



## Statement on Section 11(5) Transfers during the 2016/17 Budget Year Minister of Financial Services and Home Affairs Hon. Tara Rivers, JP, MLA

September 2018 | Cayman Islands Legislative Assembly

In accordance with section 11(6) of the Public Management and Finance Law (2018 Revision), I rise to advise Members of this Honourable House of several exceptional circumstances under which the Cabinet authorised executive financial transactions in accordance with section 11(5) during the fourth quarter of 2017.

Generally, the detail that I will provide can be cross-referenced in the 2016/17 Supplementary Plan and Estimates. However, there are a number of changes that relate to the organisational restructuring after the election that will affect the totals presented. These changes are noted in the document.

### ***Financial Services – Department of Financial Services***

1. An increase in FSC 7 by CI\$605,571 was made for the Department of Financial Services.
2. This increase related to recent unforeseen events. In particular, the release of the ‘Paradise Papers’ and heightened discussion with the EU regarding the blacklist, raised the need for the assistance of outside counsel. Furthermore, it was agreed that the Ministry would work with Cayman Finance to fund a crisis communications campaign to address negative public perception arising from these events.
3. The net change in FSC 7 was decreased by CI\$117,654 as part of the Ministry’s contribution to the community enhancement programme (NICE), bringing the total for this output group to CI\$487,917.

### ***Financial Services – General Registry Entity Revenue***

4. An increase in FSC 10 by CI\$2,077,401 was made for the General Registry.



5. In 2016/17, it was anticipated that a new online platform for use by corporate services providers would be introduced by a private software developer. While originally conceived as a systems solution to be purchased by the General Registry, as a cost savings measure, it was decided that ownership of the system would be retained by the developer. The developer would recover their costs from the sale of the platform, with General Registry standing to benefit from a new revenue stream as opposed to bearing the full cost of the project.
6. The new system was forecast to bring in entity revenue for the General Registry of roughly CI\$3.0 million over the 18-month period. This was a conservative estimate based on discussions with the software developer. Given this anticipated revenue, Cabinet funding was not included in the budget to cover a portion of the General Registry's operating costs, which was to be covered by this anticipated third-party revenue stream.
7. However, there were delays to the system implementation and the launch did not occur until April 2017. Furthermore, certain aspects of the service were not introduced at that time, which consequently impacted the revenue to Registry. As the system is completely owned by the developer, the General Registry had no input into this decision.

#### ***Home Affairs - Cayman Islands Fire Service***

8. An increase in HCA 15 by CI\$1,267,163 and HCA 17 by CI\$1,267,164, both for the Fire Service. These changes are reflected in the changes to the FSC 32 and FSC 33 output groups respectively.
9. In April 2016, all Ministries and Portfolios were contacted to determine their ability to cover the cost of a 'pay stagnation' award based on formulas prepared by the Portfolio of the Civil Service. Progressing to pay these awards to staff was dependent on all Ministries and Portfolios identifying the required savings to cover the new costs from within their budget, with only part of these costs covered by the budget of the Portfolio of the Civil Service. In June 2016, it was communicated to all agencies that the award would go ahead. Payments were subsequently made to eligible staff in December 2016.
10. The Fire Service budget for 2016/17 did not fully cover the funding for pay stagnation, however the former Ministry anticipated that it would offset these costs to some degree by savings in other areas. These savings were not fully realised and no funding was transferred from the Portfolio of the Civil Service to offset the pay stagnation award.



Combined with a delay in the recruitment of new fire officers and significantly underfunded overtime, the result was a substantial overspend in personnel costs.

11. Additionally, an amount of CI\$200,000 was required to pay shift-based fire officers for Notional Public Holidays in 2016. An audit conducted in December 2016 of the overtime payments and practices in the Fire Service found that for the 2016 year, the department was not in compliance with the Personnel Regulations as fire officers were not given a day off in lieu of a worked public holiday or compensated for the lost day.
12. There was also an overspend in costs related to vehicles, fire-fighting equipment & supplies and building maintenance due to a higher than average number of incidents and critical remediation work that had to be carried out to address mould issues which were contributing to employee illness, per a report issued by DEH.

#### ***Home Affairs - Her Majesty's Cayman Islands Prison Service***

13. An increase in HCA 11 by CI\$976,608 was made for the Prison Service. This is reflected under the output group FSC 34.
14. For the Prison Service, overtime was one of the main reasons for overspending. In particular, a lack of appropriate staffing levels resulted in a need to incur overtime in order to ensure adequate coverage for the Children's Unit, staffing of the Camera Room and the provision of critical interventions like the Sex Offender Treatment Programme. Given that the pay stagnation award in December 2016 was not fully funded in the budget, this further compounded the problem.
15. Increasing maintenance costs was a secondary reason for the Prison Service's overspend due to the continuing deterioration of the prison facilities. Additionally, due to the unpredictable nature of healthcare costs for prisoners and the high number of inmate admissions for surgery and other treatment, there was also an overspend in healthcare costs.

#### ***Home Affairs – Hazard Management Cayman Islands***

16. A reclassification of \$540,000 from NEM 8 to EI 67 Equity Injections (EI) for Cabinet to exercise its authority under Section 11(5) of the Public Management and Finance Law (2013) so as to approve the reclassification of appropriated funds in the amount of



\$540,000 from NEM 8 to EI 11 Equity Injections (EI). Given that this change was offset by the amounts resulting from the post-election reorganisation, changes to the output group FSC 30 are not shown in the 2016/17 Supplementary Plan and Estimates.

17. Honourable Members will appreciate that the national public safety trunked radio system is a component of the country's critical infrastructure. The radio system provides a vital communications platform for Cayman's security, emergency, and public safety agencies including Police, Fire & Rescue, Ambulance, Immigration and Customs Enforcement, and others. As the radio system is now 20 (twenty) years old, it is failing to provide sufficient coverage across the island. Moreover, replacement parts are no longer available for the current system as the technology is outdated. In summary, the current public safety radio system is in dire need of replacement. To this end, Cabinet authorized the Ministry of Home Affairs to procure and acquire a fit-for-purpose replacement solution.
18. Following a comprehensive and competitive procurement process, which was approved by the Central Tenders Committee (CTC), the Ministry identified Motorola – a US company – as the preferred supplier of a modern digital radio communications system. Given the value of the radio system with regard to the delivery of emergency rescue, disaster response, law enforcement, and other public safety services, it was necessary to secure the financial commitment required to progress with the acquisition.
19. Analysis indicated that the preferred option for the CIG was acquisition of the radio system by outright purchase. This option will not add to the government's debt. Moreover, the outright purchase will save between \$1.2M and \$1.8M in gross interest charges at 6.95%. Acquisition by outright purchase, however, required a reclassification of expenditure from lease payment to an equity injection of \$540,000 in the 2017 fiscal year.
20. A reclassification of CI\$48,000 from EMC 1 to EI 67 for HMCI to enable the implementation of a Broadcast Emergency Alert System. This is reflected under the output group FSC 31.
21. Following the Sol incident, HMCI identified a need to escalate the implementation of the Broadcast Emergency Alert System and in collaboration with OfReg, meetings were held with ICT providers to discuss the development and implementation of such a system. All stakeholders supported the proposal and it was agreed that a phased approach to implementation should be pursued.
22. The three phases that were recommended are as follows:



- **PHASE I** - Identify and install a system that will allow HMCI to broadcast emergency messages on all radio networks simultaneously from HMCI remotely.
- **PHASE II** – Extend the notification system to Television and Cable providers.
- **Phase III** – Notification system extended to enable residents to be informed via a centralized portal that that supports multiple communication channels including:
  - i. Wireless Emergency Alerts via Cell Broadcast;
  - ii. Mobile Networks via SMS;
  - iii. Internet (via social media); and
  - iv. E-mail

23. In order to progress the implementation of Phase I, HMCI required a reclassification of \$48,000 from the operating appropriation EMC 1 to the capital appropriation EI 67. This reduced the Government’s forecast operating expenses to 31 December 2017 and increased capital expenditure by the same amount.
24. These reallocations did have an impact on the Government’s financial performance, but did not negatively affect compliance with the principles of responsible financial management for the 2016/17 financial year.
25. Issues that led to these shortfalls, in particular staff capacity and deteriorating physical assets, are being addressed in the 2018 and 2019 budgets.

### ***Other Allocations***

26. During 2016/17, while the previous Ministry had responsibility for the Environment, a settlement amount for CI\$300,000 was received in relation to damage caused to a coral reef by a Cayman Islands registered yacht. These funds were intended to be used in the design and installation of permanent moorings, but to do so, the increase in expenditure had to be appropriated despite the settlement amount.
27. Also in 2016/17, there was an increase in the appropriation for CIDB by CI\$6,280,000 for the repayment of debt. This was dealt with through the Ministry of Finance and Economic Development and not the then Ministry of Financial Services, Commerce and Environment.