

MEDIUM TERM FISCAL PLAN 2014 - 2016



MINISTRY OF FINANCE
Government of the Virgin Islands

MESSAGE FROM THE HONOURABLE PREMIER AND MINISTER FOR FINANCE

It is my pleasure to present the Medium Term Fiscal Plan for the years 2014 to 2016.

This document cements this Government's commitment to medium term planning, fiscal prudence and fiscal transparency and accountability. It provides the foundation for the 2014-2016 Medium Term Budget by clearly setting out the Government's development priorities and fiscal strategy in concert with our obligations under the Protocols for Effective Financial Management. The strategies and initiatives that we intend to embark on over the next three years will ensure the fiscal sustainability of the Virgin Islands while fostering economic growth, social development and continued investment in our physical infrastructure.

The Government is aware that given the demands being placed on our scarce financial resources it is important to maintain a delicate balance between improving our fiscal balances and promoting economic growth.

The approach that we have taken is to first clearly articulate a development strategy which embraces Social, Economic, Environmental and Direction/Governance (S.E.E.D) themes and which provides the platform for advancing the promises we made to the people of this Territory. These strategic undertakings include channeling resources to health, social development, business and entrepreneurship development, and education. The three-year Capital Investment Plan contained in this Plan identifies the potential cost and funding arrangements of our infrastructural development priorities such as the Airport expansion project, the Sewerage project and the Cruise pier project.

In addition, we have identified areas where we can make simple but effective changes to the way Government conducts its fiscal affairs. This Medium Term Fiscal Plan therefore sets out a series of revenue generating and expenditure efficiency initiatives that once implemented will improve Government's bottom line without bringing undue hardship to the industrious people of this Territory.

Over the medium term we will continue with our efforts to enhance the Government's provision of services to the public, and remain on our current path of improving the public finance management system.

We have included measures to put us back in full control of our finances. We are well on our way to meeting the reserve requirements by 2015 and this Medium Term Fiscal Plan clearly identifies the annual reserve contributions needed to be in full compliance with the Protocols.

Our commitment to implementing the strategies and initiatives in this Medium Term Fiscal Plan will secure the financial and economic future of these beautiful Virgin Islands.

Sincerely,



Dr. the Honourable D. Orlando Smith, OBE

INTRODUCTION

On 23rd April 2012, the Protocols for Effective Financial Management (Protocols) were signed between the Virgin Islands and UK Governments. This Medium Term Fiscal Plan (MTFP) represents the Government of the Virgin Islands (GOVI)'s commitment to medium-term planning, value for money, risk management, and accountability as outlined in the Protocols.

The MTFP presents the GOVI's development and fiscal objectives over the next three years (2014 to 2016), assesses the fiscal and macroeconomic performance of the Virgin Islands, and sets out the path to be followed in order to meet these objectives. Led by its development strategy which embraces Social, Economic, Environmental and Direction/Governance (SEED) themes, the GOVI aims to accomplish socioeconomic development in the medium term. With its fiscal strategy, which focuses on building reserves and the recurrent surplus while improving expenditure management, the GOVI's intends to achieve fiscal sustainability and maintain an environment conducive to economic growth.

The specific objectives of the MTFP are to:

- Provide a distinct link between the GOVI's development strategy and its fiscal obligations;
- Assess the macroeconomic performance and fiscal sustainability of the Virgin Islands based on past trends and future development obligations;
- Promote fiscal discipline by establishing specific targets and strategies for Central Government's revenue collection, expenditure prioritisation, and debt management. Specifically these strategies will effectively manage the budget deficit by prioritising expenditure, growing revenue, and building reserves;
- Manage fiscal risk by closely examining current and future debt obligations (including contingent liabilities) based on development objectives and financial capabilities;
- Provide transparency and accountability in managing the financial affairs of the Virgin Islands;
- Support the multi-year performance-based budget process by providing the framework for medium-term planning; and
- Guide decisions that promote effective and efficient allocation of resources.

The MTFP is structured as follows:

- 1. Fiscal Review** – summarises the Government's fiscal position, including detailed analysis of GOVI's revenue, expenditure and debt position in the Appendices.
- 2. Macroeconomic Review** – summarises the economic performance of the Territory by analysing trends in the main sectors tourism and financial services and the main economic indicators: GDP, inflation and employment.
- 3. Macroeconomic Outlook** – outlines the predicted macroeconomic for this year and the medium-term, given prevailing conditions internationally, regionally and locally.

4. Fiscal Outturn – summaries the Government’s fiscal situation in 2012 compared to 2013.

5. Development and Fiscal Strategy

Development Strategy (SEED) – outlines how the vision of the Territory will be achieved under four goals: Social, Economic, Environmental and Direction/Governance and presents the Government’s Capital Investment Plan (2014-2016).

Fiscal Strategy – explains GOVI’s fiscal strategy including implementing the Protocols, generating revenue, and improving expenditure efficiency. This section also demonstrates the fiscal outcomes of implementing the stated fiscal policy.

6. Implementation Strategy – sets out the Government’s commitment and approach for developing an implementation schedule for its fiscal strategy.

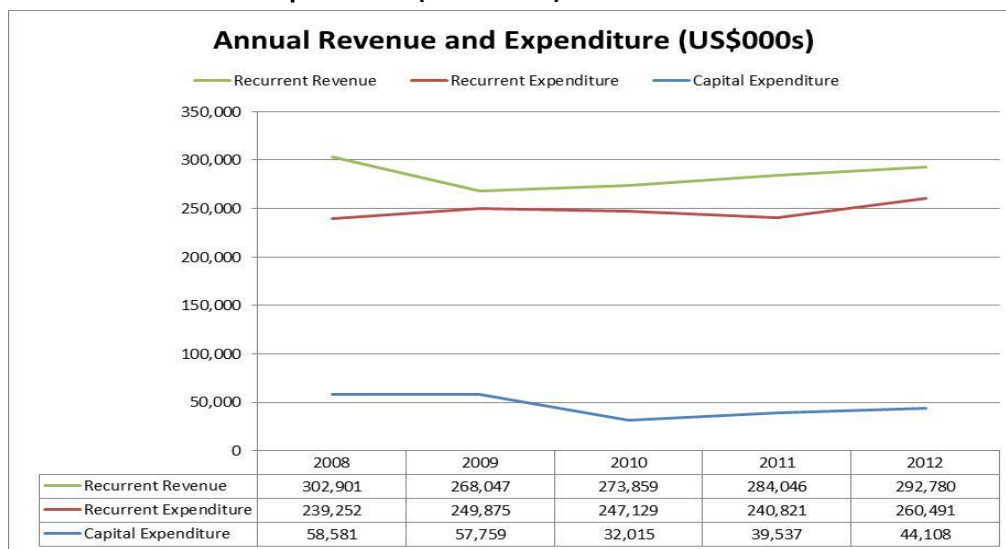
1. OVERVIEW OF HISTORICAL FISCAL PERFORMANCE

1.1 Fiscal Performance

In 2008, the Government received a \$22.9 million judgment in the IPOC case, causing total revenue to peak at \$302.9 million in that year. Since 2010, recurrent revenue has grown on average by three percent. Between 2011 and 2012, total revenue increased by 3.1% driven mainly by a 43.9% increase in stamp duty received by central government in 2012, and a 2.2% increase in financial services revenue remitted to central government in the year (see figure 1).

Recurrent expenditure outpaced revenue growth prior to 2008 before dipping in 2010 and 2011. This reduction in recurrent expenditure was partly attributed to limited growth in the public sector wage bill following a temporary hiring freeze and of deferred payment of bills¹ for goods and services provided to Government. As a result, in 2012, expenditure on goods and services partly increased due to payments on outstanding invoices (see figure 1). In addition, spending on employee compensation increased slightly by 1.6 percent in 2012. This reflected the Government’s policy decision to lift the hiring freeze and reduce increments by half. The hiring freeze was lifted in order to fill existing skills-gaps in the civil service while also addressing unemployment, especially among young people. The Government’s decision to give half-increments in the year was an attempt to reduce overall growth in personal emoluments. Recurrent expenditure grew by 8 percent between 2011 and 2012.

Figure 1: Annual Revenue and Expenditure (2008-2012)



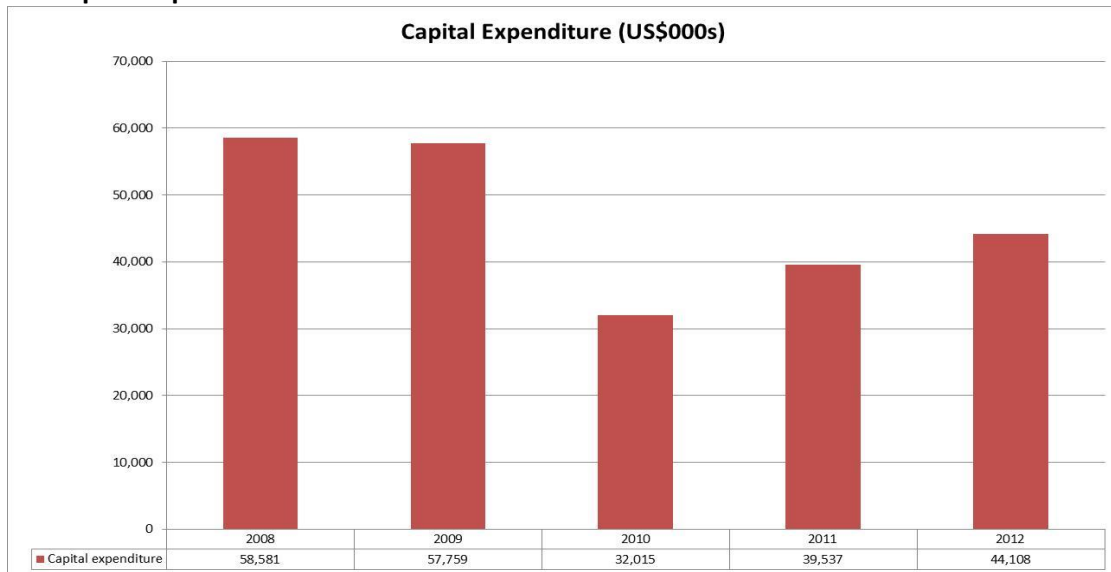
Capital expenditure fluctuated based on the capital investment plan implemented. Major infrastructural developments over the period included the Peebles Hospital, Road Rehabilitation works, Social

¹ The GOVI practices cash accounting therefore recurrent expenditure is synonymous with cash payments.

Infrastructure (parks, playgrounds and community centres), the Greenhouse project, and the Culinary Arts Centre.

Evidencing the Government's goal to complete Peebles Hospital and direct more resources towards longer-term capital development, in 2012 capital expenditure increased by 11.6 percent to \$44.1 million. Capital expenditure was 14.5 percent of total government expenditure in the year, up from 14.1 percent in 2011 (see figure 2).

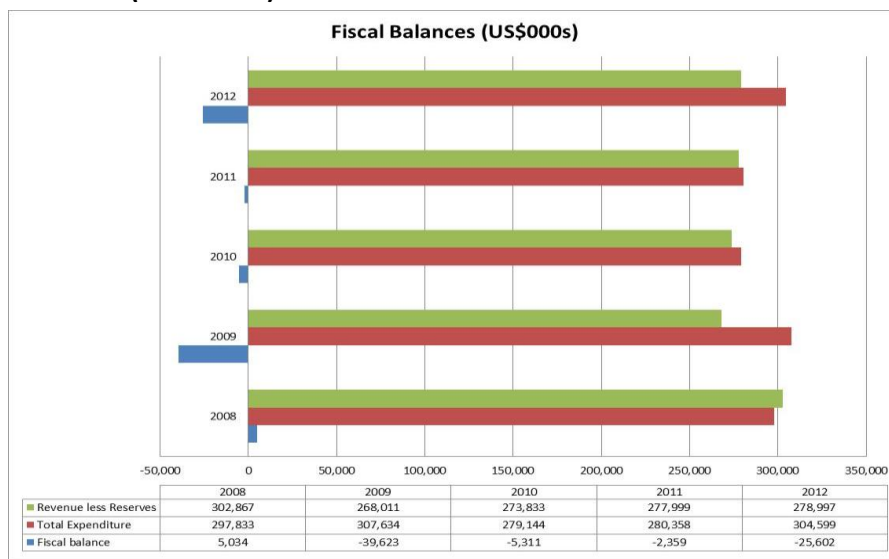
Figure 2: Capital Expenditure



Appendix 1 provides more detail on historical revenue and expenditure of Central Government

The Government has committed to rebuilding the level of reserves by 2015 in line with the borrowing limit ratios and therefore contributed \$13.8 million to the Reserve Fund in 2012. Taking this contribution into consideration, the overall fiscal deficit 2012 was \$25.6 million, with Revenue less reserves of \$279 million and total expenditure levels of \$304.6 million (see figure 3).

Figure 3: Fiscal Balances (2008-2012)



The Government’s deficit has been financed through loan funds, unsecured debt² and liquid assets³. Loan funds are equivalent to draw downs on loan disbursements for a particular year and the difference between the loan disbursements and the deficit is equal to unsecured debt/liquid assets. Therefore total outstanding central government debt for a particular year is the sum of the previous years’ debt stock, loan disbursements (current year) and unsecured debt stock (current year) less principal repayments (current year).

Central government loans increased 3.4 percent in 2012, and reached \$117.5 million at the end of the year (see figure 4). Central government entered into one new loan in 2012, namely the loan granted by the Caribbean Development Bank (CDB) for disaster infrastructure rehabilitation. The total outstanding balance on this loan at the end of the year was \$15.7 million. The total value of outstanding central government loans increased by only \$3.7 million in 2012, reflecting the continued reduction in outstanding balances on the Government’s previously existing loan portfolio.

Central government’s loan portfolio is made up of \$85.4 million in domestic loans and \$32.1 million in foreign loans (see figure 4). Over the years, the Government has increased its borrowing from the

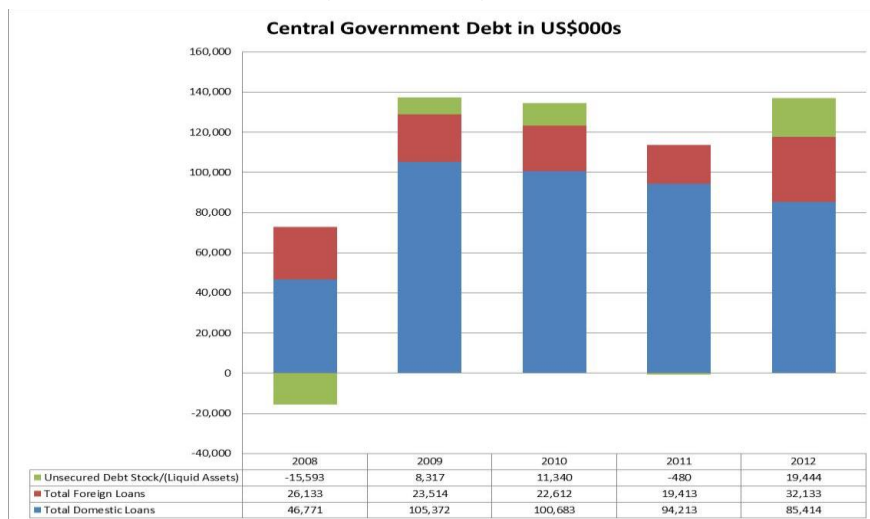
² Unsecured debt, as defined here, is expenditure arrears incurred by Government and include both inward and outward flows of arrears as well as the stock of arrears brought forward from the previous year.

³ Liquid assets are based on end of year fund balances. These are currently being restated and were not available to include explicitly in the Medium-Term Fiscal Frame. Therefore, negative unsecured debt flow in a particular year means an excess of funds after the deficit has been financed and a positive unsecured debt flow means arrears were incurred in order to finance the deficit in that year. Likewise, a negative unsecured debt stock would be equal to the liquid assets on hand at the end of the year and a positive unsecured debt stock would be equal to the cumulative arrears balance. Once the restated end of year fund balances become available the exact magnitude of the negative and positive unsecured debt stock will be known.

domestic market, with loans taken out from local banks as well as the Social Security Board in more recent years.

The increase in liquid assets (represented by a negative value of unsecured debt stock) observed in 2008 was as a result of the significant inflow of funds won in the IPOC settlement and these funds were not used in 2008 but instead gradually over the following five years to finance specific expenditure. In 2012, the Government’s stock of unsecured debt reached \$19.4 million⁴ (see figure 4) in response to the significant Government investment in the construction of the New Peebles Hospital coupled with the Government not drawing down significantly on any loans in the year.

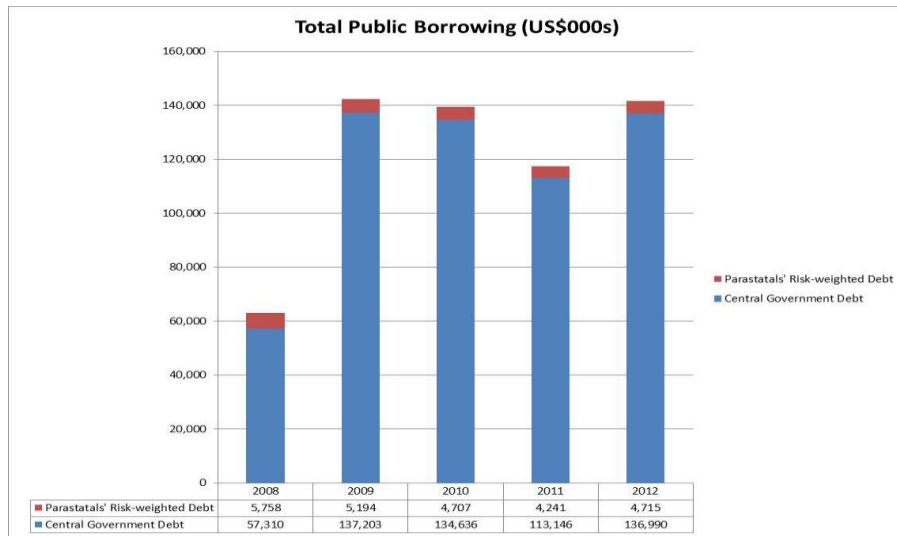
Figure 4: Total Central Government Debt (2008 – 2012)



Debt or total public borrowing, includes central government debt, the risk-weighted debt of statutory bodies, any debt guaranteed by central government, and any novel financing transactions (for example public private partnerships). Total public borrowing, including parastatals’ debt risk-weighted according to the schedule in Appendix 2, reached \$141.7 million at the end of 2012. Of this amount, central government debt accounted for \$136.9 million with central government loans making up \$117.5 million or 84 percent of total public borrowing (see figure 5).

⁴ Please note that this figure will be revised once the end of year fund balances become available.

Figure 5: Total Public Borrowing (2008-2012)



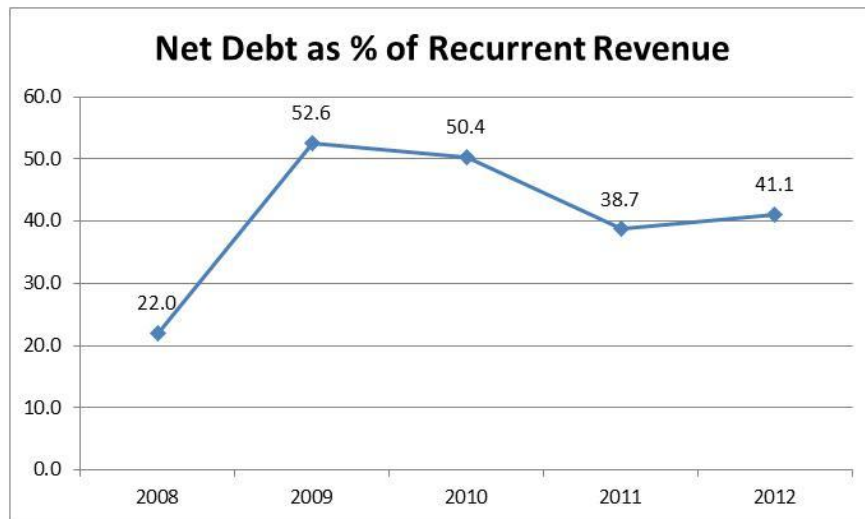
1.2 Ratio analysis - Borrowing Limits

The Protocols for Effective Financial Management (the Protocols) set out specific borrowing limits based on the following ratios: net debt as a percentage of recurrent revenue; debt service as a percentage of recurrent revenue; and liquid assets as a percentage of recurrent expenditure. The Territory's performance against these borrowing limits to the end of 2012 is examined below.

1.2.1 Net Debt (maximum 80 percent of recurrent revenue)

Net debt, defined as the total outstanding value of public borrowing minus liquid assets (Reserve Fund balances), has remained relatively low (see Figure 6). In 2012, the ratio of net debt to recurrent revenue was far below the 80 percent threshold set by the Protocols at 41.1 percent. Debt, subject to the approval of the UK Government, can therefore be utilised as a means of financing the medium-term capital investment plan, alongside available recurrent balances.

Figure 6: Net debt ratios

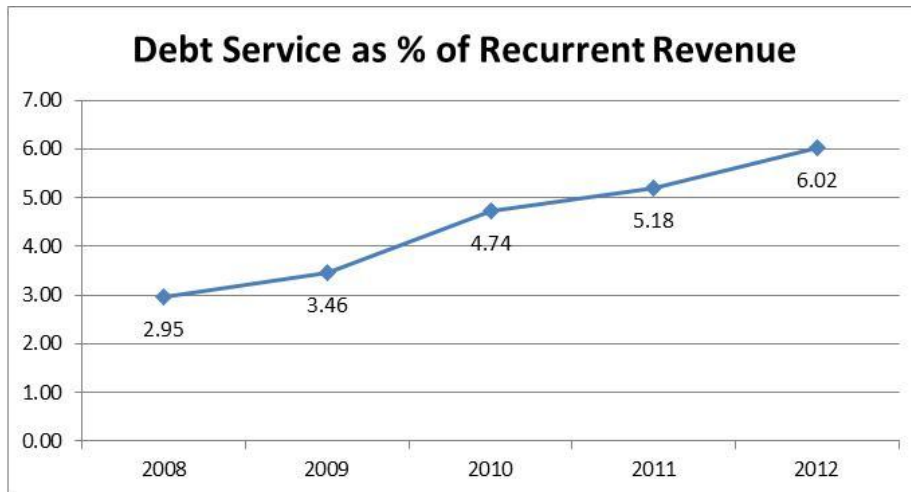


1.2.2 Debt Service (maximum 10 percent of recurrent revenue)

As a result of low levels of debt, the Territory has correspondingly low levels of debt servicing costs which include principal and interest payments on loans for Central Government and risk-weighted for parastatals.

Parastatals debt servicing costs, which are risk-weighted according to the schedule in Appendix 2, totaled \$664,000. The overall debt service ratio to recurrent revenue was 6 percent in 2012, below the 10 percent maximum set out in the Protocols (see figure 7).

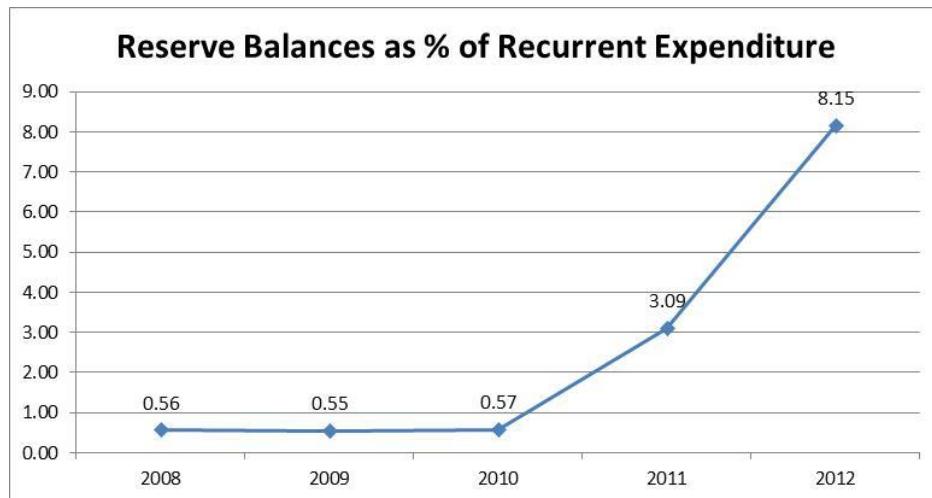
Figure 7: Debt Service ratios



1.2.3 Liquid Assets (at least 25 percent of recurrent expenditure)

In terms of reserve fund balances, the Government contributed just under \$14 million in 2012 to the Reserve Fund. At the end of 2012, the Reserve Fund balance as a percentage of recurrent expenditure was 8.15 percent, more than 5 percentage points higher than in 2011 (see figure 8). This ratio is still below the 25 percent minimum. Under the Protocols, liquid assets are equal to the funds in the reserve and not as previously defined in the Borrowing Guidelines. The Government is still in breach of the liquid assets requirement and as part of its fiscal strategy, is committed to building its Reserve Fund balances over the next few years to at least 25 percent of recurrent expenditure which will rectify the current breach. The Government has implemented a rigorous programme to rebuild its liquid assets by the end of the 2015 financial year with annual injections of at least \$15 million. Thereby at the end of 2015, the Reserve Fund balance will be over \$66 million. This initiative, coupled with efforts to reduce recurrent expenditure, will bring the Government firmly in compliance with the liquid assets requirement.

Figure 8: Liquid Assets ratios

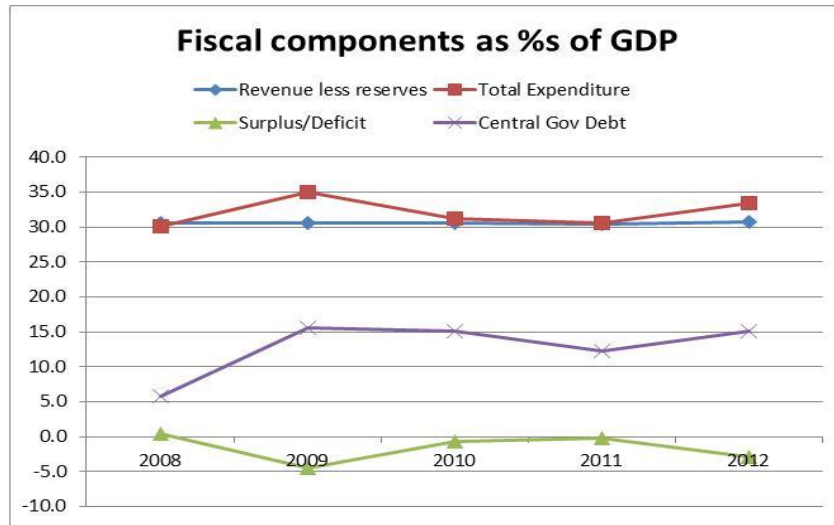


1.3 Ratio analysis - GDP

1.3.1 Fiscal components as percentages of GDP

The ratios of revenue and expenditure to GDP have grown steadily over the reference period. Revenue less Reserves has moved from 27.3 percent of GDP in 2003, to 30.7 percent of GDP in 2012 (see figure 9). In 2012, the central government deficit was 2.8 percent of GDP. Although negative growth in GDP was recorded in 2012, Government Revenue less Reserves and Total Expenditure increased in this year, resulting in higher ratios to GDP. Central government debt at the end of 2012 was 15.1 percent of GDP, down from its peak in 2009 of 15.6 percent which reflected the significant \$45 million and \$15 million domestic loans incurred that year for construction of the New Peebles Hospital.

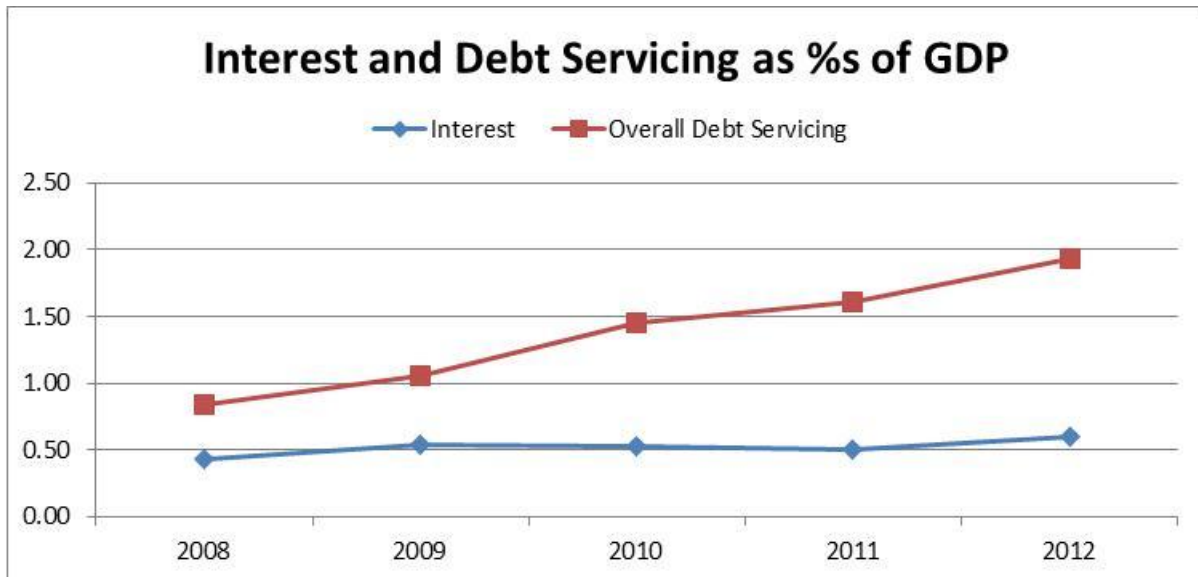
Figure 9: Fiscal components as percentages of GDP



1.3.2 Interest and overall Debt servicing as percentages of GDP

Total interest payments as a percentage of GDP is relatively low, at 0.59 percent at the end of 2012 (see figure 10). Central government paid \$5.2 million in interest in 2012 while parastatals’ risk-weighted interest payments have been declining over the last decade, given that parastatals’ outstanding loan amounts have decreased. Overall debt servicing costs (which includes Central Government and parastatals’ risk-weighted interest payments and principal repayments) reached 1.9 percent of GDP in 2012.

Figure 10: Interest and debt servicing as percentages of GDP



2. MACROECONOMIC REVIEW

Historically, any negative impacts in the global economy, particular the US economy, result in negative but sometimes delayed impacts on the Virgin Islands' economy. In 2012, the more advanced economies struggled to cope with sluggish growth, high debt levels and waning consumer confidence. Not surprisingly in 2012, the Virgin Islands economy contracted by an estimated 0.68%. Negative economic outcomes were most notable in the Territory's cruise-ship tourist arrival performance, in new incorporations of companies, and in commercial construction activity. A less optimistic global outlook for 2013 could further affect tourism, financial services, foreign direct investment and other ancillary industries, such as construction and real estate.

2.1 Gross Domestic Product

In terms of growth, the Territory's nominal GDP fell from \$915.6 million in 2011 to \$909.4 million in 2012 – a decline of 0.68 percent. This is in contrast to significant growth between 2009 and 2011 of approximately 2.2 percent, evidencing a potential recovery from the global economic crisis. In assessing GDP by economic activity, disruptions in the continuation of some on-going private sector projects, along with certain unanticipated public sector project delays impacted the level of growth in the construction sector in 2012. Although, approximately \$42 million, which represented 80 percent of total value of construction GDP (\$51.9 million), was spent by government on capital projects, the significant disruptions in private sector projects and a decline in residential construction resulted in an overall decline in this activity. Consequently, the sector suffered a contraction of 2.4 percent. Increased overnight visitor arrivals in 2012 as a result of a strong charter boat industry, along with increased high-end tourism contributed to a higher output (1.9 percent) from the tourism sector compared to 2011 output. The contribution of the financial services sector to overall economic growth did not change from 2011 since the re-registrations of companies remained strong.

2.2 Inflation

Inflation has remained relatively stable over the last four years (2009 – 2012) averaging approximately 2.5 percent annually. The major contributor to inflation in 2012 was increased fuel costs. Prices within the transportation sub-group increased on average by 5.7 percent in 2012, reflecting the hike in the price of unleaded gasoline last year. Gasoline prices increased by approximately 2.3 percent between 2011 and 2012, and are likely to remain high given economic challenges and political instability in the Middle East. Food prices continued to rise but at a lower rate, averaging a 1.3 percent increase in 2012 compared to 2.6 percent in 2011.

2.3 Employment

The Virgin Islands saw relatively modest declines in the number of persons employed by 0.5 and 1.0 percent in 2011 and 2012 respectively. In 2011, employment levels decreased mostly in government services. This reflected a leveling off of employment in this sector due to an external hiring freeze policy implemented as a Government cost-saving measure, along with a significant increase in retirements from the government. Although, the hiring freeze was lifted in mid-2012, the decline in 2012 was driven

by small but noticeable declines in the hotel, trust and business services sectors. Within the year, some hotels implemented small measures, such as the shrinkage of top and middle management positions to reduce their work force. While a few companies, that engage in trust and business services, either closed or reduced their staff. In 2012, the average annual earnings in the Territory were \$25,295.91, an increase of \$700.75 or 2.8 percent from the 2011 mark of \$24,595.16.

2.4 Tourism

From 2007 to 2012, the total tourism arrival figures registered an annual average negative growth of 4.4 percent with a substantial contraction of 9.4 percent in 2012. The overall decline in tourist arrivals has been driven mainly by the continued decrease in the number of cruise passengers to the Territory. However, total tourist expenditure actually increased by 1.9 percent in 2012, reflecting an increase in high-end tourism. For the period 2007 to 2012, total cruise passengers recorded an annual average decline in growth of 7.2 percent with 2012 recording a significant drop in growth of 19.4 percent. Overnight tourist arrivals remained robust driven mainly by the charter boat industry. Intense marketing efforts, along with discounting and special offers in both the charter boat and hotel industries continued to stimulate growth in overnights. Tourist expenditure for charter boats increased 6.4 percent in 2012, reflecting increased marketing efforts and the influx of visitors for various sailing regattas held throughout the year. By the end of 2012, although cruise passenger arrivals recorded a decrease, the number of overnight visitors to the Territory grew by 4.0 percent and overall tourist expenditure increased.

2.5 Financial Services

Since the 1980s, the financial services sector in the Virgin Islands has had a very positive impact on government revenues, and thus its ability to invest in the development of the Territory. However, sluggish global economic growth in Europe, Asia and the United States, alongside increased competition in the incorporation of companies by other jurisdictions has impacted the level of growth in the sector and government revenue more recently. In addition, other industry sectors including mutual funds and captive insurance, registered declines. Increased regulatory pressure, heightened competition in the global fund industry, and declines in investor confidence have negatively affected the Virgin Islands' market-share in the mutual fund and captive insurance industries.

3. MACROECONOMIC OUTLOOK

3.1 Gross Domestic Product

A less optimistic global outlook for 2013 could further affect tourism, financial services, foreign direct investment and other ancillary industries, such as construction and real estate in the Virgin Islands. Preliminary GDP estimates for 2013 indicate a further decline in the Virgin Islands economy. Unless there is an inflow of foreign direct investment or the commencement of major new infrastructural development projects in the fourth quarter of 2013, growth prospects for 2013 remain low and a contraction between 1-3% is anticipated.

The outlook for the Virgin Islands economy in 2014-2016, however is much more optimistic. It is anticipated that there will be economic growth in 2014 which could reach 1%. By 2016 growth is projected at 2% barring any unforeseen shocks to the economy. Increased investment in the physical infrastructure of the Territory in the medium term through planned capital projects, such as the Cruise Pier Development, the Terrance B. Lettsome Airport Expansion, and the Sewerage project, are expected to stimulate the construction sector in the economy. The stimulus to this sector would contribute to and maintain the economic recovery in the Territory. As a result of growth in the construction sector, there will be increased demand for the services of other sectors such as wholesale and retail, hotels and restaurants, financial services, and real estate, renting and business services.

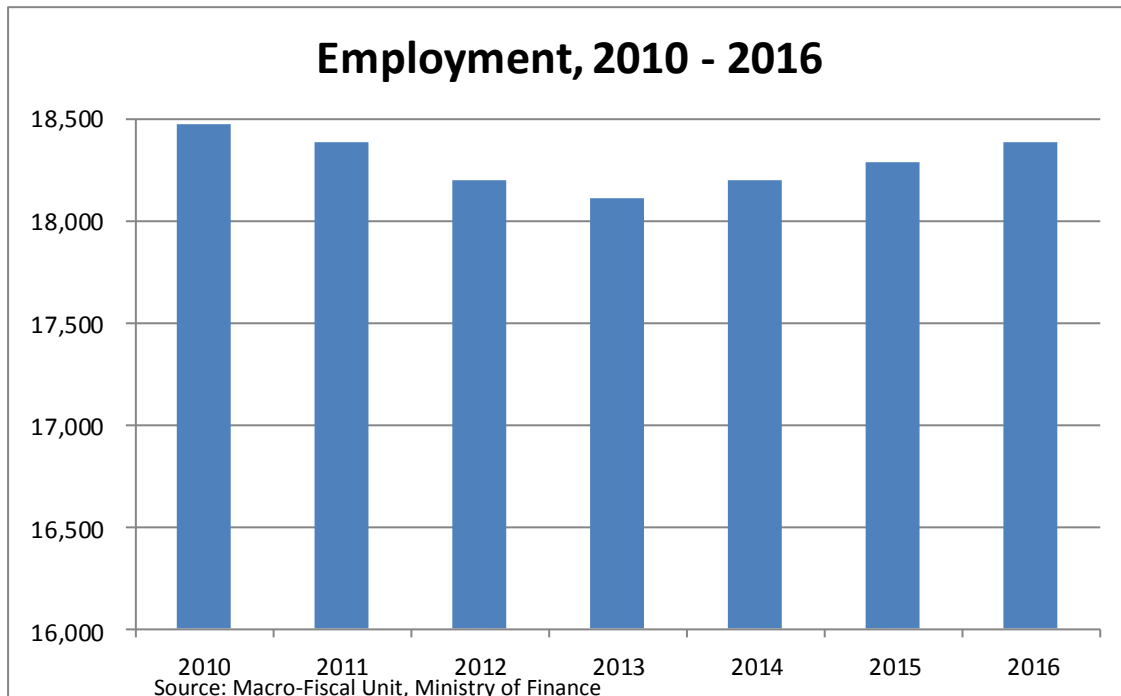
The advent of the cruise ship and port projects, enhancement and diversification of the tourism product, initiatives being undertaken within the Financial Services sector, and financing incentives for the small business sector will bring much needed economic activity to the Territory by the latter part of 2014 spilling over into 2015, 2016 and beyond. The return to positive growth in GDP is therefore expected in the medium term. However, a sustainable level of economic growth in the medium to long term is still highly dependent on improvements in the global economy. A slower than expected global economic recovery could translate to lower growth prospects for the Virgin Islands.

3.2 Inflation

It is projected that the annual inflation for 2013 would be lower than that of 2012, but still maintaining a rate that at least falls within the range of 1-2%. However, with improved employment and spending stimulated by the increase in construction activity with the commencement of planned capital projects, it is predicted that for the period 2014-2016, inflation rates would be between 2% and 3%.

3.3 Employment

Based on employment data up to the first half of the year an overall decline in employment of 0.5 percent is expected at the end of 2013. The overall employment for 2013 is forecasted at 18,107. This slight over 2012 figures can be attributed to a slight reduction in economic activity in the financial services, tourism and construction sectors. However, with increased activity stimulated by the planned large development projects, the period 2014-2016 should register rises in employment levels over the medium term.



3.4 Tourism

Overnight arrival figures for up to August 2013 have grown by 4.1 percent when compared to the same period in 2012. The intense marketing strategy employed by the charter boat industry in 2012 was extended into 2013. The strengthening of marketing strategies, along with heavy discounting of products and the appeal of the destination has been effective in improving overnight tourist arrivals so far in 2013. On the contrary there was an 8 percent decline in cruise passenger arrivals based on figures up to August 2013 when compared with the same period in 2012. Sluggish global economic growth, increased competition from other destinations, and underdeveloped port facilities have contributed to the slight but noticeable contraction in cruise passenger arrivals.

Based on total tourist arrivals data up to August 2013, a decline of 2.4 percent was apparent when compared to the same period in 2012. Providing that the increasing pattern in overnighters continues into the 2013 – 2014 tourist season starting in October, despite the continuing fall in cruise passenger arrivals, overall tourism figures are anticipated to drop by between 1 to 2 percent by the end of 2013. However, if in the coming tourist season significantly lower arrivals in both overnight and cruise visitors are recorded, the overall tourism figures would instead be anticipated to experience a decline by approximately 3 percent.

Not only will such developments like the Cruise Pier provide employment for residents, they will also provide much needed enhancement of the tourism product. Despite the Virgin Islands Tourist Board's marketing strategies to improve the visitor experience and increase tourism numbers by exploring other markets (such as South America and Asia), the lack of airlift remains a major concern for the tourism sector. Improvements in the transportation link between the USVI, Puerto Rico and the Virgin Islands in

the short-term and the airport expansion project in the medium term will reposition the Virgin Islands as a prime destination in the tourism marketplace in 2014 and beyond.

3.5 Financial Services

Company incorporation figures for the first half of 2013 are 17 percent lower than in the same period last year. Fortunately company re-registration figures remain strong and government revenue collections from incorporation fees have not decreased. However, lower incorporation figures do have implications for the stock level of companies re-registered in the Territory annually and subsequent growth in government revenue.

In 2014 and beyond, it is anticipated that the establishment of a physical presence in the Far East with the opening of the Virgin Islands Hong Kong Office will inspire new international investment opportunities in financial services and also in tourism through promoting the Virgin Islands business brand. Initial growth in the financial services industry is expected to be around 1 percent in 2013 and 2014, with slightly higher growth around 2 percent expected in 2015 and 2016.

4. FISCAL OUTTURN 2013

For the first seven months of 2013, the Government has yielded an overall surplus of \$9.1 million, slightly lower than the same period last year. Revenue growth for this period compared to 2012 was marginal mainly as a result of limited growth in financial services receipts. Lower recurrent expenditure up to July 2013 resulted in a larger available recurrent surplus than last year. Due to efforts to complete the Peebles Hospital, capital expenditure in 2013 grew by almost 100% from the same period in 2012 (see table 1).

The 2013 revised revenue estimate (based on actual data up to May) indicates that revenue will grow by less than 1 percent in comparison to 2012. The projected slowdown in revenue growth is based on financial services revenue growing by less than 1% and no growth in two other major revenue earners – payroll tax and customs duties.

Forecasted figures for 2013 also indicate a fiscal deficit in the region of \$24 million. This deficit is based on continued works on the Peebles Hospital project which is loan funded and the intended cash transfer of \$15 million to the Reserve Fund by the end of 2013.

Table 1: Fiscal Outturn Comparison (2012 and 2013)

| (US\$000s) | As of July 2012 | As of July 2013 | % change | | Actual 2012 | Forecast 2013 ⁵ | % change |
|--|-----------------|-----------------|----------|--|-------------|----------------------------|----------|
| Total Recurrent Revenue | 167,014 | 170,133 | 1.9 | | 292,780 | 293,426 | 0.2 |
| Total Recurrent Expenditure | 143,423 | 135,855 | -5.3 | | 260,491 | 256,192 | -1.7 |
| Contribution to Reserve Fund | 13,000 | 3,500 | -73.1 | | 13,783 | 15,000 | 8.8 |
| Available Recurrent Balance | 10,591 | 34,278 | 45.3 | | 18,506 | 22,234 | 20.1 |
| Total Capital Expenditure ⁶ | 12,732 | 25,228 | 98.1 | | 44,108 | 46,316 | 5.0 |
| Total Expenditure | 156,155 | 161,083 | 3.2 | | 304,599 | 302,507 | -0.7 |
| Overall Surplus/Deficit | -2,141 | 9,050 | | | -25,602 | -24,081 | -5.9 |

⁵ Revised estimate based on actual fiscal data up to May 2013, historical trends and policy actions.

⁶ Capital expenditure figures do not include any commitments.

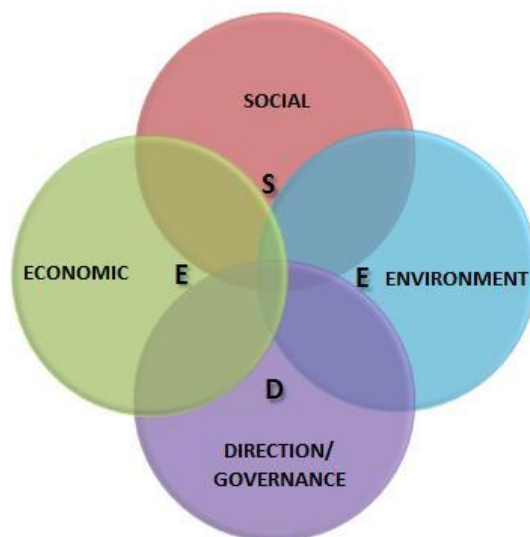
5. DEVELOPMENT AND FISCAL STRATEGY

The Government of the Virgin Islands (GOVI) is committed to achieving its vision of “**A prosperous Virgin Islands, ideal to live, work, visit and do business**” through its development strategy while maintaining macroeconomic and fiscal sustainability and financial stability in the medium term. As such, the Government has outlined the development objectives for the Territory which prioritise creating and maintaining an environment conducive to economic growth and sustainable development. In addition the GOVI recognises the interconnections in society and puts the well-being of all residents at the centre of its actions. Since it is important that the Government manages its development objectives in tandem with its fiscal goals these development priorities are considered along with the GOVI’s fiscal strategy and embodied in this Medium Term Fiscal Plan (MTFP).

Over the next three years, GOVI’s focus is to ensure adequate and robust social, economic and environmental infrastructure which facilitates investment and economic growth in the Territory. The development objectives of the GOVI are outlined in the Territory’s development strategy which incorporates Social, Economic, Environmental and Direction/Governance (SEED) dimensions. The Government’s fiscal strategy aims to increase revenue, prioritise expenditure, and centralises the importance of value-for-money in conducting public business.

5.1 Development Strategy

To achieve the vision for the Territory, the development strategy sets out four goals encompassing social, economic, environmental and direction/governance (SEED) themes. They are:



Social: Virgin Islands residents are a healthy, vibrant and engaged populace, well-prepared to fully participate in the development of the Territory.

Economic: The Virgin Islands economy is thriving and buoyant, fostering balanced growth through entrepreneurship and trade.

Environment: The Virgin Islands values its natural resources and promotes sustainability in physical planning and management.

Direction/Governance: The Virgin Islands is governed transparently, ensuring the safety, security and cohesion of its populace.

The Government's legislative agenda forms the basis of the development strategy and aims to achieve eight results, namely:

Social:

1. An improved standard of living
2. Improved overall social services programmes and healthcare
3. A strengthened educational sector

Economic:

4. A fixed/improved economy

Environment:

5. Improved communications and infrastructure

Direction/Governance:

6. Protected borders and enhanced law, order and public safety
7. A reformed public sector; and
8. Strengthened international relations

The Government has set out the following developmental and fiscal priorities for the next three years (2014-2016):

Social:

- Complete the new hospital on Tortola and the development of a hospital on Virgin Gorda along with modernising clinics Territory wide

GOVI aims to modernise and expand the Territory's healthcare infrastructure in order to improve access to quality care. The completion and commissioning of the New Peebles Hospital, the development of a hospital on Virgin Gorda and upgrading our clinics Territory wide will facilitate access to high quality health care for all residents. When fully operational, the outstanding technology, service and competent human resource capacity anticipated at these facilities will not only improve access and thereby health outcomes of Virgin Islands' residents, but can also be a source of inward investment through medical tourism. These infrastructural developments form part of our three-year Capital Investment Plan (see Appendix 3). Improved health infrastructure through the hospital and clinics is also imperative for the successful functionality of the forthcoming National Health Insurance System.

- Implement the National Health Insurance (NHI) System

The NHI System is expected to provide universal affordable health care to Virgin Islands residents while providing a dedicated source of funds for strengthening the local health care system. In addition, the NHI will help to increase investment support for disease prevention and health promotion initiatives. The NHI will be funded through a combination of Government budgetary allocations, employer and beneficiary contributions, as well as co-payments, surcharges and interest earned on the NHI reserve funds. The NHI Scheme will come on stream once the New Peebles Hospital has been commissioned in mid-2014. Over the next three years the Government has committed additional resources to funding the NHI scheme in the region of \$50 million.

- Modernise the education system

To continue the process of bringing the education system into the 21st century, GOVI plans to standardise and harmonise teaching and assessment across the education system by devising a Territorial Examination and Inspection Board and administering the CXC Caribbean Secondary Education Certificate (CSEC) examination to all secondary school students. GOVI aims to strengthen public collaboration in the development of the financial services and tourism industries and ensure that children are educated about both the financial services and tourism sectors at every level of our education system. The recently introduced tourism/hospitality services, Virgin Islands History and Financial Services programmes at the secondary level will also be expanded, given that tourism and financial services are the main drivers of our economy. Plans also include updating the curriculum of technical and vocational secondary education in conjunction with City and Guilds, promoting equitable access to education by differently-abled students, and implementing the National Citizen Service programme which will promote students' involvement in their communities. Planned infrastructural projects include the development of a Junior High School, and the modernisation of the Baugher's Bay Technical School (see Capital Investment Plan in Appendix 3).

- Care for the most vulnerable

GOVI plans to complete construction of the Adina Donovan's Home at Spooners Estate. Completion of this project is anticipated to provide an all-inclusive facility for seniors. The new facility at Spooners Estate will help to meet the increased need for geriatric care in the Territory, and ensure a safe, healthy environment for all of our seniors.

Economic:

- Expand financial services and tourism markets

The launch of the Virgin Islands Hong Kong Office will serve to strengthen our position in the Asian market and give us a better understanding of the market where the majority of our financial services business originates. Being able to deepen our relationship with Mainland China provides for further opportunities not only in the area of financial services but also education and culture and assists in promoting investment opportunities to the Territory.

Ongoing efforts in enhancing our financial services legislation as well as labour, trade and immigration policies and processes will help to create a business-friendly environment for our financial services product as well as foreign investment. The Virgin Islands Asia House will also serve to cement synergies between our marketing efforts in tourism and financial services in the East.

As part of its global strategy the Virgin Islands Tourist Board is expanding its efforts into new and emerging markets such as Brazil which will be the platform for launching marketing initiatives into other Latin American countries such as Argentina and Chile. On the home front the Government is working on improving the tourism infrastructure and providing additional opportunities for local persons to participate more in the sector.

- **Develop the Cruise Pier and other Tourism Infrastructure**

GOVI aims to improve the Territory's tourism product by expanding the Cruiseship Pier and upgrading its amenities. This project offers the benefits of additional cruise-liner and cruise passenger capacity, stimulated revenue from increased tourist arrivals, boosting entrepreneurial possibilities, and providing another avenue for community-based activities. Promoting the private development of the Prospect Reef Resort to at least four-star level also forms part of GOVI's plans to upgrade available tourism infrastructure in the Territory.

The Government has also committed to developing the North Sound area in Virgin Gorda and this includes developing the Gun Creek Port. Gun Creek is the gateway to North Sound and its surrounding areas and as such can offer a plethora of entrepreneurial opportunities to residents. Additionally, it is the key transition point for many of the Territory's visitors and residents. The Gun Creek development project will therefore further stimulate the economy of Virgin Gorda while enhancing the Virgin Islands's tourism product.

- **Expand existing Airport facilities and develop Seaport facilities**

Finding a solution to air access to the Virgin Islands is a priority of GOVI, hence the expansion of the Terrance B. Lettsome International Airport is vital. Similarly, seaports will be developed to maximise economic benefit. Expanding the airport runway and terminal and developing our seaports is expected to reap the benefits of increased passenger and freight capacity, improved access from new tourism markets, stimulating tourism and commercial trading bases, increased employment opportunities for locals, stimulating economic activity within the Territory, and improved safety and capacity of the airport and seaport facilities which will be conducive to more efficient operations.

- **Encourage Business and Entrepreneurship development**

The development of the small business sector is essential to economic growth since it provides jobs and additional commerce. The Department of Trade and Consumer Affairs (DOTCA) which is responsible for creating an environment where entry to the business sector is fair, transparent and hassle free, has been repositioned and strengthened so that it can adequately deal with

promoting fair competition and consumer protection. The recent revitalisation of the National Business Bureau (NBB) and introduction of its Loan Guarantee Programme will help to offer solutions for issues affecting small business in the Virgin Islands including access to local and foreign markets, the high costs of doing business, access to capital, and adequate human resources. The recently launched loan programme will foster growth in the existing business sector and also encourage new businesses into the market. In addition to facilitating access to capital through the loan programme the NBB will also provide technical assistance in business plan development, marketing, and other related educational activities.

Environment:

- **Improve existing Road Infrastructure**

Necessary repairs will be conducted on the Territory's road network which has suffered significant disrepair due to impacts of storms over the last several years. The Government has secured a loan from the Caribbean Development Bank for road infrastructural improvement which will facilitate necessary immediate repair as well as improve the resilience of our road infrastructure to future storms. These funds will be used to make road repairs and prevent extensive erosion of our roadways through focus on proper drainage solutions and road engineering.
- **Improve the Water and Sewerage Network**

Work on the ongoing project to improve the water and sewerage network in Road Town and East End will continue. This includes improving water supply systems, implementing more efficient leak detection and billing systems, and replacing the existing pipe network that is severely worn. GOVI is also pursuing plans to merge the British Virgin Islands Electricity Corporation (BVIEC) and the Water and Sewerage Department such that the water and sewerage system will be administered and managed by a statutory body. All agreements in relation to the water and sewerage system will be managed on an ongoing basis to ensure value for money and the best interests of the Territory are prioritised. It is anticipated that this merger will eventually result in the reduced cost of production of water and the level of subsidisation required by Central Government for the running of the Water and Sewerage Department.
- **Encourage use of Alternative Energy Sources and Energy Efficiency**

GOVI will continue to foster the development of alternative and renewable energy sources while working with BVIEC to find efficiencies in the provision of the Territory's electricity, thereby reducing energy costs for residents in their homes and businesses. This Government has committed to utilizing solar technology for streetlights and public facilities, thereby reducing demand on the grid and lowering long-term costs of electricity.

Direction/Governance:

- Encourage Public Sector Reform by finding efficiencies in Government's provision of services to the public, and instituting reform of the public finance management system.

GOVI aims to improve the availability, timeliness and accuracy of financial and other information for planning and decision making, and enable a transparent and accountable Government Service that promotes efficient and effective use of public resources. To achieve this, efforts have been ongoing to make the public service more responsive to user needs and to modernise the public finance management system. The Government believes that Public Service Reform is essential for ensuring compliance with the Protocols for Effective Financial Management and work has already commenced in this vein. The following are ongoing priorities for bringing the Virgin Islands into compliance with the Protocols:

1. Formulating a development strategy which sets out the Territory's longer-term development agenda. The longer-term development agenda will expand on the work done in creating the development strategy SEED through broader collaborative efforts with public and private-sector stakeholders. Each Government's policy objectives, spanning a four-year period which corresponds with the electoral cycle, will fit into the broader, longer-term development framework.
2. Developing a macro-economic framework that supports medium-term policy initiatives and budget decisions. The macro-economic framework is an important input into creating both the Medium Term Fiscal Plan and the Budget Estimates.
3. Developing a multi-year, performance-based budget which includes the Government's revenue projections and expenditure priorities, links policy objectives to spending allocations, promotes transparency and accountability, strengthens budget planning, and provides future insight into the cost of core government policies and available fiscal space. The three-year rolling performance budget promotes efficient use of resources by requiring Cabinet-level decision making on new spending and savings initiatives. The 2013 and 2014 Budgets have been prepared in this new format and utilise the new Chart of Accounts (CoA) classifications. In addition, a more robust approach to revenue estimation techniques has been utilised in the preparation of the 2013 and 2014 budget estimates with the objective of gradually reducing the significant variances observed between budget estimates and actual revenue. Going forward in 2014, Ministries and Departments will be guided in developing comprehensive programme structures in order to further facilitate the linkages between planning and budgeting.
4. Developing a sequenced and planned approach to improving cash accounting in the Government focusing on improving financial reporting that will support management decision making and government policy initiatives. The plan to improve the accounting function has been centered around:

- Restating public accounts from former years. GOVI continues to receive assistance from PricewaterhouseCoopers (PwC) in adjusting and restating the public accounts given weaknesses and inaccuracies identified in the Forensic Examination Report submitted to GOVI by that company in March 2013;
 - Building technical capacity within Treasury to ensure that personnel have a thorough understanding of the principles guiding cash based IPSAS and the Public Finance Management (Amendment) Act, Regulations and Financial Instructions;
 - Developing an accounting procedures manual to ensure compliance with cash-based International Public Sector Accounting Standards (IPSAS) as well as guiding legislation;
 - Developing a format for all final accounts including primary statements and disclosure notes which are based on international standards for accounting; and
 - Giving consideration to moving towards accrual-based accounting in the future.
5. Developing a cash flow management and forecasting structure to help alleviate cash shortfalls by predicting the availability of cash and improving cash flow planning. This will allow policymakers greater control over cash and reduce the instances of monthly cash shortages. Efforts to create a framework began in earnest in 2013 using an Excel-based cash-flow forecasting model. This cash forecasting model will be utilised at the beginning of 2014. Accounting policies and procedures have been adapted including: adopting cash based IPSAS; moving towards daily bank reconciliations; continuing the process established in 2012 of closing the monthly accounts within five days of the end of month; and dealing with new and old stale-dated cheques.
6. Developing improved project appraisal and assessment processes which promote effective and efficient use of resources on capital projects, helping to ensure value for money on the projects contracted out by the Government. This includes:
- Initiating a Planning and Project Review Advisory Committee (PPRAC) to appraise projects for approval, revision or rejection, including the appraisal of project proposals for feasibility and the appraisal of project execution plans prior to implementation and allocation of resources. The Project Support Services Unit (PSSU) and other units of the Ministry of Finance will be more actively involved in all phases of the project lifecycle;
 - Developing policy instructions requiring all projects to be appraised prior to the procurement stage;
 - Developing and implementing guidelines for the project appraisal process;
 - Reviewing Procurement Process and Handbook, to inform the draft Procurement and Projects Act;
 - Implementing and maintaining a Project Management System with a Project Management structure; and
 - Developing and maintaining a contracts-management system.

7. Further revisions to the Public Finance Management Act to ensure that it is meeting the objectives of good financial management will be undertaken.
8. Developing a medium-term Debt Management Framework. The absence of a robust debt management system has made debt compilation, analysis and overall debt management difficult. The framework will address the need for Debt Analysis and Debt Management Strategies (Medium Term Debt Strategy); improve the monitoring of public debt and the proper use of debt management software for debt management; monitor and manage all aspects of debt including contingent liabilities; develop appropriate legal frameworks; develop strong institutional frameworks to include the Back Office, Middle Office and Front Office functions; and apply prudent policies, strategies and expertise to ensure that sustainable debt levels are maintained.
9. Separation of the statistics and economic development functions has taken place with the formation of the Central Statistics Office (CSO) and the Economic Planning, Research and Analysis (EPRA) Unit. Efforts have begun to better link the development planning function to the multi-year, policy-based budget process. EPRA developed the Development Strategy SEED based on the Government's Legislative Agenda. SEED is tied to the medium-term budget through Departmental strategies, outputs and outcomes. Separation of statistics from economic development supports the integration of the overall planning and resourcing functions of the Government, and aids the development of an independent CSO.

5.1.1 Capital Investment Plan (2014 – 2016)

The GOVI's medium term capital investment programme of \$207.6 million over the next 3 years supports its development strategy and will lead to increased economic growth and enhancement of the Territory's infrastructure. Capital project commitments including the sewerage project, completion of the new hospital, further expansion of the Territory's ports, renovations to existing schools and the construction of new school facilities will be funded using a combination of available recurrent surpluses, loan funds, PPPs and parastatals' loan funds. The complete capital investment programme can be found in Appendix 3.

5.2 Fiscal Strategy⁷

The current fiscal outlook indicates increasingly restricted fiscal space which could inhibit GOVI's ability to accomplish its development agenda and to respond to any economic shocks. Without implementation of an effective fiscal strategy, GOVI will continue to be in breach of the borrowing limits of the Protocols and will find it increasingly difficult to meet its fiscal and development objectives (see Appendix 5 which shows the projected fiscal path without (base case⁸) and with the Government's fiscal strategy). Thus, GOVI has crafted the following fiscal strategy which promotes fiscal sustainability.

The objectives of the fiscal strategy which GOVI will pursue over the medium-term (2014-2016) are as follows:

1. Build the Reserve Fund balance as a means of buffering public finances from unexpected future shocks;
2. Manage contingent liabilities;
3. Improve the financial management structure within Central Government and its parastatals;
4. Improve the recurrent surplus balance by implementing revenue generating and expenditure efficiency initiatives. Decrease the overall deficit in 2014 and 2015, and convert the deficit into an overall surplus by 2016; and
5. Maintain the borrowing ratios within limits outlined in the Protocols for Effective Financial Management.

5.2.1 Building Reserves

In order to meet the liquid asset ratio of at least 25% of recurrent expenditure by 2015 the GOVI will contribute the following to the reserve fund over the medium term while continuing to manage recurrent expenditure growth: 2014 - \$18.5M; 2015 - \$18M and 2016 - \$15M.

5.2.2 Manage Contingent Liabilities

Government will establish a contribution schedule to reduce its currently unfunded liability of the pension scheme for public sector employees from 2015. The cost implications for this policy are based on a 2009 Actuarial report on the current non-contributory pension scheme. An updated report will be commissioned to determine the level of the current pension liability and provide recommendations for funding this liability (2009 report - \$201 million) and developing a funded pension scheme thereafter. As an initial estimate for the Medium Term Fiscal Model, the cost implications are based on the 2009 actuarial report which indicates a cost of \$7.1 million in 2014, 2015 and 2016 for the unfunded portion of the pension liability. This is based on amortisation of the portion of the accrued pension liability from past years' services at a set percentage of annual payroll. This does not include the current years' pension outruns.

⁷ The assumptions which guide the fiscal adjustment strategy are laid out in Appendix 4.

⁸ The base case includes contributions to NHI over the medium term.

5.2.3 Financial Management of Parastatals

This requires developing a function within the Ministry of Finance to review the operations and financial statements of parastatals in order to promote prudent financial management within these bodies. The outcome sought by this process is greater harmonisation of efforts to improve efficiencies across the public sector, and a reduction in parastatals' level of reliance on central government revenue.

5.2.4 Generating Revenue

The revenue generating initiatives which GOVI plans to implement in the medium-term are:

1. Change the current work permit structure such that fees will be based on occupation type with consideration given to average income by occupation type;
2. Introduce a tourist levy (\$10) which will be collected at the ports of entry (air and sea) from every visitor entering the Territory. Part of this levy will be used to fund environmental protection and preservation programmes;
3. Extend existing Hotel Accommodation Tax rate of 7% to Charter Boats docked within the Territory;
4. Increase current Import Duties on Alcohol by 100%;
5. Collect 33% of the Ports Authority reserves – 10% in 2014, 50% in 2015 and 40% in 2016;
6. Collect 66% of the Telecommunications Regulatory Commission's (TRC) reserves,⁹ 10% of the TRC's annual revenue in 2014, and 66% of the TRC's annual revenue in 2015 and 2016;
7. Comprehensive review of central government fee structure with the objective of raising additional revenue;
8. Adopt a more aggressive approach to the collection of current taxes and fees and arrears¹⁰ by reviewing current legislation to give revenue collecting agencies greater authority to enforce compliance.
9. Review the current Payroll Tax structure with the objective of developing a more progressive tax system. A comprehensive review of Government's tax and fee structures is ongoing with a view to closing loopholes, ensuring that fees at least cover the costs of providing services, and fostering the overall coherence of Government taxes and fees to advance transparency and fairness.

⁹ 66% of current reserves will be collected in 2014. The reserve balance is based on revenue collected for the last 5 years.

¹⁰ The value of arrears has not been explicitly included in the fiscal strategy model.

Total additional collections as a result of these revenue initiatives are summarised in Table 2. It is envisaged that these will be brought on stream at various times in 2014¹¹ and amass approximately \$9.6 million in additional revenue in 2014, \$20.6 million in 2015 and \$20.0 million in 2016.

Table 2: Revenue Generation Initiatives by Major Revenue Category (US\$000s)

| <u>Major Revenue Category</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|--|--------------------|--------------------|--------------------|
| Taxes on Goods and Services Work Permit Fees Accommodation Tax | 2,587 | 8,045 | 8,119 |
| Taxes on International Trade Import Duty – Alcohol Tourist Arrival Levy | 2,056 | 4,294 | 4,341 |
| Other Tax Revenue Revenue from Statutory Bodies | 4,026 | 3,655 | 3,370 |
| TOTAL REVENUE GENERATED | 8,669 | 15,993 | 15,831 |

5.2.5 Improving Expenditure Efficiency

Alongside ensuring compliance with the Protocols and generating increased revenue, GOVI recognises the importance of improving expenditure efficiency. As such, GOVI is committed to prioritising expenditures to ensure that the people of the Territory are receiving value for money in the way GOVI conducts business on their behalf.

1. Employee Compensation has been growing during the last decade and makes up a significant component of recurrent expenditure (40.6 percent in 2012); therefore in an effort to curb the growth in overall expenditure, the wage bill for 2013 will be adjusted by inflation (2.3%) in 2014 and kept constant (in nominal terms) at the 2014 level for 2015 and 2016. This can be accomplished by (further research and costing to be carried out): eliminating increments in the medium term and developing in the future an increment process that is better-linked to performance; reintroducing the hiring freeze for the three year projection period; and engaging with the Deputy Governor’s Office to develop a strategy for improving the efficiency and effectiveness of the public service including implementing the recommendations from the Job Analysis Audit (2012). This study was conducted to identify human resource gaps in the public service and indicate how efficiency within the service can be achieved.

¹¹ The additional revenue amounts have been prorated based on expected implementation dates in 2014.

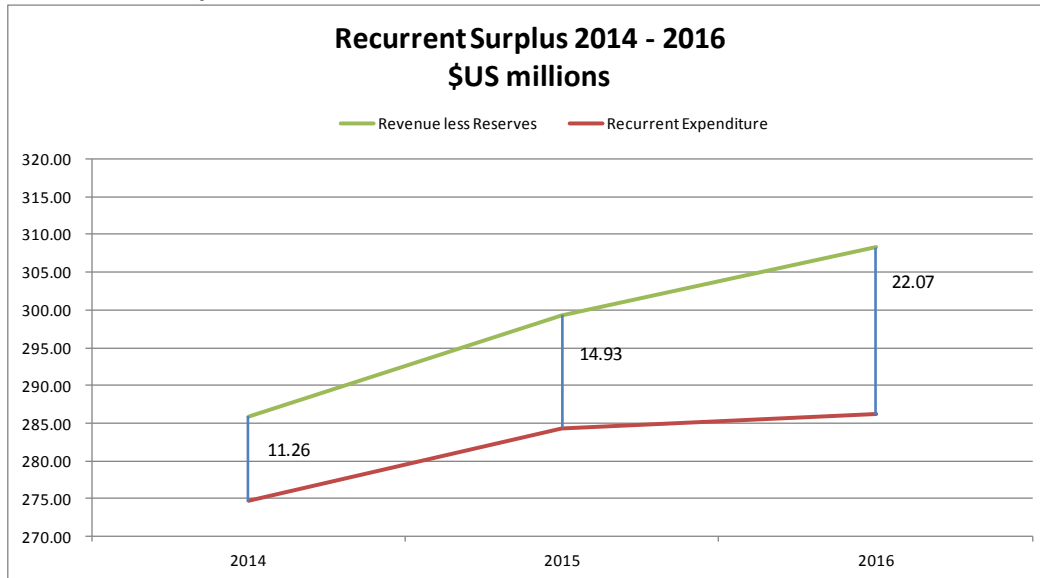
2. Goods and services also represent a sizeable proportion of recurrent expenditure (22.4 percent in 2012) and hence, going forward, must grow at a more manageable rate. Therefore, from 2014 the Government of the Virgin Islands will aim to reduce the level of growth related to goods and services by reducing spending in this category by 2 percent each year from 2014 to 2015, and by 1 percent in 2016. This action will be achieved through better and more efficient project assessment and procurement processes which will ensure that the Government receives good value for money when purchasing goods and services and reviewing rent leases. Additionally, effective management of accounts payable will help to contain costs of goods and services, as this will avoid suppliers building in expectation of late/uncertain payment into their bids. The removal of supplementary appropriations as well as more in-depth budget monitoring over the course of the year will help to eliminate the custom of Ministries and Departments to overspend on an annual basis. In addition ensuring that programmes are appropriately prioritised and costed during the more rigorous multi-year budget preparation process will lead to efficiencies and savings.
3. Transfers and subsidies. With the exception of transfers to the NHI fund transfers and subsidies growth will be reduced to 1 percent each year from 2014 to 2016. Since transfers and subsidies to statutory bodies constitute the largest portion of overall transfers and subsidies, parastatals will be asked to devise a strategic plan to become less dependent on government transfers within the next three years – by cutting costs, raising additional revenue or both. In addition the Ministry of Finance will be setting up a monitoring function to examine the operations of parastatals assisting them in determining cost savings.
4. Capital expenditure levels are dependent on the development policy initiatives of the Government. To help promote the effective and efficient use of resources on capital projects, improved project appraisal and assessment processes will be implemented. This will help ensure that the Government achieves value for money on all projects and forms part of the Government’s public financial management reform programme.
5. During the 2014 budget process Ministries and Department are required to identify savings options in their budgets. Approved savings will be used to offset any new spending requested and approved by the Cabinet.

5.2.6 Improving the recurrent balance 2014 – 2016; Reaching overall surplus in 2016

The revenue generating initiatives and expenditure efficiency recommendations will result in an increase in the recurrent surplus every year over the medium term. (see figure 11). Revenue is projected to grow by approximately 3.7% in 2014 and 4.2% in 2015 before levelling out to 1.9% in 2016. Recurrent expenditure is expected to grow on average by approximately 4% over the medium term. This growth in recurrent expenditure is driven by contributions to the unfunded pension scheme and the NHI System. Expenditure savings in goods and services and holding the wage bill constant has helped in curtailing the growth in recurrent expenditure in the medium term. The combination of revenue

generating and expenditure efficiency initiatives will result in a decrease in the overall deficit by 56.4 percent in 2014 when compared to the estimated deficit at the end of 2013. A further reduction in the deficit will be realised in 2015 of 20 percent with an overall surplus of \$13.6 million expected in 2016 (see Table 3).

Figure 11: Recurrent Surpluses



The following summarises the effects of the revenue generating and expenditure efficiency initiatives on the fiscal situation of the GOVI (see table 3).

- Total Revenue will reach \$323.27 million by 2016 or 34.3 percent of GDP;
- Total Recurrent Expenditure will reach \$286.2 million by 2016 or 30.4 percent of GDP;
- Total Recurrent Surplus will reach \$22.1 million by 2016 or 2.3 percent of GDP;
- Total Expenditure will reach approximately \$294.7 million or 31.3 percent of GDP by 2016;
- An overall fiscal surplus of \$13.57 million will be realised by 2016, representing 1.4 percent of GDP;
- Total Central Government Debt¹² (secured and unsecured) of \$119.5 million in 2016;
- Total Public Borrowing (including parastatals' risk-weighted debt and PPPs) of \$221.7 million in 2016 (see Table 4).

¹² Assuming that each year's end-of-year debt is made up of the previous year's debt, minus principal repayments made in the current year, plus the deficit for the current year.

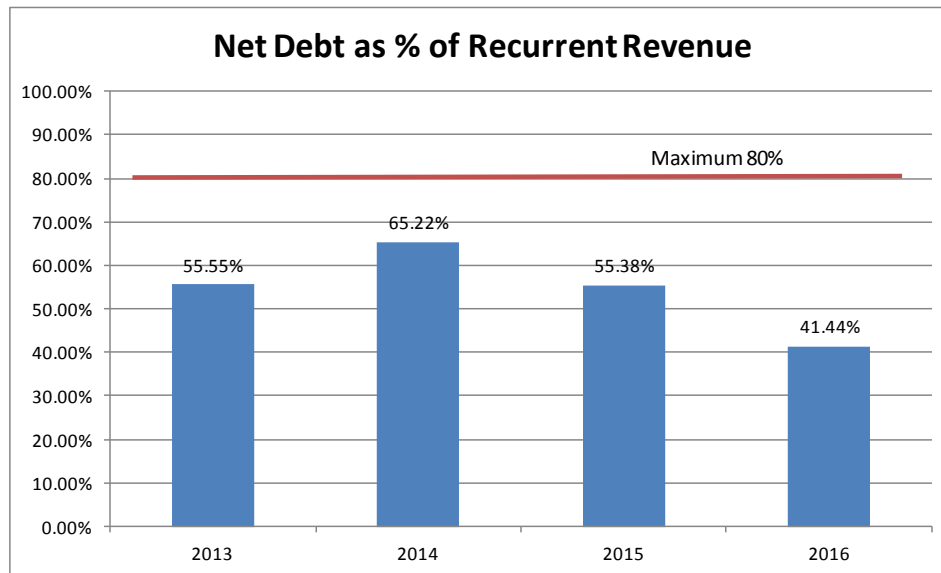
5.2.7 Maintaining the Borrowing Limit Ratios

With the implementation of this fiscal strategy, GOVI will be in firm compliance with the Borrowing Limits of the Protocols for Effective Financial Management by the end of the 2015 fiscal year, and will ensure

that the Territory's public finances are set on a sustainable path while allowing for accomplishment of the Territory's outlined development agenda. These ratios are displayed in figures 12-14 and table 4.

- Net Debt as % of Recurrent Revenue of 41.4% (maximum 80%) in 2016;
- In addition to central government debt, three new loans are expected to be incurred by parastatals to fund infrastructure development: one by British Virgin Electricity Corporation in the amount of \$30 million repayable over fifteen years; one by British Virgin Islands Ports Authority in the amount of \$10 million repayable over ten years, and another in the amount of \$34 million repayable over fifteen years for the cruise pier development. These loans are incorporated into total public borrowing in the forecast period (2014-2016) at the prescribed 20% risk-weighting. These are included in the net debt¹³ and debt service ratios.

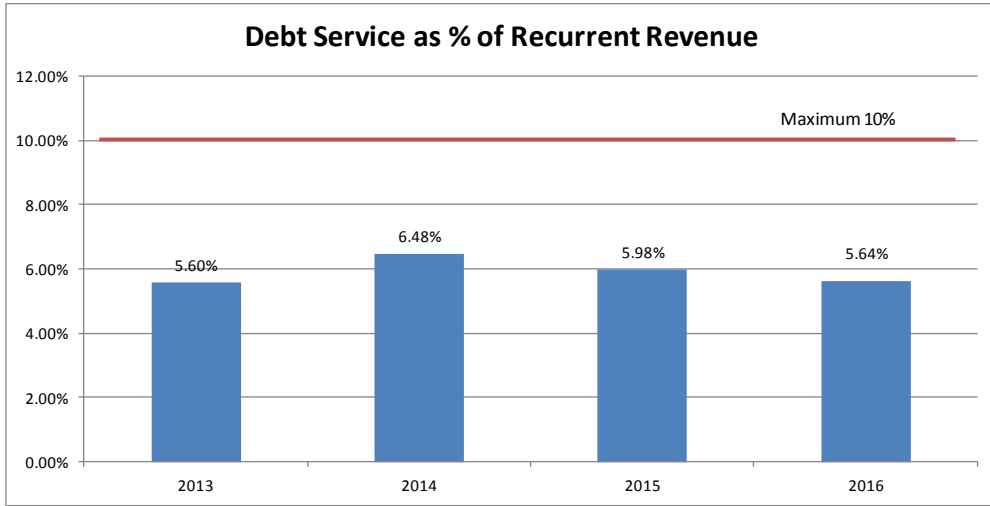
Figure 12: Net Debt Ratios



¹³ The capitalised value of future financial obligations (\$45M) on the Bi Water project has been included as part of the net debt calculation.

- Debt Service as % of Recurrent Revenue of 5.6% (maximum 10%) in 2016; and

Figure 13: Debt Service Ratios



- Liquid Assets as % of Recurrent Expenditure of 30.7% (at least 25%) in 2016. The GOVI would have met this ratio by 2015.

Figure 14: Liquid Assets Ratios

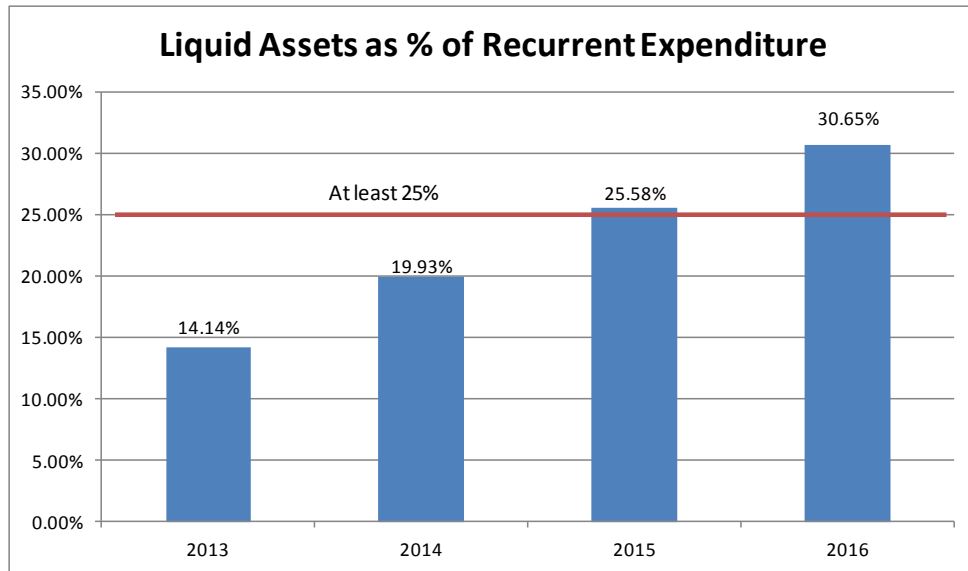


Table 3: Fiscal Strategy Outcomes

| | 2014 | 2015 | 2016 |
|--|------------------------|------------------------|------------------------|
| mn \$ | <u>Fiscal Strategy</u> | <u>Fiscal Strategy</u> | <u>Fiscal Strategy</u> |
| Total Revenue | 304.40 | 317.28 | 323.27 |
| Total Current Rev | 304.40 | 317.28 | 323.27 |
| Total Tax Revenue | 288.14 | 301.25 | 307.21 |
| Payroll-Inc Taxes | 42.35 | 43.79 | 45.42 |
| Property Tax | 2.23 | 2.19 | 2.14 |
| Taxes on Gds & Services | 202.30 | 210.63 | 213.06 |
| Tax-International Trade | 30.52 | 33.73 | 35.51 |
| Other Tax Revenue | 10.73 | 10.91 | 11.09 |
| Other Current Revenue | 16.26 | 16.03 | 16.05 |
| Grants | 0.00 | 0.00 | 0.00 |
| Contribution to Reserve Fund | 18.50 | 18.00 | 15.00 |
| Revenue less Reserve Contribution | 285.90 | 299.28 | 308.27 |
| Total Expenditure | 296.39 | 307.67 | 294.70 |
| Total Primary Expenditure | 290.84 | 302.67 | 290.25 |
| - Total Recurrent Expenditure | 274.64 | 284.35 | 286.20 |
| - Total Interest Payments | 5.55 | 4.99 | 4.45 |
| Interest payments - Dom debt | 3.85 | 3.41 | 2.98 |
| Interest payments - Ext'l debt | 1.69 | 1.58 | 1.47 |
| - Total Non-Interest Recurrent Expenditure | 269.09 | 279.36 | 281.75 |
| - Employee Compensation | 118.23 | 118.23 | 118.23 |
| - Gds & Services | 58.06 | 56.90 | 56.33 |
| - Subsidies & Transfers | 79.34 | 90.50 | 93.19 |
| - Total Other Expenses | 13.46 | 13.73 | 14.00 |
| - Total Capital Expenditure | 21.75 | 23.32 | 8.50 |
| Total Surplus-Deficit (-) | -10.49 | -8.39 | 13.57 |
| Primary Balance | -4.94 | -3.39 | 18.01 |
| RECURRENT BALANCE | 11.26 | 14.93 | 22.07 |
| Total Net New Financing (Deficit Financing) | 10.49 | 8.39 | -13.57 |
| Net New Domestic Financing | 2.62 | 2.10 | -3.39 |
| Net New Foreign Financing | 7.87 | 6.29 | -10.18 |
| Loan Disbursements | 10.05 | 11.10 | 0.00 |
| Unsecured Debt Flow | 0.44 | -2.71 | -13.57 |
| Unsecured Debt Stock | 19.65 | 16.94 | 3.37 |
| PRINCIPAL PAYMENTS | 12.07 | 11.90 | 11.74 |
| DOMESTIC - PRINCIPAL PAYMENTS | 8.59 | 8.60 | 8.61 |
| FOREIGN - PRINCIPAL PAYMENTS | 3.48 | 3.31 | 3.13 |
| Total Resource Envelope | 296.39 | 307.67 | 294.70 |
| Total Disbursed Debt | 88.57 | 87.77 | 76.03 |
| Outstanding Disbursements | 40.06 | 40.06 | 40.06 |
| Total Outstanding Central Gov Debt and Unsecured Debt | 148.29 | 144.77 | 119.46 |
| Total Outstanding Central Gov Debt, end of year | 128.64 | 127.83 | 116.09 |
| - Total Domestic Debt | 76.90 | 71.08 | 62.47 |
| - Total Foreign Debt | 51.73 | 56.75 | 53.62 |

Table 4: Borrowing Limits for Fiscal Strategy

| | 2014 | 2015 | 2016 |
|---|------------------------|------------------------|------------------------|
| | <u>Fiscal Strategy</u> | <u>Fiscal Strategy</u> | <u>Fiscal Strategy</u> |
| Total Debt of Parastatals | 92.64 | 86.14 | 78.95 |
| Total Risk-Weighted Debt of Parastatals | 18.53 | 17.23 | 15.79 |
| Capitalized Value of Public Private Partnerships | 86.43 | 86.43 | 86.43 |
| Total Public Borrowing | 253.25 | 248.43 | 221.69 |
| Reserve Fund Balances (Liquid Assets) | 54.73 | 72.73 | 87.73 |
| Parastatals' Interest payments | 4.07 | 3.78 | 3.48 |
| Parastatals' Principal repayments | 6.44 | 6.60 | 6.76 |
| Parastatals' Debt Service (Risk-Weighted) | 2.10 | 2.08 | 2.05 |
| Total Debt Service (Central Gov. and Parastatals) | 19.72 | 18.97 | 18.23 |
| Borrowing Limits | | | |
| Net Debt | 198.52 | 175.70 | 133.96 |
| Net Debt as % of Recurrent Revenue (max 80%) | 65.22% | 55.38% | 41.44% |
| Debt Service as % of Recurrent Revenue (max 10%) | 6.48% | 5.98% | 5.64% |
| Liquid Assets as % of Recurrent Expenditure (at least 25%) | 19.93% | 25.58% | 30.65% |

5. DEVELOPING AN IMPLEMENTATION STRATEGY

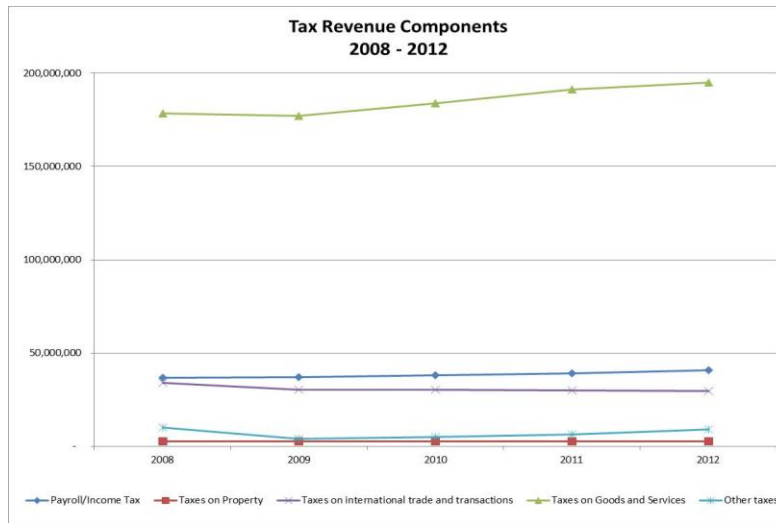
A comprehensive implementation schedule which addresses all three parts of this fiscal strategy is in the process of being developed. It will build on the progress made thus far in Public Financial Management (PFM) Reforms. In 2012, the GOVI developed a PFM reform strategy which was later revised in 2013 and includes objectives for the periods 2013-2015. In addition to strengthening PFM weaknesses identified, it also provides guidance for ensuring our compliance with the Protocols. This strategy will be extended to include revenue generating initiatives and activities for improving expenditure efficiency. The Ministry of Finance will lead a team responsible for finalising the implementation schedule and monitoring progress towards achieving the strategies and targets laid out in the schedule within the prescribed timeframe.

APPENDICES

Appendix 1: Detailed Analysis of Revenue and Expenditure

Tax Revenue

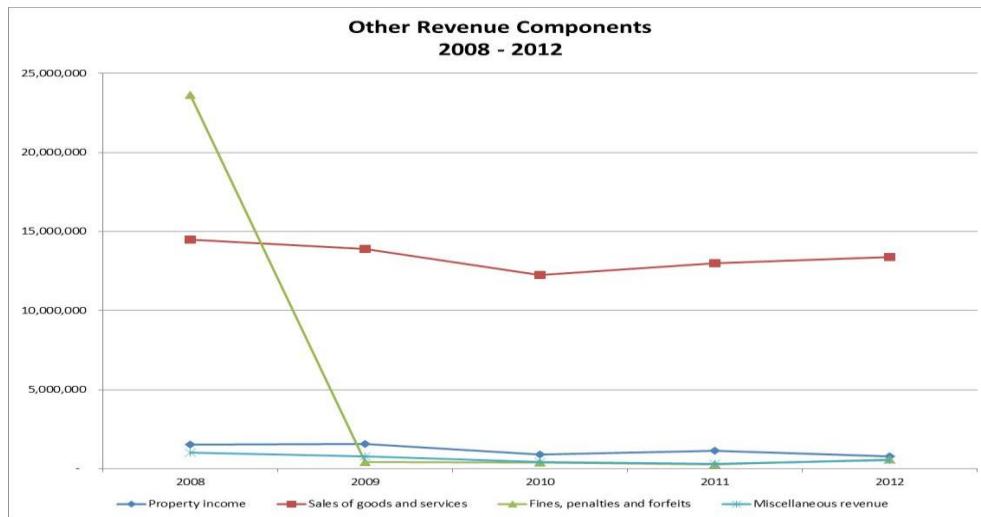
Ninety-five percent of recurrent revenue is garnered through tax receipts, which includes income/payroll tax, taxes on property, taxes on international trade and transactions, taxes on goods and services, and other taxes. Analysis of the components of tax revenue over the last decade reveals the following:



1. Taxes on Goods and Services represents the vast majority of government revenue, at 66.7 percent of Total Revenue in 2012. Receipts from taxes on goods and services have grown at an average annual rate of 7 percent in the decade, with growth flattening out over the last five years. In 2012, taxes on goods and services grew 2.1 percent to \$195.1 million. Ninety-three percent of Taxes on Goods and Services is revenue collected from fees for financial services.
2. Revenue collected in each tax category increased in 2012, with the exception of Taxes on International Trade and Transactions which consists primarily of import duties. In March 2012, GOVI announced a policy to reduce import duties for merchants. Reflecting the effects of this policy, revenue in this category decreased 1.8 percent compared to 2011.
3. Property tax receipts grew 12 percent in 2012 from \$2.3 to \$2.6 million. Taxes received from this revenue category have been low and relatively stagnant over the ten year period.

Other Revenue

Other Revenue contributes approximately 5 percent to recurrent revenue and includes property income, sales of goods and services, fines penalties and forfeitures, and miscellaneous revenue. Analysis of these components reveals the following:



1. Receipts from Sales of goods and services make up the vast majority of Other Revenue at 87.5 percent in 2012. Sales of goods and services grew 3 percent in 2012, and consist primarily of fees for water connections and service, sale of postage, and nationality and registration fees. GOVI has made a general commitment towards having fees for services cover the cost of providing these services. As such, the government has engaged an overall review of fees (several of which have remained unchanged for many years). The review of fees for goods and services has resulted in an increase in this revenue category in 2011 and 2012 of 6 percent and 3 percent respectively.
2. Property income receipts which include interest on Government loans and other investments as well as income from rental of public land decreased 30 percent in 2012. This decrease was driven primarily by a decline in revenue collected from the lease of public land.

Table of Recurrent Revenue and its Components (2008 to 2012, US\$000s)

| | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|---|----------------|----------------|----------------|----------------|----------------|
| Payroll/Income Tax | 36,804 | 37,167 | 38,078 | 39,178 | 40,798 |
| Taxes on Property | 2,690 | 2,513 | 2,636 | 2,513 | 2,811 |
| Taxes on Goods and Services | 178,643 | 177,202 | 184,002 | 191,160 | 195,127 |
| Taxes on international trade and transactions | 33,881 | 30,303 | 30,281 | 30,136 | 29,595 |
| Other taxes | 10,085 | 4,176 | 4,893 | 6,354 | 9,129 |
| TAX REVENUE | 262,103 | 251,361 | 259,890 | 269,341 | 277,460 |
| | | | | | |
| GRANTS | 101 | 11 | 0 | 0 | 0 |
| | | | | | |

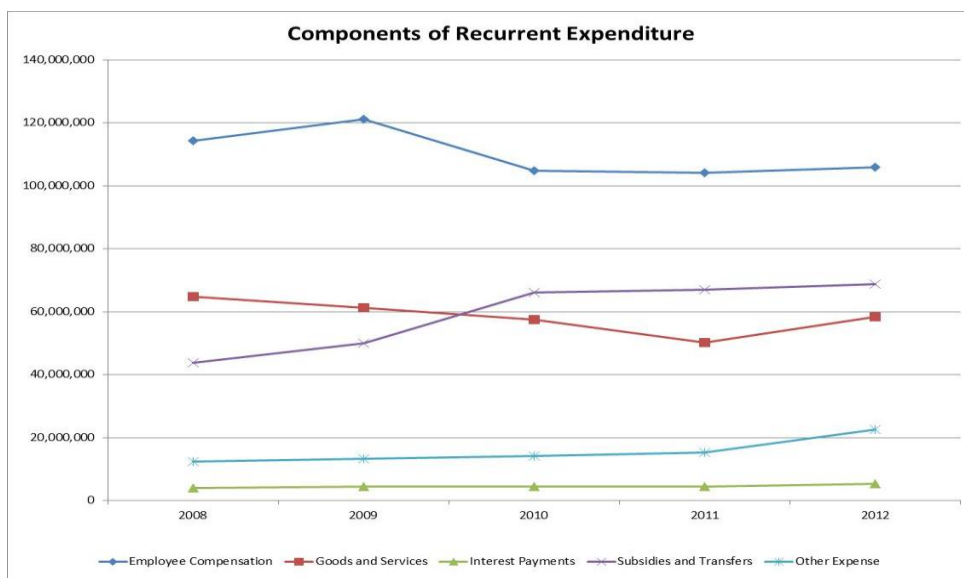
| | | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Property Income (interest and rent) | 1,546 | 1,570 | 903 | 1,138 | 798 |
| Sales of goods and services | 14,480 | 13,915 | 12,246 | 13,012 | 13,401 |
| Fines, penalties and forfeits | 23,643 | 420 | 383 | 256 | 590 |
| Miscellaneous Revenue | 1,028 | 770 | 437 | 299 | 530 |
| OTHER REVENUE | 40,697 | 16,675 | 13,969 | 14,705 | 15,319 |
| | | | | | |
| TOTAL RECURRENT REVENUE | 302,901 | 268,047 | 273,859 | 284,046 | 292,780 |

Expenditure and its Components

Total government expenditure which includes both recurrent and capital expenditure has grown at an average rate of 4.8 percent over the last decade. In 2012, total expenditure grew more than its ten year average, at 8.7 percent.

Recurrent Expenditure

Recurrent expenditure is made up of the following categories: personal emoluments, goods and services, interest payments, subsidies and transfers, and other expenses.



Analysis of the components of recurrent expenditure reveals the following:

1. Spending on employee compensation which reached its peak in 2009, increased slightly in 2012, reflecting the Government's decision to lift the hiring freeze in order to fill existing skills-gaps in the civil service while also alleviating unemployment, especially among young people. The modest growth in employee compensation in 2012 of 1.6 percent also reflects the Government's decision to give half-increments in the year in order to curtail recurrent expenditure.
2. Goods and services expenditure grew most of the five categories. While since 2003 goods and services have grown at an average rate of 10 percent, in 2012, this category of expenditure grew 17.3 percent, the highest rate of growth recorded for the ten year period. Growth in spending on goods and services drove overall recurrent expenditure growth in the year. Going forward in order for the Government to meet its stated goal of curtailing recurrent expenditure in order to allow for expanded investments in development projects, particular emphasis will need to be placed on ensuring value for money in procuring goods and services for the Government, which accounted for 22.6 percent of recurrent expenditure in 2012.
3. Subsidies and transfers grew 9.3 percent in 2012. The significant growth in subsidies and transfers in 2010 reflected the increase in grants to the Health Services Authority, as that statutory body began to fully cover its operational expenses in that year. GOVI has set out the goal to reduce grants to statutory bodies since it is imperative that statutory bodies mirror central government's commitment to finding efficiencies in service provision.
4. Spending under other expense increased significantly in 2012 due to a ruling against GOVI under which the Government had to make a compensation payment of \$6 million.

Capital Expenditure

Evidencing the Government's goal to direct more resources towards longer-term capital development, in 2012 capital expenditure increased 11.6 percent to \$44.1 million. Capital expenditure was 14.5 percent of total government expenditure in the year, up from 14.1 percent in 2011. Going forward, finding efficiencies in recurrent expenditure will allow for more expansionary policy on the capital side, towards accomplishing the Government's outlined medium term development strategy.

Table of Expenditure and its Components (2008 to 2012, US\$000s)

| | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Employee Compensation | 114,332 | 121,051 | 104,718 | 104,136 | 105,818 |
| Goods and Services | 64,730 | 61,117 | 57,576 | 50,162 | 58,241 |

| | | | | | |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Interest payments | 3,925 | 4,427 | 4,488 | 4,370 | 5,207 |
| Transfers and subsidies | 43,839 | 50,016 | 66,113 | 66,935 | 68,784 |
| Other Expense | 12,425 | 13,265 | 14,235 | 15,218 | 22,441 |
| Total Recurrent Expenditure | 239,252 | 249,875 | 247,129 | 240,821 | 260,491 |
| Total Capital Expenditure | 58,581 | 57,759 | 32,015 | 39,537 | 44,108 |
| Total Expenditure | 279,889 | 268,036 | 273,859 | 284,046 | 292,780 |

Appendix 2: Parastatal Risk-Weighted Debt Schedule

All parastatals are required to receive permission from central government to incur any debt obligations. Parastatals' debt is risk-weighted in accordance with the Table below.

| Statutory Authority/ Government Company | Risk Weight | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|-------------|--------------|--------------|--------------|--------------|--------------|
| Tourist Board | 100% | 0 | 0 | 0 | 0 | 0 |
| VIRGIN ISLANDS Health Services Authority | 80% | 0 | 0 | 0 | 0 | 0 |
| HL Stoutt Community College | 80% | 0 | 0 | 0 | 0 | 0 |
| Prospect Reef Management Company | 80% | 0 | 0 | 0 | 0 | 0 |
| VIRGIN ISLANDS Airport Authority | 50% | 0 | 0 | 0 | 0 | 0 |
| National Bank of the Virgin Islands | 20% | 606 | 493 | 406 | 340 | 1,214 |
| VIRGIN ISLANDS Electricity Corporation | 20% | 5,101 | 4,701 | 4,301 | 3,901 | 3,501 |
| Financial Services Commission | 20% | 0 | 0 | 0 | 0 | 0 |
| Ports Authority | 20% | 51 | 0 | 0 | 0 | 0 |
| Social Security Board | 20% | 0 | 0 | 0 | 0 | 0 |
| Total Risk-Weighted Debt of Parastatals | | 5,758 | 5,194 | 4,707 | 4,241 | 4,715 |

Parastatals' risk-weighted debt totaled \$4.72 million at the end of 2012, comprising loans taken out by the National Bank of the Virgin Islands and the British Virgin Islands Electricity Corporation. Parastatals' debt has decreased over the last decade from \$14.6 million in 2003 to \$4.7 million at the end of 2012.

Appendix 3: Capital Investment Plan

| PROJECT TITLE | | | YEARLY PROJECTIONS BY SOURCE OF FUNDING (US\$000s) | | | | | | | | | | | | | | |
|---------------|--|------|--|-----------------------|--------|--------|--------|--------------------|--------|--------|--------|--------|--------------------|-------|--------|--------|-------|
| | | | Owner | Total Budget (\$'000) | 2014 | | | | | 2015 | | | | | 2016 | | |
| | | | | | GOVI | Loan | PPP | Loan by Parastatal | Total | GOVI | Loan | PPP | Loan by Parastatal | Total | GOVI | PPP | Total |
| | | | 207,568 | 11,700 | 10,050 | 20,000 | 22,000 | 63,750 | 12,218 | 11,100 | 80,000 | 12,000 | 115,318 | 8,500 | 20,000 | 28,500 | |
| 1 | Development of a Junior High School | MEC | 2,500 | 250 | - | - | - | 250 | 1,250 | - | - | - | 1,250 | 1,000 | - | 1,000 | |
| 2 | Modernization of the Baugher's Bay Technical School | MEC | 500 | 500 | - | - | - | 500 | - | - | - | - | - | - | - | - | |
| 3 | Elmore Stoutt High School Auditorium | MEC | 500 | 500 | - | - | - | 500 | - | - | - | - | - | - | - | - | |
| 4 | Elmore Stoutt High School Cafeteria | MEC | 500 | 500 | - | - | - | 500 | - | - | - | - | - | - | - | - | |
| 5 | Expansion of Her Majesty's Prison | MEC | 1,000 | 500 | - | - | - | 500 | 500 | - | - | - | 500 | - | - | - | |
| 6 | New Peebles Hospital Fitting Out | MHSD | 8,000 | 450 | 4,050 | - | - | 4,500 | 350 | 3,150 | - | - | 3,500 | - | - | - | |
| 7 | Development of Hospital on Virgin Gorda | MHSD | 5,000 | 500 | - | - | - | 500 | 3,000 | - | - | - | 3,000 | 1,500 | - | 1,500 | |
| 8 | Development of the new Adina Donovan Home for the Elderly | MHSD | 5,000 | 1,500 | - | - | - | 1,500 | 3,000 | - | - | - | 3,000 | 500 | - | 500 | |
| 9 | National Sewerage Project - East End/Long Look | MCW | 16,600 | 1,800 | 5,200 | - | - | 7,000 | 1,800 | 4,800 | - | - | 6,600 | 3,000 | - | 3,000 | |
| 10 | National Sewerage Project - Road Town | MCW | 2,368 | 1,000 | 800 | - | - | 1,800 | 568 | - | - | - | 568 | - | - | - | |
| 11 | Cruise Pier Development Project | MCW | 34,000 | - | - | - | 22,000 | 22,000 | - | - | - | 12,000 | 12,000 | - | - | - | |
| 12 | Virgin Gorda Dock Development | MCW | 2,000 | - | - | - | - | - | 150 | 1,350 | - | - | 1,500 | 500 | - | 500 | |
| 13 | Road Town Ferry Dock Development | MCW | 3,000 | - | - | - | - | - | 200 | 1,800 | - | - | 2,000 | 1,000 | - | 1,000 | |
| 14 | Greenhouse Development Project | MNRL | 2,600 | 2,000 | - | - | - | 2,000 | 600 | - | - | - | 600 | - | - | - | |
| 15 | Anegada Fishing Complex | MNRL | 1,500 | 900 | - | - | - | 900 | 600 | - | - | - | 600 | - | - | - | |
| 16 | Terrance B. Lettsome International Airport Expansion Project | MNRL | 120,000 | - | - | 20,000 | - | 20,000 | - | - | 80,000 | - | 80,000 | - | 20,000 | 20,000 | |
| 17 | QE II Park Development | PO | 1,000 | 800 | - | - | - | 800 | 200 | - | - | - | 200 | - | - | - | |
| 18 | Gun Creek Port Development | PO | 500 | 500 | - | - | - | 500 | - | - | - | - | - | - | - | - | |

Appendix 3: Capital Investment Plan

| PROJECT TITLE | | Owner | YEARLY PROJECTIONS BY SOURCE OF FUNDING (US\$000s) | | | | | | | | | | | | | |
|---------------|------------------------------------|-------|--|--------|--------|--------|--------------------|--------|--------|--------|--------|--------------------|---------|-------|--------|--------|
| | | | Total Budget (\$'000) | 2014 | | | | | 2015 | | | | | 2016 | | |
| | | | | GOVI | Loan | PPP | Loan by Parastatal | Total | GOVI | Loan | PPP | Loan by Parastatal | Total | GOVI | PPP | Total |
| | | | 207,568 | 11,700 | 10,050 | 20,000 | 22,000 | 63,750 | 12,218 | 11,100 | 80,000 | 12,000 | 115,318 | 8,500 | 20,000 | 28,500 |
| 19 | Development of Police Headquarters | GC | 1,000 | | - | - | | | | | - | | | 1,000 | - | 1,000 |

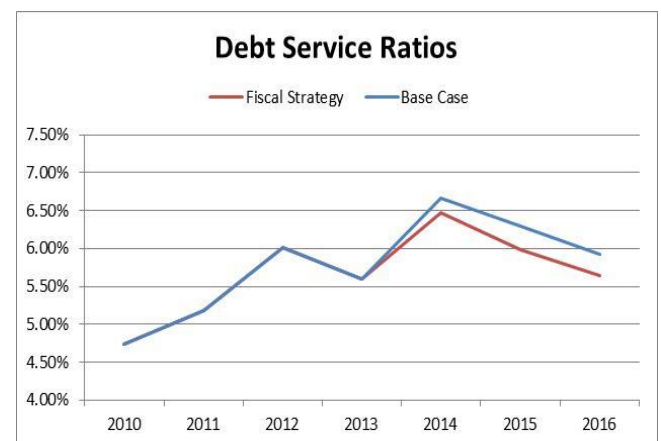
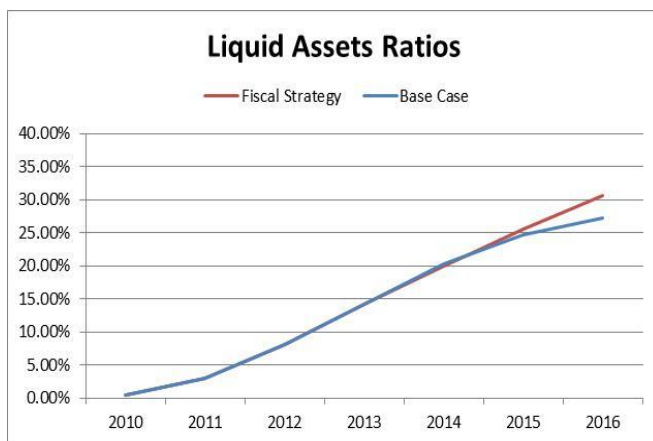
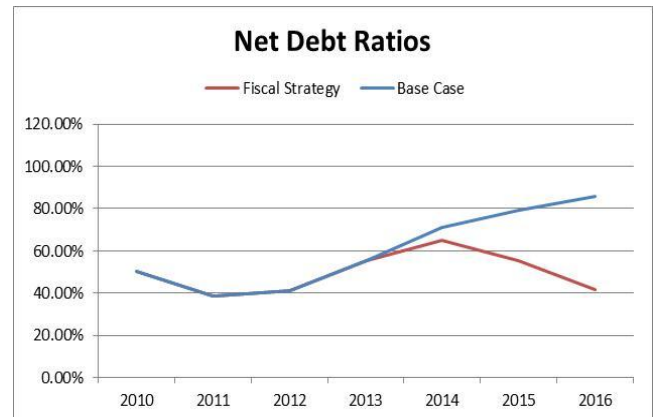
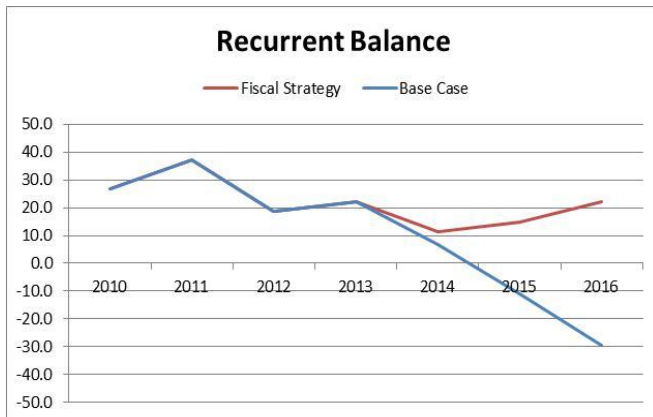
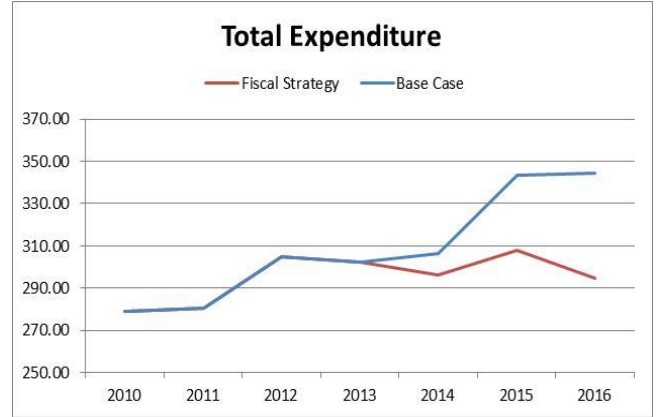
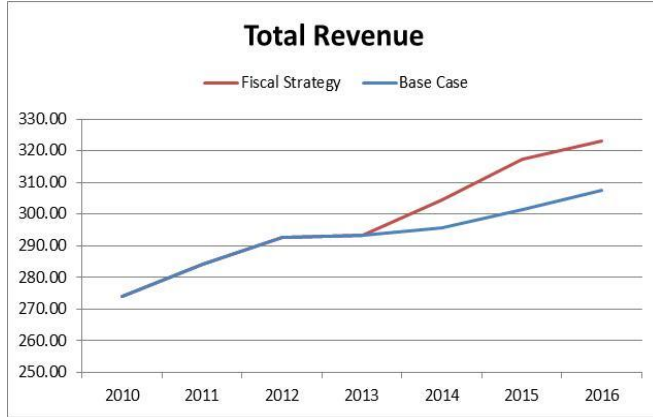
Appendix 4 – Assumptions of Fiscal Strategy

The projections under the fiscal strategy were developed using the following assumptions:

1. The value of revenue generating initiatives have been prorated to reflect when the policy will be implemented.
2. The classification of PPPs (existing and future) as a component of public debt based on the capitalised value of the transactions that will place future financial obligations on the Government. Therefore the capitalised value of the Bi-water project (an existing PPP) has been included as part of total public borrowing for the purposes of various debt ratios. The public private partnership agreement being sought for the T.B. Lettsome International Airport Expansion project has not been included;
3. The 2014 – 2016 capital investment plan (excluding the PPP and Parastatal loan-funded components) totaling \$54.4M will be financed as follows: \$21.15M through central government debt and \$33.2M through recurrent surpluses/local funds. 25% of the debt will be from local sources while 75% of the debt will be secured from foreign sources;
4. Additional debt service costs (interest and principal payments) for the forecast period are based on a straight line 20 year loan amortisation schedule and an average interest rate of 4.5%; and
5. The deficit is financed through loan disbursements/drawdowns and unsecured debt/liquid assets.

Appendix 5 – Base Case versus Fiscal Strategy Outcomes

The base case represents the trajectory of government finances absent the interventions of the fiscal strategy.



Government of the BVI
Revenue and Expenditure - Consolidated Fund

For the Month of November 2013

| | November Budget | November Actual | November Committed | Variance |
|------------------------------------|----------------------|----------------------|-----------------------|-----------------------|
| Tax Revenue | | | | |
| Income Tax | - | 21,558.79 | | 21,558.79 |
| Payroll Tax | 3,576,000.00 | 4,562,685.47 | 219.40 | 986,685.47 |
| Tax on Property | 249,917.00 | 405,018.50 | | 155,101.50 |
| Taxes on Goods and Services | 16,610,254.00 | 47,581,610.16 | 306.90 | 30,971,356.16 |
| Taxes on International Trade | 2,439,583.00 | 2,279,613.15 | 57,069.69 | (159,969.85) |
| Other Taxes | 664,750.00 | 703,268.89 | | 38,518.89 |
| Tax Revenue | 23,540,504.00 | 55,553,754.96 | 57,595.99 | 32,013,250.96 |
| Grants | | | | |
| Recurrent Grants | | 3,013,396.00 | 13,950.00 | 3,013,396.00 |
| Capital Grants | - | - | - | - |
| Grants | - | 3,013,396.00 | 13,950.00 | 3,013,396.00 |
| Other Revenue | | | | |
| Property Income | 66,333.00 | 17,300.30 | | (49,032.70) |
| Sale of Goods and Services | 1,024,502.00 | 1,018,781.43 | | (5,720.57) |
| Fines, Penalties, Forfeitures | 16,667.00 | 33,700.00 | 1,000.00 | 17,033.00 |
| Voluntary Transfers (Dom) | | 1,137.84 | | 1,137.84 |
| Other Receipts | 12,500.00 | 4,512.95 | | (7,987.05) |
| Miscellaneous Revenue | 66,666.00 | 8,764.25 | | (57,901.75) |
| Other Revenue | 1,186,668.00 | 1,084,196.77 | 1,000.00 | (102,471.23) |
| TOTAL REVENUE | 24,727,172.00 | 59,651,347.73 | 72,545.99 | 34,924,175.73 |
| EXPENDITURE | | | | |
| Employee Compensation | | | | |
| Personal Emoluments | 8,294,341.00 | 8,312,720.43 | 64,342.47 | (18,379.43) |
| Social Contributions | 1,090,358.00 | 1,224,277.61 | 12,500.00 | (133,919.61) |
| Employee Compensation | 9,384,699.00 | 9,536,998.04 | 76,842.47 | (152,299.04) |
| Goods and Services | | | | |
| Rent | 537,549.00 | 623,022.63 | 3,205.58 | (85,473.63) |
| Utilities | 1,480,661.00 | 863,166.51 | 608,183.51 | 617,494.49 |
| Supplies | 812,357.34 | 560,906.49 | 280,632.54 | 251,450.85 |
| Repairs/Maintenance (Minor) | 441,110.74 | 455,632.60 | 37,845.40 | (14,521.86) |
| Travel | 204,672.55 | 364,494.37 | 22,010.24 | (159,821.82) |
| Training | 138,438.00 | 49,456.04 | 25,077.74 | 88,981.96 |
| Contributions to Prof Bodies | 26,634.00 | 510.00 | 1,370.00 | 26,124.00 |
| Services | 1,557,548.87 | 1,110,300.98 | 804,331.80 | 447,247.89 |
| Entertainment | 64,951.50 | 40,303.89 | 6,693.37 | 24,647.61 |
| Goods and Services | 5,263,923.00 | 4,067,793.51 | 1,789,350.18 | 1,196,129.49 |
| Interest | | | | |
| Domestic Interest | 506,666.00 | - | | 506,666.00 |
| Foreign Interest | 142,625.00 | - | 10,513.77 | 142,625.00 |
| Interest | 649,291.00 | - | 10,513.77 | 649,291.00 |
| Subsidies | 24,008.00 | 17,725.00 | 17,725.00 | 6,283.00 |
| Grants | 4,381,081.00 | 9,751,185.74 | 562,807.98 | (5,370,104.74) |
| Social Benefits | | | | |
| Social Assistance Benefits | 46,925.00 | 57,289.51 | 2,506.58 | (10,364.51) |
| Employer Social Benefits | 1,657,155.00 | 864,698.09 | 8,768.93 | 792,456.91 |
| Social Benefits | 1,704,080.00 | 921,987.60 | 11,275.51 | 782,092.40 |
| Property and Other Expenses | | | | |
| Property Expenses | 14,317.00 | 5,250.00 | 94,167.50 | 9,067.00 |
| Assistance Grants | 821,773.00 | 1,221,862.38 | 763,978.07 | (400,089.38) |
| Miscellaneous Other Expense | (775.00) | 528.31 | 100,290.53 | (1,303.31) |
| Property and Other Expenses | 835,315.00 | 1,227,640.69 | 958,436.10 | (392,325.69) |
| Capital Projects | - | - | - | - |
| TOTAL EXPENSES | 22,242,397.00 | 25,523,330.58 | 3,426,951.01 | (3,280,933.58) |
| CONSOLIDATED FUND | 2,484,775.00 | 34,128,017.15 | (3,354,405.02) | 38,205,109.31 |

**IPOC Funds Appropriations
Budgeted Appropriations & Expenditure**

| Account No. | Ministry/ Department | Project/Purpose | Budgeted | | |
|-------------|---------------------------------------|--|-------------------|--------------------|------------------|
| | | | Expenditure | Actual Expenditure | Balance |
| 25101 | Deputy Governor's Office | Judicial Reform Project - Commercial Court | 2,760,000 | 2,760,000 | - |
| 55142 | Land Registry | Computerization of Land Registry | 450,000 | 22,094 | 427,906 |
| | | Sub-Total | 3,210,000 | 2,782,094 | 427,906 |
| | | 2010 | | | |
| 390-62700 | Ministry of Education and Culture | Medical School Consultancy | 552,000 | 525,963 | 26,037 |
| 25103 | Deputy Governor's Office | Police Equipment | 2,400,000 | 1,712,337 | 687,663 |
| 45080 | Ministry of Finance on behalf of ME&C | Francis Lettsome Primary School | 2,990,000 | 2,990,000 | - |
| 65081 | Ministry of Education and Culture | Schools Rehabilitation and Design | 700,000 | 483,423 | 216,577 |
| 65100 | Ministry of Education and Culture | Prison Rehabilitation | 571,000 | 338,007 | 232,993 |
| 75127 | Ministry of Health and Social Dev. | Peebles Hospital Commissioning | 2,300,000 | 751,350 | 1,548,650 |
| 75127 | Ministry of Health and Social Dev. | Peebles Hospital Commissioning (SAP) | 491,044 | - | 491,044 |
| | | Sub-Total | 10,004,044 | 6,801,080 | 3,202,964 |
| | | 2012 | | | |
| 1000-40520 | Ministry of Finance | Revenue/Reserves | 3,500,000 | 3,500,000 | - |
| 25101 | Deputy Governor's Office | Judicial Reform | 2,500,000 | - | 2,500,000 |
| 25105 | Deputy Governor's Office | Police Equipment | 500,000 | 480,103 | 19,897 |
| 45078 | Ministry of Finance | Customs Infrastructure Development | 500,000 | 177,508 | 322,492 |
| 65106 | Ministry of Education and Culture | ME&C Development Projects | 300,000 | 300,000 | - |
| 75086 | Ministry of Health and Social Dev. | New Hospital | 750,000 | 750,000 | - |
| 75117 | Ministry of Health and Social Dev. | National Pension Scheme | 750,000 | 693,209 | 56,791 |
| 75129 | Ministry of Health and Social Dev. | Social Housing | 200,000 | 67,226 | 132,774 |
| 75131 | Ministry of Health and Social Dev. | MH&SD Development Projects | 3,700,000 | 3,700,000 | - |
| 95064 | Deputy Governor's Office | Equity Contribution - Financial Investigation Agency | 500,000 | 500,000 | - |
| | | Sub-Total | 13,200,000 | 10,168,046 | 3,031,954 |
| | | 2013 | | | |
| 2117-528230 | Attorney General | Legislative Drafting | 939,300 | 372,356 | 566,944 |
| | | Sub-Total | 939,300 | 372,356 | 566,944 |
| | | Grand Total Expenditure | 27,353,344 | 20,123,576 | 7,229,768 |
| | | IPOC Fund Balance | 22,727,715 | 20,123,576 | 2,604,139 |

Note:

Advance Warrant No. 139/2009 issued in favour of Carimex utilized \$10,000,000 from the IpoC Fund, however this Advance was cleared from the Consolidated Fund 31/12/2013.