



**Statement by
the Honourable Minister for Finance and Economic
Development on
the “Exceptional Circumstance” Transactions Incurred
During the 2019 Financial Year for the Ministry of Finance
and Economic Development**

**Seventh Meeting of the 2019/2020 Session of the Legislative
Assembly – Commencing on 27 July 2020**

Madam Speaker, as required by Section 11(6) of the Public Management and Finance Law (2020 Revision) – or the “PMFL” - I make this Statement to Members of this Honourable House with respect to the “exceptional circumstance” transactions that were approved by Cabinet for the Ministry of Finance and Economic Development during the 2019 financial year that ended on 31 December 2019: such transactions were approved pursuant to Section 11 (5) of the PMFL.

Madam Speaker, this Statement provides details of the aforementioned transactions.

Transfer of Customs and Border Control to the Ministry of Employment and Border Control

Madam Speaker, on the 1st February 2019, as this Honourable House is aware, the Customs Department was transferred from the ambit of the Ministry of Finance and Economic Development to the Ministry of Employment and Border Control.

The administrative procedures for transferring a Department to another Ministry, Madam Speaker, includes the transfer of Output Groups and appropriation amounts which are related to the Department. In the case with the transfer of the Customs Department, the Output Groups and appropriation amounts that were transferred were equivalent to 11 months of appropriated funding as Customs was transferred on 1 February 2019.

The amounts transferred from the Ministry of Finance's 2019 appropriations include:

1. \$273,665 from *FED 1 - Policy Advice and Ministerial Services*;
2. \$165,747 from *FED 2 - Governance and Administrative Services*;
3. \$1,422,518 from *FED 3 - Collection of Coercive Revenue*;
4. \$7,095,211 from *FED 6 - Processing of Passengers and Inspection of Aircraft, Vessels and Cargo*; and
5. \$2,377,445 from *FED 7 - Identification and Investigation of Customs Offences*.

**Unspent Funds Used for Other Capital Projects and Programmes
and for the Cost of the 2018 Post-Retirement Healthcare Accounting
Valuations**

Madam Speaker, it is common during each financial year that the Government undertakes an exercise to re-prioritise and assess the progress of its capital projects and programmes and identify savings within the Budget which can be reallocated to other areas of expenditure where there is a shortfall in funding.

During the 2019 financial year, the Ministry of Finance assessed its own capital projects and found that it was not going to utilise all of

the funding that was approved for the implementation of the retail management system at the Cayman Islands Postal Services.

Instead of allowing the unspent funds to lapse at the end of the 2019 financial year, the Ministry of Finance was able to offer-up \$249,000 in unspent funds from *EI 70 - Ministry of Finance and Economic Development*.

Madam Speaker, the transfer of the unspent funds is evidenced by the reduction to *EI 70 - Ministry of Finance and Economic Development* by \$249,000.

Madam Speaker, the Government's Accounting Standards, the International Public Sector Accounting Standards – or IPSAS – requires the Government to disclose in its financial statements the value of employees' post-retirement healthcare and pension benefits.

The cost for the post-retirement healthcare and pension valuations, which are normally sourced by the Public Service Pensions Board, was not included in the Ministry's initial 2019 Budget.

Instead of seeking supplementary funding, the Ministry of Finance used \$80,000 of the unspent funds in *EI 70 – Equity Investment in the Ministry of Finance* to pay for the unbudgeted cost of the valuations.

This is evidenced by an increase of \$80,000 to *FED 5 – Financial Reporting and Management Services* – the appropriation where the cost of the valuations were paid.

Madam Speaker, the \$169,000 balance of unspent funds in *EI 70 – Equity Investment in the Ministry of Finance* was used to help other agencies in Government to support their capital projects and programmes that required additional funding.

The net position is that there is no overall increase in expenditure arising from the aforementioned matters.

Increase in Health Insurance Premiums

Madam Speaker, for a number of years, the Government has underpaid the actuarial premium rates for Civil Servants, Civil Servant Pensioners, Seafarers and Veterans. This practice of “Premium Discounting” has contributed to a number of issues for the Cayman Islands National Insurance Company – or CINICO - including large

operational losses and CINICO falling below the Prescribed Capital Requirement as mandated by the Insurance (Capital and Solvency) (Class A Insurers) Regulations, 2012.

Commencing 2019, the Government committed to start paying the full actuarial premium rates for Civil Servants, Civil Servant Pensioners, Seafarers and Veterans - which cost the Government an additional \$14.4 million in 2019. This \$14.4 million is made-up of: an initial \$5.6 million that was approved by the Legislative Assembly and placed in the Appropriation Law for the 2019 financial year; and a further \$8.8 million was approved by Finance Committee in April 2019.

Madam Speaker, the \$14.4 million was placed centrally within the Ministry of Finance's *OE 118 - Increase in Health Insurance Premiums for Civil Servants* appropriation and then the Supplementary Appropriation Bill for the 2019 financial year which the House will consider during this Meeting of the Legislative Assembly, reallocates this total \$14.4 million across the various Output Groups in Ministries, Portfolios, and Offices.

The Supplementary Appropriation Bill for the 2019 financial year reflects a 2019 in-year change to OE 118 of a negative \$5.6 million – reflecting the fact that although \$8.8 million was added to OE 118 in April 2019, \$14.4 million is to be removed from OE 118 and re-allocated to Output Groups across Ministries, Portfolios and Offices. Thus, the negative \$5.6 million in-year movement on OE 118 and its positive \$5.6 million appropriation amount at 1 January 2019 means, that its net balance at 31 December 2019 was zero.

Madam Speaker the re-allocation of the \$14.4 million of additional health insurance premiums in 2019, is evidenced by a series of increases to the various Output Groups across Ministries, Portfolios and Offices – which are shown, Madam Speaker, on pages 21 to 33 in the 2019 Supplementary Appropriation Bill that the House will consider at this Meeting.

The increased health insurance cost which was re-allocated to the Ministry of Finance is demonstrated by:

1. An increase to *FED 1 - Policy Advice and Ministerial Services* by \$34,130;

2. An increase to *FED 2 - Governance and Administrative Services* by \$2,672;
3. An increase to *FED 3 - Collection of Coercive Revenue* by \$48,082;
4. An increase to *FED 4 - Preparation and Publication of Statistical Reports* by \$23,960;
5. An increase to *FED 5 - Financial Reporting and Management Services* by \$74,735;
6. An increase to *FED 6 - Processing of Passengers and Inspection of Aircrafts, Vessels and Cargo* by \$193,791;
7. An increase to *FED 7 - Identification and Investigation of Customs Offences* by \$40,431;
8. An increase to *FED 9 - Administration and Processing of Applications* by \$6,288;
9. An increase to *FED 10 - National Mail Service* by \$131,541;
10. An increase to *FED 11 - Monitoring and Reporting on the Economy* by \$4,554; and

11. An increase to *CIN 1 - Health Insurance for Seamen and Veterans for Primary and Secondary Health Care* by \$1,319,130.

Conclusion

Madam Speaker, the aforementioned exceptional circumstance transactions - which were approved by the Cabinet for the Ministry of Finance and Economic Development during the 2019 financial year – did not cause any non-compliance with the Principles of Responsible Financial Management.

Thank you Madam Speaker.