency, accountability and long-term financial sustainability. In May 2020, the OAG decided to report on each of these three issues separately in a series of reports. The OAG published the first report, on budgeting, in December 2020 and the second report, on financial management and reporting, in May 2021. This report is the last in the series and focuses on long-term financial sustainability. We used a system-oriented audit approach and sought to answer the following audit questions:

- Does the Government clearly understand and manage the risks to and cost pressures on its long-term financial sustainability?
- Does the Government use clear and effective planning to ensure its long-term financial sustainability?
- Does the Government monitor and report on its financial sustainability?

16. This report focuses on the EPS and MFED's coordination role over the EPS. It covers the six years from 2018 to 2023 and reports on budgets for 2024 and 2025.
17. More information about the audit, including the audit criteria, approach and methodology, can be found in Appendix 1 of this report.
18. The report has three main chapters:
 - Risks to and cost pressures on the long-term financial sustainability of public finances.
 - Planning for, monitoring and reporting on financial sustainability in the short and medium terms.
 - Planning for, monitoring and reporting on financial sustainability in the long term.

RISKS TO AND COST PRESSURES ON THE LONG-TERM FINANCIAL SUSTAINABILITY OF PUBLIC FINANCES

19. The OECD Council on Budgetary Governance identifies ten principles of good budgetary governance. The principles include aligning budgets with the medium-term strategic priorities of government, ensuring that budget documents and data are open, transparent and accessible and identifying, assessing and managing prudently longer-term sustainability and other fiscal risks. The Council encourages the use of mechanisms to promote the resilience of budgetary plans and to mitigate the potential impact of risks. The mechanisms involve identifying, classifying by type of, explaining and, as far as possible, quantifying risks. These mechanisms and principles should inform consideration and debate about the appropriate fiscal policy course to adopt in budgetary planning. It also states that a report on the long-term sustainability of public finances should be published regularly to make an effective contribution to informing the public and allow for political discussion.²⁷

THE GOVERNMENT HAS NOT IDENTIFIED OR ASSESSED THE RISKS TO LONG-TERM FINANCIAL SUSTAINABILITY

20. The Government has not identified or assessed the risks to its long-term financial sustainability. We found that some elected officials had made speeches indicating that they were aware of some of the risks and cost pressures affecting public finances. For example, references were made to increases in inflation and the cost of living, rising healthcare costs and post-retirement healthcare liability. However, we found no evidence that these risks had been formally identified, documented or quantified.

21. MFED launched a risk management framework for the Government in March 2019. However, the Government did not fully implement the framework. Ministries, portfolios, and offices started to develop risk registers, but these focused on operational and project-related risks, and were inconsistent across the civil service.

22. In November 2024, we reported that the Government appointed a Chief Risk Officer (CRO) in February 2024, transferring responsibility for risk management framework from MFED to the CRO.²⁸ The CRO is working to streamline a new framework for consistent adoption across the civil service in 2025. In addition, the Government has established new processes for a government-wide quarterly

²⁷ *Recommendation of the Council on Budgetary Governance*, Organisation of Economic Co-operation and Development, 2015.

²⁸ *The Government's approach to sustainable economic development*, Office of the Auditor General, November 2024.

internal risk assessment and an annual external risk assessment. The Government has formed a senior leadership risk committee comprising chief officers to provide ongoing oversight of the risks. The draft external risk assessment does not include risks to long-term financial sustainability. However, it does assess the impact of global economic risks on government revenues. The Civil Service Strategic Plan 2024–2026, published in March 2024, includes initiatives to monitor and manage risk registers actively.²⁹

RISKS TO AND COST PRESSURES ON LONG-TERM FINANCIAL SUSTAINABILITY

23. In the absence of a formal assessment by the Government, we have identified some risks to and cost pressures on the long-term financial sustainability of public services. These include the following:

- legislative and policy commitments;
- public sector pay costs;
- rising healthcare costs;
- public sector debt and obligations;
- population changes;
- costs of building and maintaining infrastructure; and
- revenue sources.

FINANCIAL CONSEQUENCES OF LEGISLATIVE AND POLICY COMMITMENTS

24. Changes in policy and the adoption of new legislation can have significant financial consequences in the short, medium and long terms. The Government needs to clearly understand these costs and ensure that they are affordable now and in the future. In December 2020, we reported that it is unclear if the Government adequately considers and budgets for the financial consequences of policy commitments and legislation.³⁰

THE FINANCIAL CONSEQUENCES OF THE *PUBLIC AUTHORITIES ACT* ARE SIGNIFICANT AND WERE NOT FACTORED INTO BUDGETS

25. We have previously reported on the financial consequences of the *Public Authorities Act* (PAA) and found that these have not been properly considered in budgets. The PAA came into force on 1 June 2017, except for Section 47, which was delayed until 1 June 2019. Section 47 aims to bring

²⁹ *The Civil Service Strategic Plan 2024–2026 – Summary*, Cayman Island Government, April 2024.

³⁰ *Improving Financial Accountability and Transparency: Budgeting*, Office of the Auditor General, December 2020.

SAGC staff terms and conditions, including salaries and non-monetary benefits (pensions and healthcare insurance), in line with those of the civil service.

26. This alignment of staff terms and conditions creates additional costs that need to be properly budgeted for and factored into annual payroll costs. In May 2021, we recommended that the Government estimate the cost of fully implementing Section 47 of the PAA and ensure that SAGCs are provided with enough funding to cover these costs in their future budgets.³¹
27. Section 47(1) of the PAA requires all SAGCs to use the same salary scale, which the Cabinet decided should be the civil service salary scale. As at December 2023, most SAGCs had aligned their staff salary scales with the civil service salary scale.³² It is unclear what the total cost of implementing Section 47(1) of the PAA has been so far. However, in March 2024, we reported that one of the SAGCs, Cayman Airways Limited (CAL), had spent over \$2 million in aligning its staff salaries with the civil service salary scale.³³
28. Section 47(3) of the PAA states that SAGCs may further reduce differences in terms and conditions of employment by providing for employee contributions to health insurance and pensions. It also states that SAGCs may provide different types of allowances and change working hours, leave entitlements and retirement benefits. However, such changes would be necessary only if gaps remained in the total remuneration package after salaries had been adjusted. Civil service employees' healthcare insurance and pension costs are fully funded by the civil service. However, these costs are generally only partly funded by SAGCs.
29. Some SAGCs have started implementing elements of Section 47(3). In 2022, we estimated that the costs resulting from all SAGCs implementing Section 47(3) would be significant.³⁴ We estimated, at that time, that SAGCs would incur an additional \$14 million annually in pension costs and at least \$17 million a year in healthcare insurance costs. The cost of matching healthcare insurance benefits for SAGC staff will exceed that estimate. While civil servants' healthcare benefits include coverage

³¹ *Improving Financial Accountability and Transparency: Financial Management and Reporting*, Office of the Auditor General, May 2021.

³² We reported in the *General Report on the 2023 financial statements (Financial reporting of the Cayman Islands Government: General report – 31 December 2023)*, November 2024) that three SAGCs – the Civil Aviation Authority of the Cayman Islands, the Cayman Islands Monetary Authority and the Children and Youth Services Foundation – had yet to implement Section 47(1) of the PAA.

³³ *The Efficiency and Effectiveness of Cayman Airways Limited*, Office of the Auditor General, March 2024. Exhibit 19 in the report shows that CAL spent \$2.6 million uplifting salaries; around \$600,000 of this cost was for a new pilot salary scale agreed with the Cayman Airlines Pilots' Association. The remaining \$2 million was implementing Section 47 of the PAA.

³⁴ *Financial Reporting of the Cayman Islands Government: General Report 31 December 2021*, Office of the Auditor General, October 2022.

for dependents, we understand that SAGC healthcare insurance covers staff only. Our previously reported estimate was based only on the number of SAGC staff members and did not account for their dependents because of a lack of data. In addition, public servants who have at least 10-years' consecutive service and retire are entitled to continued healthcare benefits for themselves and their dependents.³⁵ Therefore, we cannot estimate the full cost of implementing Section 47(3) for SAGCs. Moreover, it is important to note that public sector pay costs have risen since our previous report and therefore, annual expenses will be higher than anticipated. We previously recommended that the Government evaluate the financial implications of implementing Section 47 of the PAA before proceeding. However, this recommendation has not yet been implemented.³⁶

POLICY DECISIONS MADE DURING THE COVID-19 PANDEMIC MAY HAVE LONG-TERM COST PRESSURES

30. In May 2022, we reported that the Government incurred additional costs of \$202 million and sacrificed \$131 million in revenues while implementing various measures in response to the COVID-19 pandemic.³⁷ This situation negatively affected the Government's financial performance in 2020 and 2021, resulting in deficits being reported for those years. However, the overall financial performance was not as severely affected as it might have been. This was because the Government had built up significant surpluses in previous years and some revenue streams performed better than expected.
31. In response to the pandemic, the Government amended the *National Pensions (Amendment) Act* in 2020. This allowed individuals to withdraw early from their private sector pensions and pause contributions to their pensions for one year. During this pension holiday period, plan members had the option to continue paying their portion as voluntary contributions. In December 2020, the Department of Labour and Pensions reported that plan members had withdrawn \$443.5 million from their pensions.³⁸ The department also estimated that \$156 million in pension contributions were not paid during the pension holiday period.³⁹ This may affect the Government's financial sustainability in the longer term. The withdrawal of pensions and pause on contributions mean that

³⁵ Personnel Regulations 2022, section 18(2). This applies to employees entitled to a pension under the *Public Service Pensions Act (2021 Revision)*.

³⁶ As footnote 34.

³⁷ *The impact of the COVID-19 pandemic on Government finances: Update to March 2022*, Office of the Auditor General, May 2022.

³⁸ Pension withdrawals over \$400 million, Cayman Islands Government, December 2020, [https://www.gov.ky/labour/press-release-details/pensions-withdrawal-tops-over-\\$400-million](https://www.gov.ky/labour/press-release-details/pensions-withdrawal-tops-over-$400-million) (accessed on 10 February 2025).

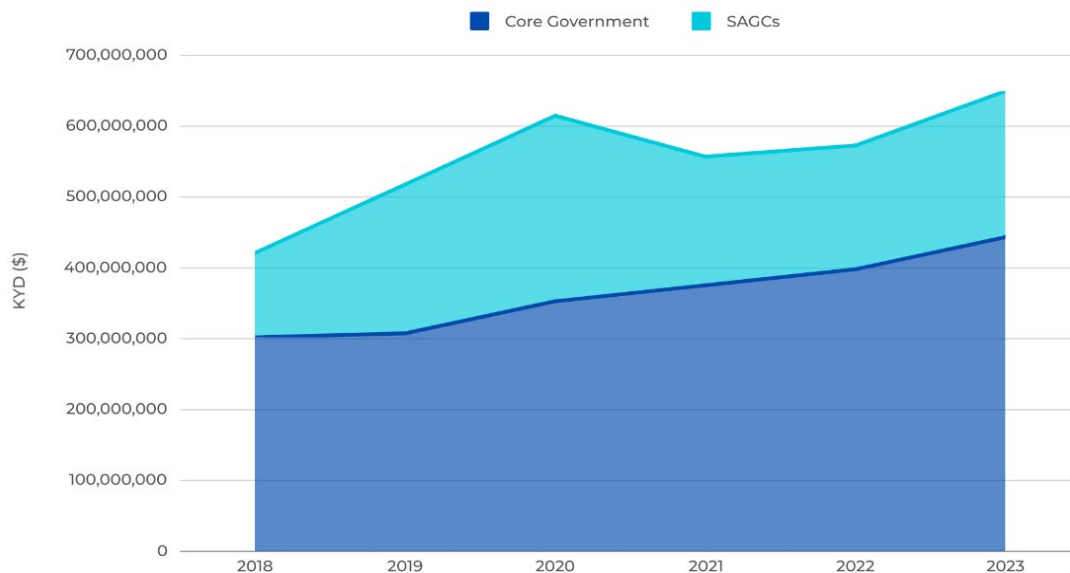
³⁹ 2019 pension contributions were used a basis for this estimate.

some people may have insufficient pension funds to sustain them after retirement. This may result in increased government spending on welfare costs in the longer term.

RISING PUBLIC SECTOR PAY COSTS

32. In December 2020, we reported on a pay freeze imposed by the Government that lasted until 2014. Between the fiscal years 2014/15 and 2016/17, the Government began granting stagnation awards to some employees.⁴⁰ In July 2018 and January 2020, the Government provided a 5 per cent cost-of-living salary increase to all civil servants. The Government also paid public servants a one-off honorarium during the COVID-19 pandemic. Combined, these adjustments increased pay costs by approximately \$30 million, but it was not included in budget forecasts.
33. Exhibit 2 shows total public sector pay costs over the six-year period from 2018 to 2023. Over the period, total public sector pay costs rose by over \$228 million (54 per cent), to nearly \$650 million in 2023. Within these figures, core government pay costs increased by 47 per cent (over \$141 million), while pay costs for SAGCs grew by 73 per cent (\$87 million) during the same period.

Exhibit 2: Public sector pay costs, 2018 to 2023



Source: EPS financial statements for 2018 to 2020 and EPS draft financial statements for 2021 to 2023.

Note: The EPS financial statements for 2018 to 2020 received an adverse audit opinion. The audits of the EPS financial statements for 2021 to 2023 are ongoing. The audit opinion for 2021 will be adverse.

⁴⁰ *Improving Financial Accountability and Transparency: Budgeting*, Office of the Auditor General, December 2020.

34. The size of the public sector increased over the same period. The total number of public sector employees increased by 18 per cent, from around 6,400 in 2018 to 7,600 in 2023. The civil service alone increased by 19 per cent to almost 4,600 employees in 2023, while SAGC employees increased by 17.5 per cent to almost 3,000 in 2023. Therefore, the increase in pay costs can be partly attributed to higher staff numbers, but this is not the only reason.
35. Annual increases in pay costs varied, with the biggest increase (13 per cent) being between 2022 and 2023. Within this, SAGC pay costs increased by 18 per cent and those for the civil service (core government) by 11 per cent. During 2022 and 2023, the Government announced and implemented several pay uplifts for civil servants to better align salaries with the cost of living. Combined, these added an estimated \$26 million to core government pay costs; \$17 million in recurring annual costs and \$9 million in one-off costs for government-wide honorariums. The pay adjustments included:
- an honorarium of \$450, paid to all staff below grade E to offset high electricity costs in 2022;
 - a 2 per cent cost-of-living adjustment, paid to all staff in September 2022;
 - a one-point salary grade increment for all staff below grade E in December 2022, equivalent to a 2.5 per cent increase;⁴¹ and
 - an honorarium of \$1,500, paid to all civil servants in December 2023.
36. As reported earlier, civil service pay costs increased by \$141 million between 2018 and 2023. Increases in staffing numbers will have increased pay costs. We also estimate that around \$45 million of this increase relates to pay awards to bring salaries better in line with the cost of living. A further \$10 million was paid in one-off, government-wide honorariums. However, these do not account for the entire increase in pay costs. Civil service pay costs may also have increased because of increments, job regradings and duty and acting allowances but the extent and cost of this is unclear. This reinforces the need for a pay strategy.
37. In October 2024, the Government announced that all civil servants would receive a one-off honorarium of \$2,000 in December 2024, the minimum salary for civil servants would be increased to \$3,000 a month and a cost-of-living adjustment of 5 per cent would come into force from January 2025. This is estimated to increase pay costs further by \$22 million in 2025.
38. As reported earlier, most SAGCs have implemented Section 47(1) of the PAA, which means that their staff are on the same salary scale as civil service employees. This may account for the increase in SAGC pay costs. However, in 2022, we reported that it is unclear if full implementation of Section 47

⁴¹ In September 2022, Grade E on the civil service salary scale was equivalent to salaries ranging from \$112,740 to \$147,912. From 1 January 2025, the Grade E salary scale increased to \$121,356 to \$155,316.

of the PAA is affordable.⁴² In the same report, we stated that the Health Services Authority (HSA) had implemented section 47(3) of the PAA before fully implementing section 47(1). The HSA was able to do this in 2021 as it made an operating surplus that year. In November 2024, we stated that 10 SAGCs, including the HSA, had reported deficits.⁴³ Therefore, it is unclear if SAGCs can afford to implement the additional pay changes announced in 2024, as they were unplanned and not included in budgets.

RISING HEALTHCARE COSTS

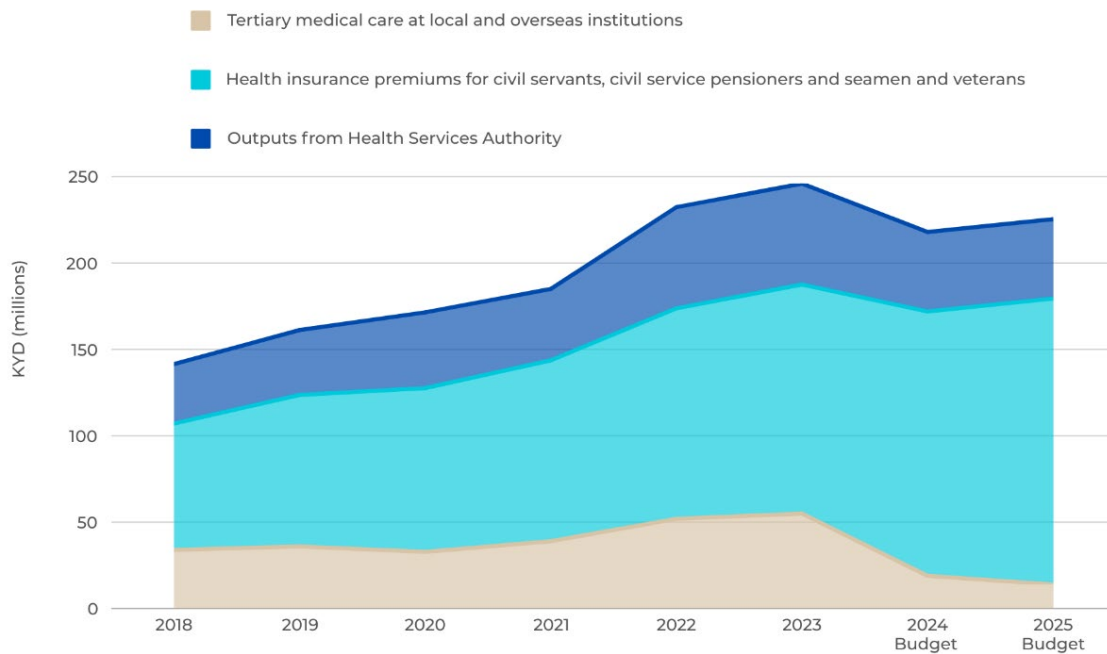
39. Previous and anticipated increases in government spending on healthcare show that costs within the healthcare system will put significant pressure on the Government's finances over the coming years. Future spending on healthcare will be influenced by demographics (the ageing Caymanian population), which is discussed later. For example, health insurance premiums rise as people get older, and health insurance costs will increase as more people, including civil servants, retire.
40. The OECD has predicted that cost pressures related to the delivery of healthcare will increase further in the coming years. Rising incomes, technological innovation and changing demographics will put further pressure on health spending. By 2040, health spending could reach 11.8 per cent of GDP across OECD countries.⁴⁴
41. The Government's expenditure on healthcare includes:
- payments made by the Government to purchase outputs from the HSA;
 - costs related to health insurance premiums for civil servants, civil service pensioners, seamen and veterans; and
 - costs related to tertiary medical care at local and overseas institutions.
42. Exhibit 3 shows that government expenditure on healthcare increased by 74 per cent over six years, from \$141 million in 2018 to \$246 million in 2023. The cost of providing healthcare has increased from around 21 per cent of core government expenditure in 2018 to 24 per cent in 2023. In 2023, government expenditure on healthcare was equivalent to 5 per cent of the Cayman Islands' GDP.

⁴² *Financial Reporting of the Cayman Islands Government: General Report 31 December 2021*, Office of the Auditor General, October 2022

⁴³ *Financial Reporting of the Cayman Islands Government: General Report 31 December 2023*, Office of the Auditor General, November 2024.

⁴⁴ *Fiscal Sustainability of Health Systems*, Organisation for Economic Co-operation and Development, January 2024.

Exhibit 3: Government expenditure on healthcare (actual for 2018–2023 and budgeted for 2024 and 2025)



Sources: EPS financial statements for 2018 to 2023, the 2024 third quarter financial report and the Plan and Estimates document 2024–2025.

Note: The EPS financial statements for 2021 to 2023 are unaudited, and the audit opinions on the EPS financial statements for 2018 to 2020 are adverse. The 2024 and 2025 figures are budgeted figures. We estimated the annual cost of tertiary medical care at local and overseas institutions for 2024 as \$51 million. The estimate was arrived at by dividing the year-to-date cost of \$38 million (in the unaudited financial report for the third quarter of 2023) by three and multiplying by four. The budgeted amount for 2024 was \$18.6 million.

43. Over the same six years, the annual costs paid by the Government to the HSA for the provision of healthcare increased by 70 per cent, from \$34 million in 2018 to \$58 million in 2023. Over the same period, the HSA’s activity significantly increased. For example, hospital admissions increased by 19 per cent, operations by 22 per cent, outpatient clinic visits by 85 per cent and prescriptions filled by 36 per cent.⁴⁵ The HSA’s staffing levels increased by 39 per cent over the same period, to over 1,200 in 2023.

⁴⁵ Health and Social Services data, Compendium of Statistics 2023, Economics and Statistics Office, November 2024.

44. The Government provides health insurance coverage for all civil servants and their dependants, civil service pensioners, seamen and veterans. Health insurance premiums are paid over to the Cayman Islands National Insurance Company (CINICO). Over the six years, government expenditure on healthcare insurance for civil servants increased by 81 per cent from \$73 million in 2018 to over \$133 million in 2023. These costs will increase further, as CINICO increased its health insurance rates by 5 per cent in 2024 and expects to increase them by a further 6 per cent in 2025. The Plan and Estimates for 2024–2025 shows that budgeted health insurance costs for 2024 are 30 per cent higher than in 2023, and that 2025 costs are expected to be 8 per cent higher than in 2024.⁴⁶
45. Exhibit 3 also shows that government expenditure on tertiary medical care at local and overseas institutions increased over the same six years. Government expenditure increased by 63 per cent over from \$34 million in 2018 to over \$55 million in 2023. An ageing local population means that government spending on tertiary medical care and medical care for indigents is likely to increase significantly. We comment on budgeting for tertiary medical care later, in the chapter **Planning for, monitoring and reporting on financial sustainability in the short and medium terms**.

COST PRESSURES ARISING FROM PUBLIC SECTOR DEBT AND OBLIGATIONS

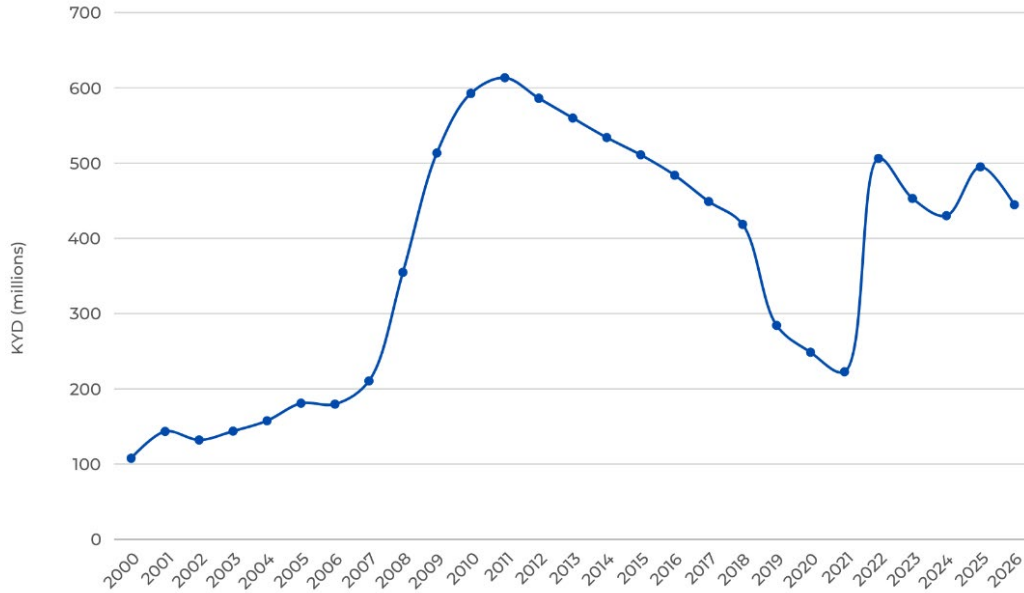
46. The Government and wider public sector have a range of debts and obligations that need to be paid in the longer term. These include government borrowing, SAGC loans and post-retirement obligations for pensions and healthcare.

RISING DEBT LEVELS

47. Exhibit 4 shows that core government debt peaked in 2011 at \$613 million. In 2011, the Government agreed on the Framework for Fiscal Responsibility (FFR) with the UK Government. The FFR sets out a range of measures to strengthen public finances in the Cayman Islands. Between 2011 and 2021, the Government actively reduced its debt to \$223 million. In 2021, the Government decided to secure a line of credit worth \$330 million, which was drawn down in June 2022. As at December 2023, government debt had more than doubled, to over \$453 million. Moreover, for the 2024–2025 budget, the Government planned to borrow \$150 million over the budget period to support planned infrastructure projects. In addition, some SAGCs have debt of around \$20 million.

⁴⁶ *Plan and Estimates for the 2024 financial year ending 31 December 2024 and the 2025 financial year ending 31 December 2025*, Cayman Islands Government, December 2023.

Exhibit 4: Central government debt, 2000 to 2023 (actual), and budgeted, 2024 to 2026



Sources: OAG analysis of data from the Economics and Statistics Office’s Annual Economic Reports from 2022 to 2023; 2024–2025 Plan and Estimates (2024 and 2025 debt balances); and the 2024–2026 SPS (2026 debt balance).

- 48. In March 2021, the Government signed an agreement with a private sector consortium for an integrated solid waste management project known as ReGen. This is a private–public partnership that involves a form of borrowing. If it were to go ahead, the ReGen agreement would significantly increase government debt levels over the 25-year life of the contract. The Government announced in July 2024 that it planned to start negotiations to exit the agreement.
- 49. The Government budgeted for \$278 million of capital expenditure in 2024 and 2025.⁴⁷ It stated that 92 per cent of the expected capital expenditure would be funded through debt, with only 8 per cent to be covered by government revenues. During the 2022 and 2023 financial years, all planned government capital expenditure was to be funded from borrowing. Continuing to borrow to fund capital expenditure will affect the Government’s fiscal position in the long term.

⁴⁷ Plan and Estimates for the 2024 financial year ending 31 December 2024 and the 2025 financial year ending 31 December 2025, Cayman Islands Government, December 2023.

POST-RETIREMENT HEALTHCARE AND PENSION LIABILITY ARE SIGNIFICANT

50. As reported earlier, the Government provides benefits to civil servants as part of their remuneration package, which the Government must pay out in the future. These liabilities significantly affect the sustainability of public finances over the longer term.
51. The *Public Service Management Act* requires the Government to provide post-retirement pension and healthcare benefits to eligible employees.⁴⁸ As at December 2023, the present value of the unfunded pension liability for the civil service defined benefit plan was \$328 million. The Government's post-retirement healthcare liability was estimated to be \$2.4 billion.
52. In November 2024, we reported that 10 SAGCs had staff eligible to receive post-retirement healthcare benefits.⁴⁹ The obligations for these 10 SAGCs varied significantly over the six years from 2018 to 2023. As at December 2023, the total obligation for the 10 SAGCs was \$401 million. Some SAGCs also have pension obligations for their staff, amounting to almost \$16 million as at December 2023.

POPULATION CHANGES

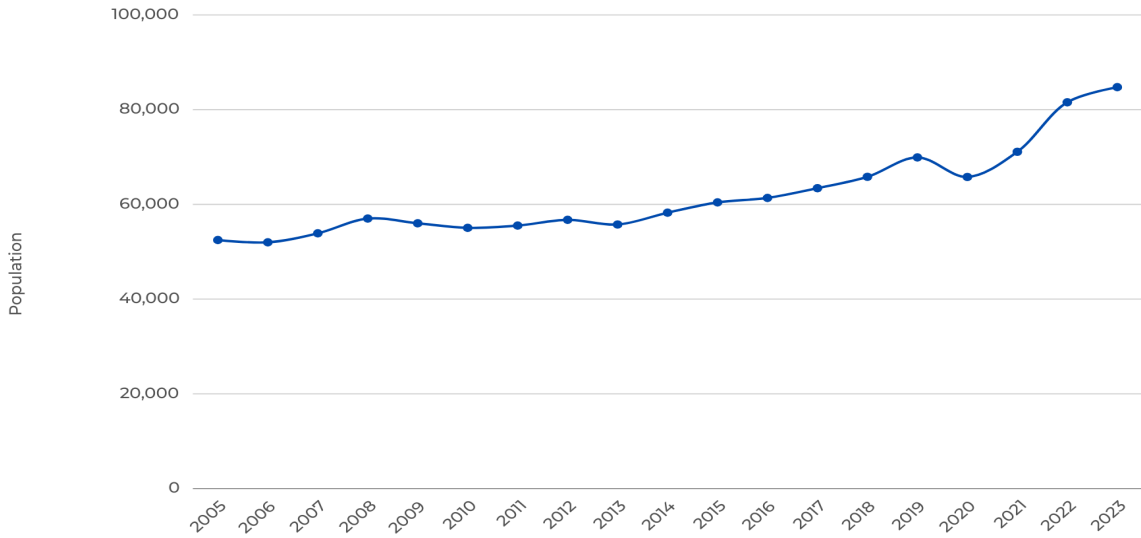
53. Changes in the population may increase the demand for government services now and in the future, which may increase costs. For example, older people are more likely to use health services and social welfare than the younger population.
54. Exhibit 5 shows that the Cayman Islands' population increased significantly over the 11 years from 2013 to 2023. The population increased by 28 per cent between 2018 and 2023 to 84,000. Although the population decreased during the COVID-19 pandemic in 2020, it is now larger than pre-pandemic levels, having grown by 19 per cent between 2021 and 2023.⁵⁰ This increase in population is mainly the result of a rise in the number of non-Caymanian residents. While migration can help drive economic growth, it may also increase the demand for government services, such as schools and medical facilities, and put strain on infrastructure, including the road network. Many of these services are delivered by the public sector, which may drive an increase in government costs in the future.

⁴⁸ The *Public Service Management Act* requires that civil servants have a minimum of 10 years of qualifying service with the Cayman Islands Government. It also requires that employees retire from the civil service in order to be entitled to a healthcare benefit on retirement.

⁴⁹ *Financial Reporting of the Cayman Islands Government: General Report 31 December 2023*, Office of the Auditor General, November 2024.

⁵⁰ *The Cayman Islands' Compendium of Statistics 2023*, Cayman Islands Government Economics and Statistics Office, August 2024.

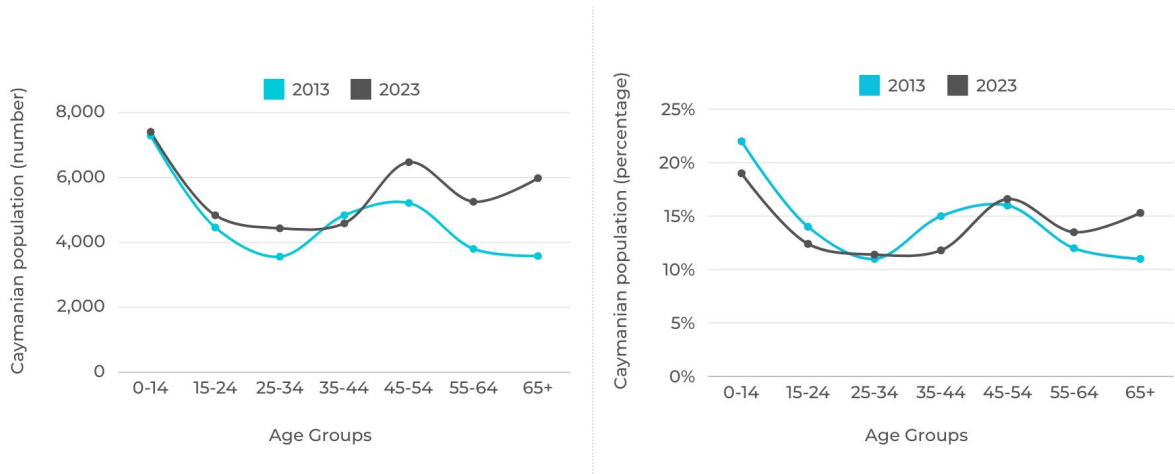
Exhibit 5: Cayman Islands’ population, 2005 to 2023



Source: OAG analysis of data from the Cayman Islands’ Compendium of Statistics for 2023 published by the Cayman Islands Economics and Statistics Office.

55. The demography of the population is also changing. Exhibit 6 shows that the Caymanian population is ageing. Between 2013 and 2023, the number of elderly Caymanians (aged 65 or older) increased by 2,400 (67 per cent) to almost 6,000. Additionally, over 5,200 Caymanians are within 10 years of retirement (aged 55-64).

Exhibit 6: Caymanian population by age group, by number and percentage, in 2013 and 2023



Source: OAG analysis of data from the Cayman Islands’ Compendium of Statistics for 2013 and 2023 published by the Cayman Islands Economics and Statistics Office.

56. Exhibit 6 also shows that the age profile of the Caymanian population is changing. By 2023, Caymanians aged 65 or older accounted for over 15 per cent of the population, compared with 11 per cent in 2013. In 2023, 13.5 per cent of Caymanians were between 55 and 64 years old. This means that by 2033 around 29 per cent of Caymanians could be 65 years or older. This is likely to increase demand for healthcare services and welfare and social care in the future, which will lead to higher costs.

THE COST OF BUILDING AND MAINTAINING INFRASTRUCTURE

57. The future costs of building and maintaining infrastructure assets are likely to have a significant impact on the sustainability of public finances over the coming years. We previously reported that major capital projects cost more than estimated.⁵¹ Some cost increases are because of changes in the project scope. However, other cost increases relate to construction inflation, which is usually higher than inflation rates, and an insufficient contingency allowance in budget estimates.

58. As at 31 December 2023, the EPS financial statements reported capital assets with a net book value of \$2.7 billion. Within this, land is valued at \$1.1 billion; the remaining \$1.6 billion of assets have limited useful lives, and many will require maintenance and renewal at some point. Of the total, core government capital assets are valued at \$2.1 billion. In October 2017, we reported that the long-term financial consequences of building new infrastructure assets are not always considered adequately when investing, and these costs can be high.⁵²

REVENUE SOURCES

59. In November 2024, we reported that the four largest sectors of the economy contributed around half of government revenue between 2018 and 2022.⁵³ The financial services sector is the largest contributor to government revenue. Between 2018 and 2022, it contributed at least \$1.5 billion, or about 36 per cent, of total government revenue.⁵⁴ This is a significant contribution. However, there is a risk that any adverse impact on the financial services sector, such as a downturn in global financial markets, could significantly affect the Government's overall revenue.

⁵¹ *Owen Roberts International Airport (ORIA) Terminal Redevelopment Project – Progress Update as at August 2018*, Office of the Auditor General, January 2019.

⁵² *Major Capital Projects Follow Up*, Office of the Auditor General, October 2017.

⁵³ *The Government's approach to sustainable economic development*, Office of the Auditor General, November 2024.

⁵⁴ OAG analysis of revenue from 2018–2022 EPS financial statements.

60. Other major government revenue streams include revenue from work permit fees and import duties. Revenue from work permit fees increased by 46 per cent over six years, to almost \$128 million in 2023.⁵⁵ However, annual revenue varied over the period. Over the longer term, revenue from work permit fees may be affected by changes in policy and the number of current work permit holders gaining Caymanian status.⁵⁶ Revenue from import duties increased by 32 per cent over the same period, to \$238 million in 2023. However, revenue from import duties can be affected by macroeconomic variables that affect consumer spending, such as inflation and interest rates.

Recommendation 1: 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.

⁵⁵ OAG analysis of revenue breakdown from the Economics and Statistics Office’s annual economic reports (2018–2023).

⁵⁶ A Caymanian refers to a citizen of the Cayman Islands who, for immigration purposes, does not need a work permit to secure employment.

PLANNING FOR, MONITORING AND REPORTING ON FINANCIAL SUSTAINABILITY IN THE SHORT AND MEDIUM TERMS

61. Having an effective medium-term financial plan makes it easier for organisations to manage fluctuations in income and expenditure.⁵⁷ For this audit, we define “short term” as a period of one year or less and “medium term” as a period of over one year and up to four years.
62. The PMFA sets out the Government’s budgeting and financial reporting framework. The first stage in the budgeting framework is the preparation of a Strategic Policy Statement (SPS), which sets out the Cabinet’s priorities, broad strategic outcomes, specific outcomes and fiscal policies. The SPS generally covers three years. The Government prepares several budget documents to support the SPS, which set out more detailed budgets for the two years ahead. The PMFA requires that budgets are prepared for two years and are approved by Parliament.

THE GOVERNMENT PLANS FOR FINANCIAL SUSTAINABILITY IN THE SHORT TO MEDIUM TERM

63. The Government plans its financial sustainability over the short to medium term by forecasting its financial performance, position, cash flows and planned capital projects over the next three years in the SPS. The SPS forecasts are essential for gaining an understanding of the Government’s medium-term financial health over the next three years.
64. The PMFA requires that the Cabinet manages the financial performance and financial position of the core government, that is, the civil service, in accordance with six principles of responsible financial management. In November 2024, we reported that core government entities generally budget to break even.⁵⁸ The PAA requires that SAGCs conduct their affairs in a responsible financial manner and at least break even.
65. The PMFA requires that the SPS includes the following aspects of medium-term planning, that is, for two to three years:⁵⁹

⁵⁷ *Looking forward: Medium-term financial strategies in the UK public sector*, Chartered Institute of Public Finance and Accountancy, October 2016.

⁵⁸ *Financial Reporting of the Cayman Islands Government: General Report 31 December 2023*, Office of the Auditor General, November 2024.

⁵⁹ *Public Management and Finance Act (2020 Revision)*, Section 23 and Annex A.

- a forecast of revenues and expenditure;
- economic forecasts, including high-level social, economic and policy information;
- disclosure of forecasting risks and assumptions associated with medium-term projections;
- plans for investment in capital infrastructure and debt levels; and
- a projection of performance against fiscal policy indicators (that is, compliance with the six principles of responsible financial management).

66. We assessed the information contained in the 2022–2023 SPS and the 2024–2026 SPS against the PMFA requirements for medium-term planning. We found that these SPSs provide the information required by law but some improvements could be made. Exhibit 7 shows our assessment of information in the SPSs against the PMFA requirements.

Exhibit 7: OAG assessment of medium-term planning in the 2022–2023 and 2024–2026 SPSs

PMFA requirements for medium-term planning	OAG’s assessment of medium-term planning in the SPSs against PMFA requirements
Projections of revenues, spending and debt over the medium term.	The SPSs include projections of revenues, spending and debt over three years.
Projections of high-level economic forecasts for the medium term.	The SPSs include a summary of recent economic statistics, trends and forecasts. They include projections of GDP growth, interest rates, inflation and unemployment over the three years ahead.
Disclosure of forecasting risks and assumptions associated with medium-term projections.	The Government discloses risks and assumptions for GDP growth and inflation. For example, the 2024-26 SPS noted for GDP Growth that “the increasing geopolitical tensions, the current test of faith in the international banking system, and the continued fear of a looming recession poses significant unquantifiable downside risk to the forecast”. Concerning inflation, the Government highlighted the uncertainty surrounding Russia’s invasion of Ukraine and its impact on prices in the global market.
Planned investment in capital infrastructure. <i>The PMFA requires that the capital investment plan include details of new and continuing projects which are anticipated to have a lifetime value of over \$10 million for the next three years.</i>	The SPSs include the Government’s capital investment plan for three financial years. The SPSs include the estimated total cost of all planned projects over the three-year period. However, the SPSs do not include details of the expected costs of each project or the year in which costs will be incurred.
A projection of fiscal policy indicators (the six principles of responsible financial management) over the medium term.	The SPSs include a projection of the six principles over the SPS period.

Source: OAG analysis of PMFA and 2022–2023 and 2024–2026 SPSs.

67. In June 2023, Moody’s affirmed the Cayman Islands’ Aa3 credit rating. Its report stated that compliance with principles of responsible financial management had resulted in the Cayman Islands’ fiscal metrics being significantly stronger than similarly rated peers.⁶⁰ Moody’s is a credit rating, research and risk analysis firm. It provides data, intelligence and analytical tools to help businesses and financial leaders make confident decisions. A rating of Aa3 means obligations are judged to be of the highest quality, and are subject to very low credit risk.

ASSUMPTIONS USED IN MEDIUM-TERM PLANNING ARE REASONABLE

68. An SPS sets out some of the key economic factors that are intended to inform economic forecasts and the budget process for the three years ahead. These include real GDP growth, inflation (consumer price index (CPI)) and the unemployment rate. In December 2020, we reported that it was unclear how these indicators were considered when preparing budgets.⁶¹

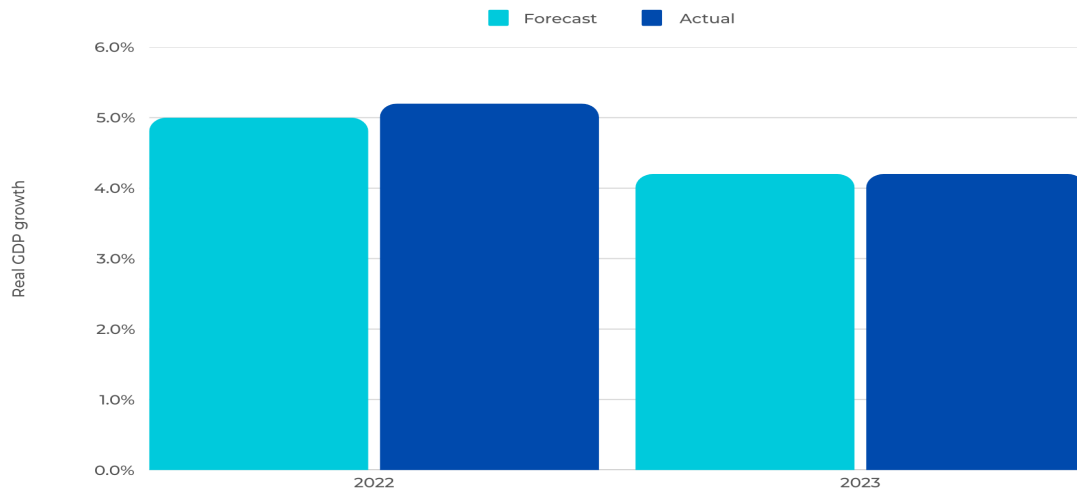
69. For the purposes of this audit, we assessed the reasonableness of the assumptions made about the economic indicators in the 2022–2023 SPS. We considered whether projections were realistic and informed by past trends and expectations of future trends. We found that projections of real GDP growth and unemployment were reasonable. However, the forecasts for inflation projections could be improved.

70. Exhibit 8 compares real GDP growth projections from the 2022–2023 Plan and Estimates with actual real GDP growth rates. It shows that the projections were reasonably accurate. However, the economy recovered from the COVID-19 pandemic faster than the Government had anticipated. The 2024–2026 SPS assumes a real GDP growth rate of between 1.6 per cent and 2.2 per cent.

⁶⁰ Moody’s rating action report, June 2023.

⁶¹ *Improving Financial Accountability and Transparency: Budgeting*, Office of the Auditor General, December 2020.

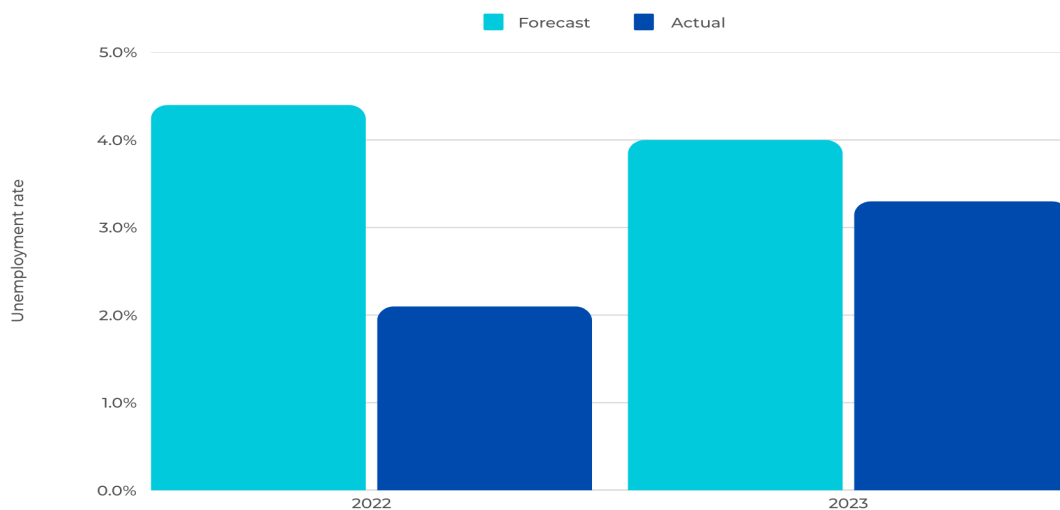
Exhibit 8: Cayman Islands’ forecasted and actual real GDP growth rates (%), 2022 and 2023



Source: OAG analysis of data from the 2022–2023 Plan and Estimates.

71. The 2022–2023 Plan and Estimates projected that unemployment rates would fall between 2022 and 2024. Employment was expected to increase because of planned construction projects and the recovery of the tourism industry after the COVID-19 pandemic. Exhibit 9 shows that the Government’s assumptions were conservative, as actual unemployment forecasts were lower than projections. The 2024–2026 SPS assumes unemployment to be between 2.4 per cent and 2.7 per cent.

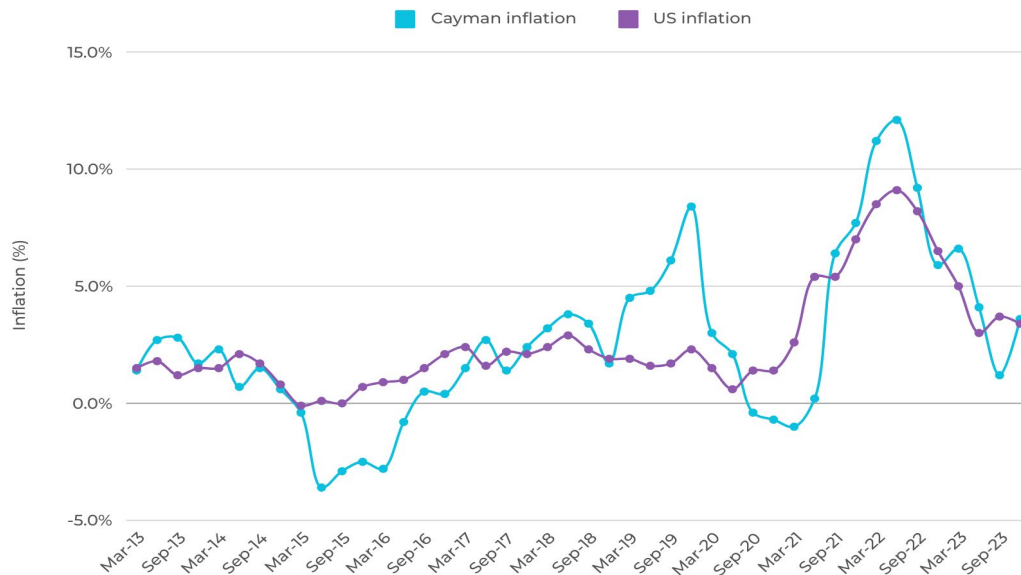
Exhibit 9: Cayman Islands’ forecasted and actual unemployment rates (%), 2022 and 2023



Source: OAG analysis of data from the 2022–2023 Plan and Estimates document.

72. The 2022–2023 Plan and Estimates assumed inflation rates of 3.4 per cent (2022) and 2.3 per cent (2023). It states that these assumptions are driven by forecasts from the United States, as it is the principal market from which the Cayman Islands imports products. This is reasonable. Exhibit 10 shows the trend of the Cayman Islands and US quarterly inflation rates between March 2013 and December 2023. The exhibit shows that there is a correlation between Cayman and US inflation rates using past inflation data. However, we noted that, since 2015, inflation in the Cayman Islands has had higher peaks and lower troughs than in the United States. We encourage the Government to consider these past trends in inflation in the Cayman Islands for future projections. The 2024–2026 SPS states that the Cayman Islands’ CPI for 2023 will be 5.2 per cent. The SPS includes inflation projections of between 2.0 per cent and 2.5 per cent for the three years.

Exhibit 10: Comparison of quarterly inflation rates in the Cayman Islands and the United States, March 2013 to December 2023



Source: US and Cayman Islands inflation data (2013–2023) obtained directly from the Economics and Statistics Office of the Cayman Islands.

THE GOVERNMENT DOES NOT ADEQUATELY PLAN FOR COMMITMENTS AND COST PRESSURES IN THE SHORT AND MEDIUM TERMS

73. Budgets should be based on reasonable data. This is essential for effective financial planning and helps the Government to be adequately prepared for future expenses. We reported earlier on a range of financial risks to and cost pressures on the long-term financial sustainability of public finances. These include the financial consequences of legislation and policy commitments, public sector pay costs, rising healthcare costs, public sector debt and obligations, population changes and the building and

maintenance of infrastructure. The SPS includes projections of inflation as an economic indicator. However, it is unclear if or how the Government factors other financial risks and cost pressures into its short- and medium-term budgets.

74. We reported earlier that most SAGCs have aligned their staff salaries with civil service pay scales. However, the additional pay costs arising from implementing Section 47 of the PAA were not adequately budgeted for. We also reported earlier that, in 2022, we estimated that implementing Section 47 of the PAA would cost at least \$31 million.⁶² In March 2024, we reported that CAL estimated that implementing Section 47(3) of the PAA fully would cost it around \$3.5 million a year.⁶³ In evidence to the Public Accounts Committee of Parliament in May 2024, CAL stated that it had received funding to cover these additional costs in 2024 but not for 2025. As reported earlier, HSA increased its pension contributions for staff in 2021. HSA also uplifted salaries to align with the civil service in 2022. We estimate that HSA's pay costs increased by over \$11 million a year as a direct result of implementing Section 47 of the PAA.
75. In December 2020, we reported that the Government does not plan or budget for pay awards, and we therefore recommended that it should develop a pay strategy.⁶⁴ This pay strategy should set out when pay awards will be given and, where appropriate, factor these into budget estimates. In March 2023, we reported that the Government was still developing a pay strategy.⁶⁵ The Government stated, at that time, that it was considering cost-of-living adjustments that would be included in the 2024–2025 budget. We reported earlier on rising public sector pay costs and that further pay increases had been announced. However, the 2024–2025 budget documents did not mention cost-of-living adjustments. We also understand that the additional cost implications for SAGCs were not included in the budgets. This means that SAGCs need to assess and decide individually if they can afford to implement these pay increases. If they are unaffordable within current budgets, they may decide not to adopt the pay increases, which means that their employees' pay will not keep in line with the cost of living.
76. Increasing public sector salaries also has implications for other pay benefits like pensions as contribution rates are based on salaries. This will increase costs in the short, medium and long terms, as well as long-term liabilities.
77. The *Financial Assistance Regulations 2023* were approved after the *Financial Assistance Act* was passed in 2022. There was no evidence that the Government budgeted for these changes in the 2024–2025

⁶² *Financial Reporting of the Cayman Islands Government: General Report 31 December 2021*, Office of the Auditor General, October 2022.

⁶³ *The Efficiency and Effectiveness of Cayman Airways Limited*, Office of the Auditor General, March 2024.

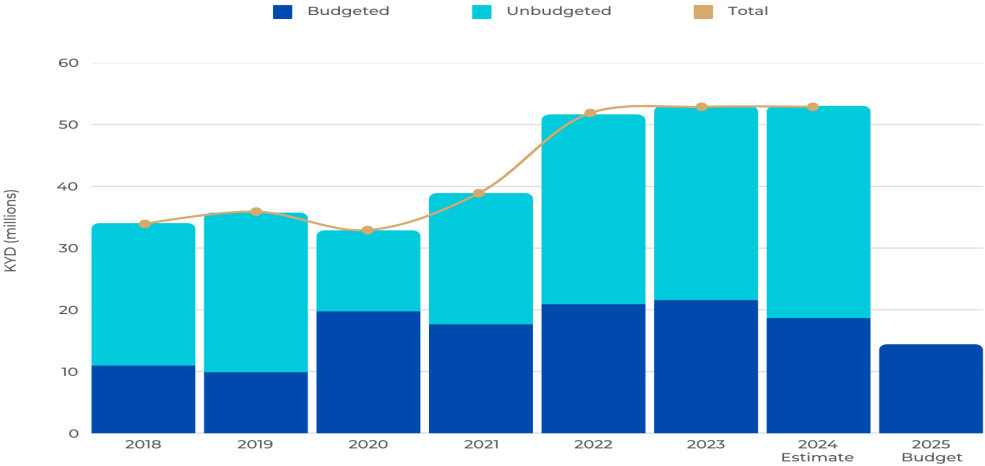
⁶⁴ *Improving Financial Accountability and Transparency: Budgeting*, Office of the Auditor General, December 2020.

⁶⁵ *Follow-up on past PAC Recommendations 2023 – Report 1*, Office of the Auditor General, March 2023.

budget. Implementing the Regulations resulted in actual expenditure of \$7.7 million more than budgeted for in the nine months to 30 September 2024.⁶⁶ We discuss the *Financial Assistance Regulations* later in the chapter on **Planning for, monitoring and reporting on financial sustainability in the long term.**

78. We reported earlier that healthcare costs are rising and account for a significant proportion of the Government’s total expenditure. In 2020, we highlighted that budgeting for tertiary healthcare was significantly underestimated annually.⁶⁷ This has not been addressed. Exhibit 11 shows budgeted and actual expenditure on tertiary medical care between 2018 and 2023 and budgeted amounts for 2024 and 2025. Our analysis shows that actual expenditure on tertiary medical care was significantly higher than that budgeted for in each of the six years from 2018 to 2023. It also shows that expenditure budgeted for was significantly lower than the previous period’s actual spending. The budgeted amounts for 2024 and 2025 are \$18.7 million and \$14.4 million, respectively. This compares with actual expenditure of over \$50 million in 2022 and 2023. In December 2024, Parliament approved an increase in the 2024 budget of \$21.2 million, increasing it from \$18.6 million to \$39.8 million.⁶⁸

Exhibit 11: Budgeted and unbudgeted expenditure on tertiary medical care at local and overseas institutions



Sources: Annual Plan and Estimates 2018 to 2025, EPS financial statements for 2018 to 2023 and the third quarter financial report for 2024.

⁶⁶ Unaudited Quarterly Financial Report six-month period ended 30 September 2024: Core Government, Cayman Islands Government, November 2024.

⁶⁷ As footnote 64.

⁶⁸ Requests to Finance Committee for Appropriation Changes Sought Under Section 12 of the Public Management and Finance Act (2020 Revision), Cayman Islands Government, October 2024.

79. As reported earlier, the 2024–2025 Plan and Estimates states that capital expenditure on planned projects will amount to \$278 million. However, as shown in Exhibit 7 earlier, the SPS does not include details of the expected costs of each project or the year in which these costs will be incurred. This is essential information for short- to medium-term financial planning.
80. In its capital project tracker, which is included in the financial report for the second quarter of 2024, the Government reported that 38 capital projects with an estimated total cost of \$460 million were in progress or planned.⁶⁹ These projects are for core government only. Of these projects, 19 had started by 1 January 2024 and had incurred expenditure of \$141 million. The capital expenditure on the projects for 2024 is estimated to be \$79 million, and over the medium term (2024–2026) it is estimated to be \$160 million. However, we noted that the timescales of several of these projects were still to be determined, and costs had not been estimated for any of the years.

Recommendation 2: The Ministry of Finance and Economic Development should adequately plan for all commitments and cost pressures in the short and medium terms by including them in the budgets for the public bodies affected. This includes the costs of all pay-related changes and capital projects.

THE GOVERNMENT REPORTS ON ITS SHORT-TERM FINANCIAL PERFORMANCE AND POSITION

81. The Government’s financial stability is measured by its ability to meet obligations and its overall economic performance. Assessing financial condition involves reporting on the Government’s current financial health, as measured by its fiscal stability, ability to meet obligations and overall economic performance.
82. The PMFA requires that each public body (each core government entity and SAGC) prepare an annual report that includes its financial statements. It also requires that MFED prepare an annual report for the EPS that includes financial statements for the core government and the entire public sector. Furthermore, it requires that MFED prepare unaudited quarterly financial reports for the core government.
83. The Government reports on its financial health in its annual consolidated financial statements for the EPS and unaudited quarterly financial reports. However, these reports have limitations.
84. The EPS financial statements include a statement of financial performance and a statement of financial position for core government and the entire public sector. The statement of financial performance

⁶⁹ *Unaudited Quarterly Financial Report six-month period ended 30 June 2024: Core Government*, Cayman Islands Government, August 2024.

reports on annual operating results (revenues and expenses). The statement of financial position reports on public sector assets, liabilities and net worth at the end of each financial year.

85. In November 2024, we again reported that the quality of the EPS financial information needs to improve.⁷⁰ We also reported that auditing of the EPS financial statements was backlogged, with 2020 being the most recent year audited. The audit opinions issued on the EPS financial statements for the four most recent financial periods completed (2016/2017 to 2020) were adverse. This means that the financial statements contain such significant deficiencies and errors that they cannot be relied on.
86. The unaudited quarterly reports include a statement of financial performance for the EPS. However, the statement of financial position covers only the core government. The quarterly reports also include information on capital expenditure, a capital project tracker and an assessment of compliance with the six principles of responsible financial management. These reports are tabled in Parliament and published.
87. In 2017, we also recommended that the Government prepare and publish regular updates on the progress of major capital projects. In March 2022, MFED started to include a capital project tracker in its unaudited quarterly financial reports. The tracker includes a list of capital projects, the total project cost, completion time, costs incurred to date and estimated capital expenditure over the next five years. Although this is not a long-term capital investment plan, it is a good start. However, we noted that the Government did not include this information in its 2024 third quarter report. This is a step backwards for financial planning and reporting.

THE GOVERNMENT COMPLIED WITH MOST OF THE PRINCIPLES OF RESPONSIBLE FINANCIAL MANAGEMENT IN THE PAST SIX YEARS

88. The PMFA requires that the Cabinet plan for and manage its finances in accordance with the principles of responsible financial management. The PMFA also requires that policies and decisions of the Cabinet be consistent with the principles of responsible financial management. Section 14 of the PMFA prescribes the following six principles of responsible financial management for core government:

- Total expenses should be less than total revenues, that is, there should be an operating surplus.
- Total assets minus total liabilities should be positive, that is, net worth should be positive.
- The cost of borrowing should not be more than 10 per cent of revenue. The cost of borrowing is calculated for each financial year as the sum of interest, other debt servicing expenses and principal repayments.

⁷⁰ *Financial Reporting of the Cayman Islands Government: General Report 31 December 2023*, Office of the Auditor General, November 2024.

- Net debt should be no more than 80 per cent of revenue.
- Cash reserves should be sufficient to cover at least 90 days of estimated expenses.
- Financial risks, including contingent liabilities, should be managed prudently.

89. In May 2021, we reported that projected performance against each of the principles is set out in the Government's SPSs. However, the Government does not report on its actual performance against the principles of responsible financial management in a timely manner.⁷¹

90. The Government reports on its performance against the principles of responsible financial management in its annual reports for the EPS. However, we noted in 2021 that the final EPS annual report for 2016/17 did not include an updated assessment of compliance with these principles using the figures given in the audited financial statements. This continues to be the case. The most recent EPS annual report tabled in Parliament is for 2018. Therefore, no recent or accurate reports on the annual financial performance or position of the core government or the EPS are publicly available. The Government has included quarterly updates on actual performance against these six principles in its unaudited quarterly finance reports since 2023. However, the annual outturn is not reported publicly.

91. In the absence of published information on annual performance against the principles of financial management, we assessed this performance using information from the EPS financial statements. Exhibit 12 provides a summary of our assessment of the Government's actual performance against the budget for each of the principles for the six years from 2018 to 2023. Appendix 3 provides more detail on the actual and budgeted outcomes for each of the principles.

⁷¹ *Improving Financial Accountability and Transparency: Financial Management and Reporting*, Office of the Auditor General, May 2021.

Exhibit 12: The Government’s budgeted and actual compliance with the principles of responsible financial management, 2018 to 2023

Year		Principle					Financial risks
		Operating surplus	Net worth	Cost of borrowing	Net debt	Cash reserves	
2018	Actual	Yes	Yes	Yes	Yes	Yes	Yes
	Budget	Yes	Yes	Yes	Yes	Yes	Yes
2019	Actual	Yes	Yes	No	Yes	Yes	Yes
	Budget	Yes	Yes	No	Yes	Yes	Yes
2020	Actual	No	Yes	Yes	Yes	Yes	Yes
	Budget	Yes	Yes	Yes	Yes	Yes	Yes
2021	Actual	No	Yes	Yes	Yes	Yes	Yes
	Budget	Yes	Yes	Yes	Yes	Yes	Yes
2022	Actual	Yes	Yes	Yes	Yes	Yes	Yes
	Budget	Yes	Yes	Yes	Yes	Yes	Yes
2023	Actual	Yes	Yes	Yes	Yes	Yes	Yes
	Budget	Yes	Yes	Yes	Yes	Yes	Yes

Source: OAG analysis of SPSs and EPS financial statements, 2018 to 2023.

Note: “Yes” indicates compliance; “No” indicates non-compliance.

92. Exhibit 12 shows non-compliance for at least one principle in three of the six years. The Government incurred deficits in 2020 and 2021 as a result of additional expenses and a reduction in revenues during the COVID-19 pandemic. Additionally, the cost of borrowing was above the 10 per cent limit for 2019. However, this was because of the planned repayment of the bond principal. The 2024–2026 SPS forecasts that the Government will comply with all principles in each year.

PLANNING FOR, MONITORING AND REPORTING ON FINANCIAL SUSTAINABILITY IN THE LONG TERM

93. Planning for long-term fiscal sustainability is important. It provides insights into future risks and challenges and allows enough time for the Government to respond gradually to these challenges. It can help governments to better understand and consider the possible future consequences of fiscal decisions and protect the sustainability of public finances over the longer term. It allows policymakers to demonstrate that an awareness of future risks and challenges guides today's decisions. For this audit, we define "long term" as periods of five years or more.
94. Planning for long-term financial sustainability involves long-term projections of the Government's finances based on current policy. Long-term fiscal projections provide a means to assess fiscal sustainability by projecting future government revenues, expenditure and debt over an extended period (10 years or more) based on a range of demographic, macroeconomic, microeconomic and other assumptions. Long-term fiscal projections:
- provide insight into a government's long-term fiscal position;
 - provide a basis for discussion of the sustainability of current government policies and help current governments respond to known fiscal pressures and risks in a gradual manner; and
 - can help to better position future governments to manage unforeseen or less predictable fiscal pressures.
95. While long-term projections are not definitive forecasts, they are crucial for maintaining fiscal sustainability and guiding fiscal policy decisions. Being aware of and understanding the future impacts of fiscal policies can support strong economic growth and the effective use of today's resources.
96. Reporting on long-term financial sustainability involves publishing reports. This provides assurance to the public that government plans are sustainable in the long term.

RECOMMENDED PRACTICE GUIDELINE 1 SETS THE STANDARD FOR PLANNING FOR AND REPORTING ON LONG-TERM FINANCIAL SUSTAINABILITY

97. The IPSASB issued RPG 1 in July 2013. This offers guidance on best practices for reporting the long-term financial sustainability of public sector entities. This guidance covers not only the financial health of these entities but also the nature and extent of the risks they may encounter. RPG 1 emphasises that information regarding long-term financial sustainability is more comprehensive than what is typically found in standard financial statements.

98. RPG 1 focuses on three interrelated dimensions of long-term financial sustainability: service, revenue and debt. Because of their interdependence, these dimensions need to be balanced to ensure financial sustainability. The approach requires a government to assess each of the three dimensions against its capacity to change and against vulnerabilities that exist in the external environment, such as in terms of service users. The guideline recommends that long-term fiscal sustainability information include the following:

- Projections of future cash inflows and outflows for the provision of goods and services and programmes providing social benefits and of future capital expenditure.
- Discussion on the principles, assumptions and methodology underlying the projections, including an assessment of a broad range of financial and non-financial data. The following information should be included:
 - the frequency of sustainability reporting;
 - the impact of legal requirements and policy frameworks;
 - current policies and demographic as well as economic assumptions;
 - demographic information about the population, including fertility, mortality and migration rates; and
 - economic assumptions, such as growth rates and inflation.
- Sensitivity analysis should also be performed and findings included, as many assumptions are inherently uncertain, and, in some cases, small changes can have a significant impact on projections. Using sensitivity analysis will help users to understand the impact.
- Information relevant to the entity's context, for example its funding and capacity to determine service delivery levels.

99. Exhibit 13 summarises the three dimensions and the capacity and vulnerabilities that should be considered for each. Because the dimensions are interrelated, a change in one dimension may affect the others. For example, if the cost of delivering services is projected to increase, then revenue levels or debt or both may need to increase to compensate for this.

Exhibit 13: The three dimensions of long-term financial sustainability

Dimension	Capacity	Key questions	Vulnerability
Services	The capacity to maintain or vary the volume and quality of services provided or the entitlement programmes delivered.	Can current services be maintained, given current revenue policies and debt constraints?	The willingness of recipients and beneficiaries to accept reductions in services and entitlements. Not having the ability to determine where another level of government determines the level of services to be provided.
Revenue	The capacity to vary existing revenue levels or introduce new revenue sources.	Can entities collect sufficient revenue to maintain service levels, given debt constraints?	The unwillingness of the population to accept increased revenue levels. The extent of dependence on revenue sources outside the entity's control or influence.
Debt	The capacity to meet financial commitments as they come due or to refinance or increase debt as necessary.	How sustainable is projected debt, given current service and revenue policies?	Market lender confidence. Interest rate risk.

Source: RPG 1, IPSASB.

THE GOVERNMENT DOES NOT PLAN FOR OR REPORT ON ITS LONG-TERM FINANCIAL SUSTAINABILITY

100. The Government's SPS and budget documents provide information on the medium-term financial condition, fiscal pressures and how debt is expected to change over the next three years. However, they do not address how longer-term risks and fiscal pressures (beyond three years) will have an impact on financial sustainability in the future. Therefore, it is unclear if the Government's policies are affordable in the long term or if changes to policies or other decisions are needed to balance finances.

THE FINANCIAL CONSEQUENCES OF LEGISLATION ARE NOT CONSIDERED BY PARLIAMENT BEFORE THEY ARE APPROVED

101. It is important that legislators and policymakers have full information before making decisions. This includes understanding the current and future risks and financial implications of any proposals being considered.

102. However, bills presented to Parliament for consideration do not include information setting out the financial consequences of implementing the legislation in the short, medium or long term. We reported earlier that the PAA has had significant financial consequences. However, there is no evidence that elected officials were presented with analyses of its expected impact on long-term financial sustainability when the legislation was proposed.

103. MFED stated in its 2023 annual report that it provided 407 pieces of policy advice throughout the year. This includes the preparation of Cabinet Papers and Cabinet Notes for consideration, notation and/or approval by the Caucus and the Cabinet. Therefore, information on the financial implications of proposed legislation may be presented to the Cabinet. We have not reviewed Cabinet papers to determine if this is the case. However, it is important that all legislators have this information when considering proposed legislation. There is no evidence that the financial implications of new policies or legislation are presented to elected officials for consideration before they vote on legislation.

THE LONG-TERM FINANCIAL IMPLICATIONS OF THE GOVERNMENT'S STRATEGIES AND PLANS ARE UNCLEAR

104. The Government has published several strategies and plans that may have long-term financial implications. Some of the associated costs may fall under recurring operating expenditure, while others may fall under capital expenditure. However, the magnitude of these costs of these is unclear, which may lead to delays in implementation if they are not factored into long-term financial plans.

105. In October 2017, we recommended that the Government prepare a long-term capital investment plan.⁷² The plan should inform capital investment decisions, including the affordability of major capital projects and the capacity of Government and industry to deliver them. This would significantly improve the Government's ability to plan for and report on its long-term financial sustainability. However, despite agreeing with this recommendation, the Government has not developed a long-term capital investment plan.

106. We reported earlier that the capital project tracker included in the unaudited quarterly financial report for June 2024 included 38 capital projects. The tracker includes information on the whole-life costs, that is, annual operational costs, of a few of these capital projects, which are estimated at \$7.7 million a year. This includes \$6 million in annual operating costs for the Poinciana Rehabilitation Centre (a long-term residential mental health facility). The Ministry of Health and Wellness' budget for 2024-25 includes an output for the facility (\$4.3 million in 2024 and \$7 million in 2025).

107. In June 2022, the Government signed an agreement with sub-consultants to undertake environmental and engineering studies for the East-West Arterial Road Extension capital project. The draft environmental statement notes that the cost of building and maintaining the road could be more than \$820 million (US\$1 billion) over the next 50 years. If the Government goes ahead with this project, it could lead to additional pressures on public finances over the next five decades.

⁷² *Major Capital Projects Follow Up*, Office of the Auditor General, October 2017.

Recommendation 3: The Ministry of Finance and Economic Development should prepare a long-term capital investment plan. This plan should inform capital investment decisions, including in relation to the affordability of major capital projects and the capacity of the Government and industry to deliver them. This would significantly improve the Government’s ability to plan for and report on its long-term financial sustainability.

108. In April 2024, the Ministry of Sustainability and Climate Resiliency (MSCR) published the revised National Energy Policy (NEP) for 2024–2045, which has updated targets for renewable energy, new vehicle sales of electric vehicles and emissions reductions from electricity supply.⁷³ Some of the commitments in the NEP may have cost implications for the Government and public sector, for example improvements to the public sector estate to improve energy efficiency and the introduction of duty waivers and reductions. However, these costs have not been quantified.
109. In 2024, the MSCR published the national *Climate Change Policy 2024–2050*.⁷⁴ The policy has links to the NEP but also outlines some adaptation actions for mitigating the risks of climate change, including flood protection, neighbourhood redesign and coastal resilience planning. This policy does not quantify the cost of the actions needed to implement it.
110. In November 2024, we reported that strategies exist for the financial services and tourism sectors but not for the real estate and construction sectors.⁷⁵ A revised strategy for the financial services sector is still being developed. In 2024, the Ministry of Tourism and Ports published the *National Tourism Plan 2024 edition* (NTP 2024).⁷⁶ The NTP 2024 identifies several activities that may have long-term financial consequences, such as establishing a public–private partnership to construct a new general aviation terminal and improving public transport. We previously recommended that the National Development Plan for the Cayman Islands be updated, as it had not been updated since 1997.⁷⁷ The Government started to update this in the summer of 2018 but has yet to complete it.
111. We reported earlier on rising healthcare costs. In January 2017, we recommended updating the National Health Policy and Strategic Plan and developing an operational plan to support its implementation and monitoring.⁷⁸ That plan expired at the end of 2017 and has not been updated

⁷³ *Cayman Islands National Energy Policy 2024–2045*, Cayman Islands Government, April 2024.

⁷⁴ *Climate Change Policy 2024–2050*, Cayman Islands Government, October 2024.

⁷⁵ *The Government’s approach to sustainable economic development*, Office of the Auditor General, November 2024.

⁷⁶ *National Tourism Plan 2024 Edition*, Cayman Islands Government, July 2024.

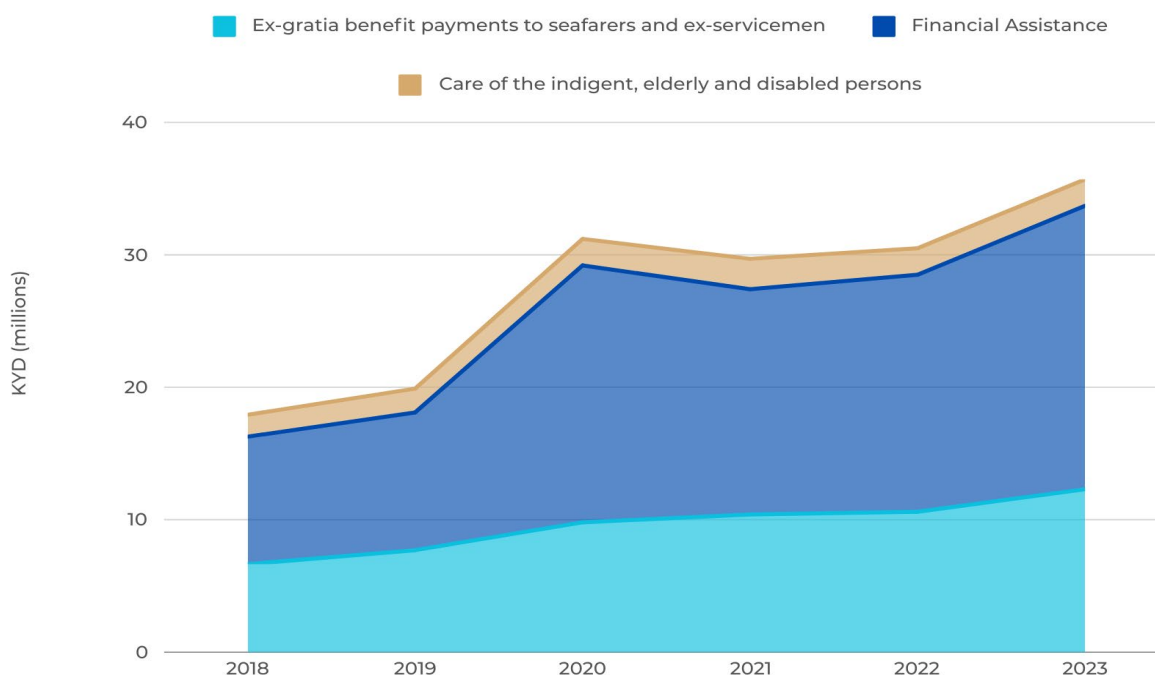
⁷⁷ *National Land Development and Government Real Property*, Office of the Auditor General, June 2015.

⁷⁸ *Ensuring quality healthcare and a healthy population*, Office of the Auditor General, January 2017.

since. In April 2024, the then Ministry of Health and Wellness (MHW) announced that it was launching a consultation to help develop a new health strategy.⁷⁹

112. In October 2022, Parliament approved the new *Financial Assistance Act 2022*, which came into force in October 2023. Over the six years from 2018 to 2023, government expenditure on social assistance doubled. Exhibit 14 shows government expenditure on financial assistance between 2018 and 2023. Over the six years, financial assistance increased by 122 per cent to over \$21 million, benefits to veterans and seafarers increased by 85 per cent to over \$12 million and the costs of care for indigents, the elderly and disabled people increased by 21 per cent. We reported earlier that the number of Caymanians aged 65 or over is likely to increase significantly in the future, and more people may need financial assistance if they have insufficient funds in their pensions. Together, these factors may have long-term financial cost implications that need to be factored into plans.

Exhibit 14: Government expenditure on social assistance, 2018 to 2023



Source: 2018–2020 audited EPS financial statements and 2021–2023 draft EPS financial statements.

113. We reported earlier that government debt is increasing. In March 2021, the Government signed a Project Agreement with a private sector consortium for an integrated solid waste management project

⁷⁹ *National Health Strategy consultation launch set*, Cayman Islands Government news release, <https://www.gov.ky/news/press-release-details/national-health-strategy-consultation-launch-set> (accessed 10 February 2025).

known as ReGen. This is a private–public partnership that involves a form of borrowing. The ReGen agreement would significantly increase government debt levels over the 25-year life of the contract if it were to go ahead. To inform discussions and ongoing negotiations in relation to this agreement, the Financial Secretary prepared long-term forecasts of the impact of ReGen on compliance with the principles of responsible financial management. This showed that debt levels would be increased significantly, and the Government would breach at least two of the principles for several years. The Government announced in July 2024 that it planned to start negotiations to exit the contract.

114. However, it is unclear if these projections were prepared as a one-off for the ReGen project or if the MFED plans to prepare these for other projects. We encourage MFED to continue to prepare such projections to demonstrate long-term financial sustainability. Projections could be further improved by including:

- the impact of socioeconomic and demographic trends on revenue and expenditure;
- more plausible assumptions for the increase in revenue, expenses and debt;
- the impact of the long-term costs required to build, maintain and renew capital infrastructure; and
- the impact of policy decisions and legislation with significant financial consequences on revenue and expenditure over the long term.

Recommendation 4: The Ministry of Finance and Economic Development should:

- **estimate the long-term financial impact of all proposed policy options, strategies, plans and legislation;**
- **assess how each proposal will affect the Government’s long-term financial sustainability, including its compliance with the principles of responsible financial management;**
- **present estimates and assessments to policymakers to inform discussions and decisions before approval; and**
- **ensure that the financial consequences of approved policies, strategies, plans and legislation are factored into budgets and long-term financial plans.**

MANY OTHER COUNTRIES PLAN FOR AND REPORT ON THEIR LONG-TERM FINANCIAL SUSTAINABILITY

115. Many national, regional and local governments around the world have started to integrate long-term financial sustainability into their reporting to government stakeholders and the wider public. Exhibit 15 provides a summary of long-term financial sustainability reporting practices in other countries. Some governments are required by law to plan for and report on their long-term financial sustainability. However, others are not but choose to do so to comply with global best practices. We reported earlier

that RPG 1 does not specify a timescale for long-term financial sustainability. However, the OECD recommends between 10 and 40 years.⁸⁰

Exhibit 15: Foreign jurisdictions that report on long-term fiscal sustainability

Country	Statutory reporting obligations	Most recent report	Time horizon	Periodically produced
Australia	Charter of Budget Honesty Act 1998	Intergenerational report 2023-Australia's future to 2063 (2023)	40 years	At least every 5 years
Denmark	European Union Stability and Growth Pact	Convergence Programme Denmark 2023 (2023)	Until 2030	Annually
New Zealand	Public Finance Act 1989	He Tirohanga Mokopuna 2021: The Treasury's combined Statement on the Long-term Fiscal Position and Long-term Insights Briefing (2021)	40 years	At least every 4 years
Norway	None	Long-term Perspective on the Norwegian Economy 2021 (2021)	Until 2060	4 years
Sweden	None	Sweden's Convergence Programme (2023)	Until 2080	Annually
Switzerland	None	2024 fiscal sustainability report for Switzerland: Ageing and net zero target (2024)	40 years	At least every 4 years
United Kingdom (Office for Budget Responsibility)	Budget Responsibility and National Audit Act 2011	Fiscal risks and Sustainability Report (2023)	50 years	Annually
United States (Office of Management and Budget)	Budget and Accounting Act of 1921	Analytical Perspectives: Budget of the US Government, Fiscal Year 2024 (2024)	Until 2050	Annually

Source: OAG analysis of statutory reporting obligations and fiscal sustainability reports from various countries.

116. We reported earlier that the PMFA was introduced in 2001. After its adoption, the Government embarked on a financial management initiative that adopted many, but not all, of the features of the public finance model used in New Zealand. Exhibit 15 shows that the New Zealand Government prepares a long-term fiscal position and insights briefing covering the next 40 years, which is updated at least every four years. The Cayman Islands Government does not do this.

⁸⁰ *Best Practices for Budget Transparency, OECD, (2002)*, recommends that projections cover a period of 10 to 40 years.

Recommendation 5: The Ministry of Finance and Economic Development should report publicly on the long-term sustainability of public finances.

MANY COUNTRIES HAVE AN INDEPENDENT FISCAL REVIEW BODY TO HELP WITH MONITORING AND REPORTING LONG-TERM FINANCIAL SUSTAINABILITY

117. Many countries have fiscal review bodies that help to monitor, assess and improve financial sustainability. A fiscal review body plays a pivotal role in ensuring transparency, accountability and informed decision-making by policymakers. It would generally produce reports on the long-term financial implications of government policies. This ensures that the financial implications of proposed policy actions are effectively evaluated by legislators before implementation. Additionally, review bodies may conduct long-term sustainability analyses, which can provide insights into the trajectory of government spending, revenues and debt over the longer term. This could also highlight potential fiscal challenges, such as the pressures of an ageing population on public spending.

118. Fiscal review bodies evaluate fiscal risks and outline potential challenges arising from these risks. This can help governments to be better prepared for economic uncertainties and manage risks effectively. Our review of fiscal review bodies found that they have different mandates and functions, some of which may be beneficial in the Cayman Islands, which does not have a fiscal review body or committee in place. For example:

- The Irish Fiscal Advisory Council’s mandate is to endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department of Finance, on which the Budget and Stability Programme Update is based, and assess the official forecasts produced by the Department of Finance.⁸¹
- The United Kingdom Office for Budget Responsibility produces detailed five-year forecasts for the economy and public finances twice a year. It produces other economic and fiscal forecasts, evaluates the Government’s performance against targets, assesses the long-term sustainability of public finances and periodically sets out long-term projections. These typically follow the release of updated population projections.⁸²
- The United States Congressional Budget Office (CBO) produces certain reports, notably the annual Budget and Economic Outlook. This annual report presents the CBO’s budget and economic

⁸¹ *Long-term Sustainability Report*, Irish Fiscal Advisory Council, July 2020, page 10.

⁸² *About: What we do*, Office for Budget Responsibility, <https://obr.uk/about-the-obr/what-we-do/> (accessed 10 February 2025).

projections for the coming decade (commonly referred to as baseline projections). The projections assume that current laws governing federal spending and revenues will generally remain in place.⁸³

119. In addition, some smaller jurisdictions with populations and characteristics like those of the Cayman Islands also have review bodies or committees to help with fiscal sustainability, including the following:

- Bermuda (a UK overseas territory; population 63,000) has an independently run and administered Fiscal Responsibility Panel. According to its website, this panel of economic experts assesses “the credibility of macro and fiscal assumptions underlying Government projections and the risks that could affect progress in meeting the territory’s fiscal goals”.⁸⁴
- Jersey (a crown dependency; population 103,000) has a Fiscal Policy Panel. According to its website, this panel provides Jersey’s Minister for Treasury and Resources with independent advice on (i) the strength of the economy, economic outlook and economic cycle; (ii) the sustainability of public finances in the medium and long terms; and (iii) fiscal policy including the balance of tax and spending and the use of the Strategic Reserve Fund and the Stabilisation Fund.⁸⁵

Recommendation 6: The Government should create an independent mechanism for fiscal review and forecasting to provide assurance on its long-term financial sustainability.

⁸³ United States Congressional Budget Office, <https://www.cbo.gov/topics/budget/outlook-budget-and-economy> (accessed 10 February 2025).

⁸⁴ *Fiscal Responsibility Panel*, Government of Bermuda, <https://www.gov.bm/fiscal-responsibility-panel> (accessed 19 August 2024).

⁸⁵ Fiscal Policy Panel, States of Jersey, <https://www.gov.je/Government/Departments/Economy/pages/fiscalspolicypanel.aspx>, (accessed 19 August 2024).

CONCLUSION

120. In December 2020 and May 2021, I published two reports on budgeting and financial management and reporting respectively. These reports were part of a series of reports on improving financial accountability and transparency. This is my third, and final, report in the series. It focuses on long-term financial sustainability.
121. Over the past few decades, there has been global recognition of the importance of taking a longer-term financial outlook. It is becoming increasingly important for governments to demonstrate how they will deliver public services and manage financial commitments in the short, medium and long terms without the need for large and sudden policy changes.
122. The financial performance of the entire public sector was mixed between 2018 and 2023, with deficits reported in the two years of the COVID-19 pandemic. However, what is more concerning is that, Government expenditure has risen at twice the rate of revenue over these six years, both reaching over \$1.3 billion in 2023. This is unsustainable in the longer term.
123. I have highlighted several risks to and cost pressures on the Government's long-term financial sustainability. These include the financial implications of legislation, policies and strategies, rising public sector pay costs, rising healthcare costs, increasing debt levels, population changes, and the cost of building and maintaining public assets. I discuss some of these below.
124. It is unclear if decision-makers have information about the financial implications of legislation, policies and strategies before approving them. I acknowledge that some information on financial implications may be presented to the Cabinet when they consider draft documents. However, bills presented to Parliament do not contain information on the financial implications of the proposed legislation. I am pleased to note that some ministries have published some long-term strategies and plans. Implementing these may require government investment but this is not quantified, which means the costs will not be included in budgets.
125. Public sector pay costs have increased by over 50 per cent between 2018 and 2023. Some of this increase is because the Government implemented pay awards to better align salaries with the cost of living, which is reasonable. The public sector workforce increased by almost 20 per cent over the period; this will also account for some of the increase. Pay costs also increased as Statutory Authorities and Government Companies (SAGCs) started to implement Section 47 of the *Public Authorities Act* (PAA). This is likely to have cost tens of millions of dollars annually. However, it is unclear if SAGCs can afford to implement all pay increases, as these were not included in budgets. Despite recommending previously that the Government develop a pay strategy and use this to inform plans and budgets, this has not happened.

126. Government spending on healthcare increased significantly, by 74 per cent, between 2018 and 2023, and accounts for almost one quarter of government expenditure. The population is changing. More people create greater demand for public services. I estimate that by 2033 around 29 per cent of the Caymanian population could be aged 65 or over. This may put additional pressure on health services and social services in the longer term.
127. Government debt has more than doubled since 2021, reaching \$453 million by December 2023. The Government also announced that it plans to borrow a further \$150 million in the 2024–2025 budget period to support planned capital and infrastructure projects. The repayment of this debt may put pressure on finite resources and may need to be prioritised over other policies and programmes in the longer term. The Government also has significant long-term liabilities for civil servants’ pensions and healthcare insurance, totalling around \$2.7 billion. While the post-retirement liabilities are due over the longer term these need to be carefully planned for.
128. I am pleased to note that the Government plans its financial sustainability over the short and medium terms, by setting out plans and forecasts for three years in each Strategic Policy Statement (SPS). However, it does not adequately plan for all commitments and cost pressures in the short and medium terms. As mentioned earlier, the Government has not developed a pay strategy for the entire public sector and factored this into its budgets. I also highlight, again, that budgeting for tertiary healthcare needed to improve, as there is significant overspending annually, requiring supplementary budgets. The Government monitors and reports on its current financial health and reports forecasted financial results in the short term. However, it does this through its unaudited quarterly financial reports and consolidated financial statements for the EPS. I have reported previously, that the EPS audits are backlogged and the most recent EPS financial statements tabled in the Parliament are for 2018. Therefore, there is limited reliable information available in the public domain on the Government’s short-term financial health.
129. Planning for and reporting on long-term financial sustainability is important, as it helps to inform citizens of what the Government is doing to ensure sustainable government programmes. However, the Cayman Islands Government does not do this. I have recommended that the Government starts to do this.
130. I note from the management responses that Ministry of Finance and Economic Development (MFED) is unable to implement my recommendations on its own. This is because of the way that the civil service is structured. While MFED can provide financial leadership and guidance to the civil service, finance functions are devolved to each ministry. This means that MFED has limited control and levers to enforce change. I urge the civil service to review this as I believe it is hindering improvements to budgeting and financial management and reporting in the short, medium and longer terms.

131. We are grateful for the assistance and cooperation we received from the Ministry of Finance and Economic Development and other government officials in all phases of the audit. Without their help, the audit could not have been completed.



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24 February 2025

APPENDIX 1 – ABOUT THE AUDIT

1. This appendix provides a summary of the audit’s objective, questions, criteria and approach.

OBJECTIVE

2. This audit aimed to assess the effectiveness of the Government in planning for, monitoring and reporting on its long-term financial sustainability. It sought to answer the following audit questions:
 - Does the Government clearly understand and manage the risks to and cost pressures on its long-term financial sustainability?
 - Does the Government use clear and robust (or effective) planning to ensure the long-term sustainability of public finances?
 - Does the Government monitor and report on its financial sustainability?

CRITERIA

3. Audit criteria set out the expectations or standards against which an audit can assess observed performance to develop findings, make recommendations, as appropriate, and reach conclusions based on audit objectives. We identified 15 audit criteria for the audit. These criteria are based on international good practice and the Cayman Islands’ legislation requirements.
 - 1) The Government has identified and documented its risks to long-term financial sustainability from financial commitments, policy decisions, changing demographics (population growth and the impact of an ageing population on healthcare and social welfare) and global economic factors (economic links with major trading partners, e.g. the United States and the United Kingdom, and inflation).
 - 2) The Government has adequately considered the additional risks and cost pressures from the measures and actions taken in response to the COVID-19 pandemic.
 - 3) The Government has a documented and robust risk identification and management process.
 - 4) The Government has a register of risks to its long-term financial sustainability.
 - 5) The Government has strategies for managing the risks to its long-term financial sustainability arising from the risks and cost pressures identified.
 - 6) The Government uses reasonable assumptions in its budgeting and planning in the short, medium and long terms, including financial assumptions (inflation, economic growth, economic diversity, confidence in the economy and borrowing rates, including public–private partnerships); societal assumptions (government policy, population growth and demographics); environmental assumptions; assumptions about the level of capital and infrastructure investment; and assumptions about employment levels.

- 7) The Government's forecasts are based on reliable and accurate information, include estimates of the financial implications of new legislation and policies, factor in all known and potential borrowing (e.g. public-private partnership contracts, bullet bonds and lines of credit) and adequately consider future revenue sources, including foregone revenues and forecasts.
 - 8) The Government's long-term forecasts assess the potential financial impact of measures taken during the COVID-19 pandemic, e.g. the impact of the pension withdrawal/holiday on social welfare in the long term.
 - 9) The Government's budgets include all estimates and forecasts.
 - 10) The Government's forecasts show that it will comply with the principles of responsible financial management in the short, medium and long terms.
 - 11) The Government regularly updates forecasts of its financial sustainability to account for any known risk changes, including those arising from new priorities and emerging risks (e.g. global risks or economic shocks).
 - 12) The Government uses information from monitoring financial sustainability to inform policy decisions and adjust its policies where necessary.
 - 13) The Government's past performance demonstrates financial sustainability in the short, medium and long terms.
 - 14) The Government publicly reports its performance of financial sustainability in the short, medium and long terms.
 - 15) The Government's reporting of its long-term financial sustainability is consistent with best practice (RPG 1).
4. We shared the audit criteria with officials from the MFED after the planning phase of the audit.

AUDIT SCOPE AND APPROACH

5. The audit focuses on the role of MFED in providing leadership for financial sustainability, including planning and coordinating this for the EPS.
6. Our audit focuses on progress over the six years from 2018 to 2023 and financial planning for the short, medium and long terms. We also assess planned progress for the SPS period (2024–2026) and budget documents.
7. We assessed the Government's effectiveness in planning for its long-term financial sustainability by reviewing budgets and other financial forecasts over the six years 2018 to 2023. The audit evaluated the Government's effectiveness in monitoring and reporting on its current financial condition and sustainability. The audit also examined whether the Government identifies and manages risks to and cost pressures on its long-term financial sustainability.

8. The audit used a range of evidence to answer the audit questions and to inform our findings and conclusions, including the following :
- We conducted interviews with key stakeholders, including MFED staff.
 - We reviewed Cayman Islands Government documents, including legislation (including the PMFA, PAA and *Public Service Management Act*), budget documents (Strategic Policy Statements (SPSs) and Plan and Estimates for 2022–2023 and 2024–2026), Supplementary Appropriations, financial reports and statements, unaudited quarterly financial reports, staffing information, valuation reports, speeches, news releases, Economics and Statistics Office (ESO) reports and data, forecasts and projections, and some government strategies and plans, including the National Energy Policy, Climate Change Plan and National Tourism Plan.
 - Some of the financial data used has limitations. We used financial information from the consolidated financial statements for the entire public sector (EPS). This has limitations and is not wholly reliable. The EPS financial statements between 2018 and 2020 received an adverse audit opinion, and the financial statements for 2021 onwards were unaudited at the time of drafting this report. The audit opinion for 2021 will be adverse. We also used information from the Government’s unaudited quarterly financial reports.
 - We used financial data included in the EPS financial statements to calculate performance against the principles of responsible financial management and compared these to forecasts in the SPSs.
 - We assessed the reasonableness of government assumptions included in SPS by comparing the forecasts to actual performance using ESO data.
 - We evaluated both past and anticipated future government announcements on pay awards, and estimated the cost of these based on pay costs at the relevant year end. We estimated the cost of SAGCs implementing Section 47(3) of the PAA, where possible. However, we had incomplete data, that is, we only had data on employees.
 - We estimated the Government's healthcare costs using information in the consolidated financial statements for the EPS and unaudited quarterly financial reports. We estimated the annual cost of tertiary medical care at local and overseas institutions for 2024 by dividing the year-to-date cost of \$38 million (in the unaudited financial report for quarter 3, 2023) by three and multiplying by four.
 - We identified and reviewed international good practices and guidance on financial performance reporting and planning for long-term financial sustainability. These included information from the OECD, IMF, World Bank, IPSASB and several global jurisdictions.
 - We examined the findings of analyses carried out by the MFED.
 - We drew on the findings and conclusions of other OAG reports.

AUDIT STAFF

9. The audit was carried out under the direction of Angela Cullen, Deputy Auditor General (Performance Audit), assisted by Gabriel Ncube, Audit Manager, and Mickel Alexander, Audit Project Leader.

APPENDIX 2 – RECOMMENDATIONS

Recommendation	Management Response	Responsibility	Date of planned implementation
<p>1. 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.</p>	<p>Management accepts this recommendation, in part.</p> <p>Ministry of Finance, Chief Risk Officer, Chief Officers, Chief Financial Officers, and Risk Leaders throughout the Government will consider the threats identified in this report and, if deemed significant, formally document how they will be addressed in the next budget cycle. Based on this, we will also consider including an appropriate risk associated with long-term financial sustainability in CIG’s risk register.</p> <p>Whilst the Ministry of Finance and Economic Development (MFED) agrees there is a need for the identification, assessment, and quantification of risks and cost pressures to long-term financial ability, this responsibility is not solely that of MFED.</p> <p>The implementation of this recommendation is multifaceted and will require the collective efforts of the Ministry of Finance, Chief Risk Officer, Chief Officers, Chief Financial Officers, and Risk Leaders throughout the Government.</p>	<p>Financial Secretary, Chief Risk Officer and Chief Officers</p>	<p>31 December 2025</p>
<p>2. The Ministry of Finance and Economic Development should adequately plan</p>	<p>Management agrees with this recommendation, in part. However, all pay-related changes are managed</p>	<p>Deputy Governor and Chief</p>	<p>31 December 2025</p>

Recommendation	Management Response	Responsibility	Date of planned implementation
<p>for all commitments and cost pressures in the short and medium terms by including them in the budgets for the public bodies affected. This includes the costs of all pay-related changes and capital projects.</p>	<p>by the Portfolio of the Civil Service and should therefore be assigned accordingly. Additionally, in the current decentralised framework, it would be the responsibility of each Chief Financial Officer to adequately plan for all commitments and cost pressures related to capital projects.</p> <p>Whilst the Ministry of Finance and Economic Development (MFED) agrees that all commitments and cost pressures in the short and medium term should be included in the budgets, this is the responsibility of each Chief Officer as outlined throughout Part IV of the Public Management and Finance Act.</p> <p>MFED will implement the requirement for written assurances from the respective Chief Officers that all short to medium-term commitments and cost pressures are included in submitted financial plans and budgets.</p> <p>It should be noted that decisions on pay-related changes are made by Cabinet if the changes are considered to be affordable.</p>	<p>Officers/Chief Financial Officers</p>	
<p>3. The Ministry of Finance and Economic Development should prepare a long-term capital investment plan. This plan should inform capital investment decisions, including in relation to the affordability of major capital projects</p>	<p>Management agrees with this recommendation, in part.</p>	<p>Financial Secretary and Chief Officers</p>	<p>August 2027 for the 2028/2029 Budget – but endeavours will be made to have this recommendation</p>

Recommendation	Management Response	Responsibility	Date of planned implementation
<p>and the capacity of the Government and industry to deliver them. This would significantly improve the Government’s ability to plan for and report on its long-term financial sustainability.</p>			<p>effected for the 2026-2027 budgets.</p>
<p>4. The Ministry of Finance and Economic Development should:</p> <ul style="list-style-type: none"> • estimate the long-term financial impact of all proposed policy options, strategies, plans and legislation; • assess how each proposal will affect the Government’s long-term financial sustainability, including its compliance with the principles of responsible financial management; • present the estimates and assessments to policymakers to inform discussions and decisions before approval; and • ensure that the financial consequences of approved policies, strategies, plans and legislation are factored into budgets and long-term financial plans. 	<p>Management agrees with this recommendation; however, it would be for the Chief Officer, Chief Financial Officers, and Policy Advisors in each Ministry/Portfolio/Office to implement such a proposal.</p> <p>The current framework is decentralised, and as such, this recommendation should be borne by each Chief Officer and Chief Financial Officer.</p>	<p>Chief Officers and Chief Financial Officers</p>	<p>Endeavours will be made to have this recommendation effected for the 2026-2027 budgets.</p>

Recommendation	Management Response	Responsibility	Date of planned implementation
<p>5. The Ministry of Finance and Economic Development should report publicly on the long-term financial sustainability of public finances.</p>	<p>Management agrees, in principle, with this recommendation and will include this change along with the new Budget and Reporting Framework. The implementation of recommendations 1. to 4. above will help inform the requirements of a long-term financial sustainability of public finances report.</p> <p>The Ministry of Finance and Economic Development will take the lead in defining the reporting requirements and format for long-term financial sustainability, including any requisite legislative changes to the Public Management and Finance Act – in particular, the legislative change will need to specify a definition of “long-term”.</p>	<p>Financial Secretary</p>	<p>August 2027 for the 2028/2029 Budget.</p>
<p>6. The Government should create an independent mechanism for fiscal review and forecasting to provide assurance on its long-term financial sustainability.</p>	<p>Management does not agree with this recommendation – as it is deemed impractical for the Cayman Islands. The practical difficulty is the very short timeframe such a body would have to carry out its review prior to the finalisation of the Government’s budgets.</p>	<p>N/A</p>	<p>N/A</p>

APPENDIX 3 – COMPLIANCE WITH THE PRINCIPLES OF RESPONSIBLE FINANCIAL MANAGEMENT

Principle	2018		2019		2020		2021		2022		2023	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Operating surplus: should be positive ¹	Complies \$86.6 million	Complies \$225.1 million	Complies \$65.07 million	Complies \$117.7 million	Complies \$65.3 million	Does not comply -\$123.9 million	Complies \$75.3 million	Does not comply -\$43.2 million	Complies \$19.4 million	Complies \$71 million	Complies \$27.8 million	Complies \$59.2 million
Net worth: should be positive ²	Complies \$1.34 billion	Complies \$1.43 billion	Complies \$1.40 billion	Complies \$1.56 billion	Complies \$1.5 billion	Complies \$1.4 billion	Complies \$1.6 billion	Complies \$1.9 billion	Complies \$1.3 billion	Complies \$2.1 billion	Complies \$1.4 billion	Complies \$2.28 billion
Cost of borrowing: debt servicing cost for the year should be no more than 10% of core government revenue ³	Complies 8.6 %	Complies 8.40 %	Does not comply* 46.70 %	Does not comply* 37.6 %	Complies 7.8 %	Complies 7.82 %	Complies 6.4%	Complies 5.6%	Complies 7.4%	Complies 6.74%	Complies 8.3%	Complies 7.29%
Net debt: should be no more than 80% of core	Complies 22.30%	Complies < 0 %	Complies 17.4%	Complies < 0 %	Complies < 0%	Complies < 0 %	Complies < 0%	Complies < 0 %	Complies 18.6%	Complies 23.4%	Complies 27.6%	Complies 2.2 %

	2018		2019		2020		2021		2022		2023	
Principle	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
government revenue ⁴												
Cash reserves: should be no less than estimated executive expenses for 90 days ⁵	Complies 167.9 days	Complies 294 days	Complies 91.9 days	Complies 221.7 days	Complies 131.1 days	Complies 155.6 days	Complies 118.5 days	Complies 137.5 days	Complies 137.9 days	Complies 109.7 days	Complies 95.9 days	Complies 161.6 days
Financial risks: should be managed prudently so as to minimise risk	Complies	Complies	Complies	Complies	Complies	Complies	Complies	Complies	Complies	Complies	Complies	Complies

Source: OAG analysis of SPS and EPS financial statements for 2018 to 2023. Notes:

1. *Operating surplus = core government operating revenue – core government operating expenses.*
2. *Net worth = core government assets – core government liabilities.*
3. *Cost of borrowing = Debt servicing costs = interest + other debt servicing expenses + principal repayments for core government debt, public authorities' debt and self-financing loans + or – contributions to sinking fund.*
4. *Net debt = outstanding balance of core government debt + outstanding balance of self-financing loan balance + weighted outstanding balance of statutory authority/government company guaranteed debt – core government liquid assets.*
5. *Cash reserves = core government unrestricted cash and general reserves.*

*Technical non-compliance caused by scheduled debt repayment.

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