



CAYMAN ISLANDS
GOVERNMENT

2009-2010 Strategic Policy Statement

For the financial year ending 30 June 2010

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1. Introduction

Purpose of the Strategic Policy Statement

This Strategic Policy Statement (SPS) sets out the policy and financial parameters the Government intends to use to prepare its Budget for the 2009/10 financial year.

In accordance with the requirements of the Public Management and Finance Law (2005 Revision) (PMFL), the SPS is strategic and high level in nature. It does not allocate resources to individual expenditure items or specify the particular initiatives the Government intends to pursue; rather the role of the SPS is to outline, for consideration and approval by the Legislative Assembly, the strategic parameters on which the Annual Plan and Estimates (the Budget) for 2009/10 will be based. Detailed information will be contained in the Budget when it is presented to the Legislative Assembly in August 2009.

Content of the SPS

The content of the SPS reflects the requirements of the PMFL.

Section 2 outlines the Government's outcome goals for the next three years. These goals, which are set at a broad level, establish the policy direction for the Government over the period. They will be used by the Government to determine specific policy priorities for the Budget.

Section 3 contains an overview of the expected medium term economic performance of the Cayman Islands relative to the global economic outlook.

Section 4 establishes the aggregate financial targets that the Government has established for 2009/10 and the subsequent two financial years.

Section 5 contains financial projections for the Core Government for the period 2009/10 through 2011/12.

Section 6 sets out the indicative financial allocations to each Minister and Official Member for the 2009/10 Budget, together with indicative planning allocations for the following two years. These allocations are to be used as the basis for Ministers and Official Members and their Ministries and Portfolios to establish their operating and capital budgets for the 2009/10 financial year.

The Government's Strategic Approach

The Government's strategic focus continues to be based on delivering the commitments made in the People's Progressive Movement (PPM) manifesto; and the importance of taking a medium and long term perspective to government finances.

The Government is fully committed to delivering on its campaign promises. These include improving the level and quality of education and health services, investing in essential road infrastructure, implementing strategies based on the lessons from Hurricanes Ivan and Paloma, combating crime, and continuing support for Tourism and Financial Services as the twin pillars of the economy. The parameters contained in this SPS reflect the continuation of that policy path.

During 2008, evidence and forecasts pointed to a significant slow-down in the growth of the world's major economies. The impact of the slow-down on the Cayman Islands has become a major strategic focus point for the Government. We are making efforts – in consultation with the private sector – to minimize any adverse impact on the Cayman Islands.

The publication of this SPS reflects the PPM Government's continued commitment to responsible, open and honest Government.

2. Government's Outcome Goals

Broad Outcomes

1. The PPM Government has established eleven broad outcome goals which have guided its policy actions since coming into office in May 2005. These broad outcomes remain unchanged for the 2009/10 forecast period and are as follows:-

- Sound Fiscal Management*
- Support the Economy – including the implementation of measures and policies to mitigate the effects of the global economic slow-down*
- Open, Transparent, Honest and Efficient Public Administration*
- Improve Education and Training*
- Address Crime and Improve Policing*
- Deal with the Aftermath and Lessons from Hurricanes Ivan and Paloma*
- Embrace Cayman Brac and Little Cayman*
- Strengthen Family and Community*
- Improve the Health Services*
- Address Traffic Congestion*
- Conserve the Environment*

These broad outcome goals indicate the Government's policy priorities and serves as a guide to how the government allocates its resources.

Specific Outcomes

The specific outcomes the Government intends to target to achieve the eleven broad outcomes are summarised in Table 1.

Table 1: Specific Outcomes and Key Policy Strategies

Broad Outcome	Specific Outcomes and Key Policy Strategies
<p>Broad Outcome: 1 <i>Sound Fiscal Management</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> Adhere to the Principles of Responsible Financial Management <input type="checkbox"/> Effectively and efficiently manage government finances <input type="checkbox"/> Monitoring and reporting on financial and output performance
<p>Broad Outcome: 2 <i>Support the Economy – including the implementation of measures and policies to mitigate the effects of the global economic slow-down.</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> In conjunction with private sector discussions, implement measures and policies to mitigate the effects of the global economic slow-down. <input type="checkbox"/> Promote and facilitate long-term foreign and local investment <input type="checkbox"/> Integrate marketing and product development strategy to increase tourist visitation <input type="checkbox"/> Coordinate small business development <input type="checkbox"/> Establish a Public Utilities Commission <input type="checkbox"/> Promotion of Agri-Tourism <input type="checkbox"/> Develop and implement a cruise tourism policy framework <input type="checkbox"/> Continue supporting the ‘Go East’ Initiative <input type="checkbox"/> Implementation of a modern framework for improved labour administration services <input type="checkbox"/> Develop nature-based/soft adventure tourism <input type="checkbox"/> New Government Office Accommodation <input type="checkbox"/> Conduct a Census
<p>Broad Outcome: 3 <i>Open, Transparent, Honest and Efficient Public Administration</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> Develop modelling tools and information sources to assess the impact of policies <input type="checkbox"/> Compliance with the Freedom of Information Law and Regulations <input type="checkbox"/> Facilitate constitutional modernisation
<p>Broad Outcome: 4 <i>Improve Education and Training</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> Implementation of National Curriculum and IB framework <input type="checkbox"/> Implementation of new education legislation <input type="checkbox"/> Development of education facilities to support and enhance the transformation of education services <input type="checkbox"/> New secondary school campuses
<p>Broad Outcome: 5 <i>Address Crime and Improve Policing</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> Enhance management of offenders <input type="checkbox"/> Enhance coastal and aerial surveillance <input type="checkbox"/> Expand the offshore capability of the Police Marine Unit <input type="checkbox"/> Implementation of an electronic monitoring program <input type="checkbox"/> Improve and expand prison facilities
<p>Broad Outcome: 6 <i>Deal with the Aftermath and Lessons from Hurricanes Ivan and Paloma</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> Improve the disaster tolerance of key elements of Government infrastructure <input type="checkbox"/> Enhance disaster preparedness, mitigation and response mechanisms <input type="checkbox"/> Improve infrastructure to deal with storm water drainage
<p>Broad Outcome: 7 <i>Embrace Cayman Brac and Little Cayman</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> Support economic development in Cayman Brac and Little Cayman that reflects their unique character and benefits their residents <input type="checkbox"/> Establish specific programmes to reflect the social and cultural needs of Cayman Brac and Little Cayman <input type="checkbox"/> Promote cruise tourism in Cayman Brac and Little Cayman <input type="checkbox"/> Support the recovery of Cayman Brac and Little Cayman following Hurricane Paloma

<p>Broad Outcome: 8 <i>Strengthen Family and Community</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> Create a National Human Development Policy <input type="checkbox"/> Develop supportive and empowered community action groups in all districts <input type="checkbox"/> Continue to promote Wellness and Preventative Care <input type="checkbox"/> Enhance the lives of the elderly <input type="checkbox"/> Support activities to rehabilitate criminal offenders <input type="checkbox"/> Increase capacity and provide a legislative framework to support the ongoing development of sports <input type="checkbox"/> Establish a Therapeutic Youth Facility
<p>Broad Outcome: 9 <i>Improve Health Services</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> Improved public health services <input type="checkbox"/> Support of targeted vulnerable groups <input type="checkbox"/> Enhance health and dental services to the public <input type="checkbox"/> Facilitate a National Health Promotion Strategy
<p>Broad Outcome: 10 <i>Address Traffic Congestion</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> Improve pedestrian facilities <input type="checkbox"/> Resurface existing roads <input type="checkbox"/> Increase Road Safety programmes
<p>Broad Outcome: 11 <i>Conserve the Environment</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> National Sustainable Development Framework <input type="checkbox"/> Develop and implement a terrestrial system of protected areas <input type="checkbox"/> Implement a National Biodiversity Action Plan <input type="checkbox"/> Continue research in identifying the most appropriate solid waste disposal facility system <input type="checkbox"/> Develop Waste-to-Energy and Recycling Programmes <input type="checkbox"/> Climate Change Adaptation and Mitigation <input type="checkbox"/> Implementation of National Conservation Law

3. Economic Overview

Introduction

This section outlines the forecasted economic position of the Cayman Islands for the period 2009/10 to 2011/12. It includes a brief review of the global economic situation and the country's performance from January 2007 to June 2008 to provide the context for the Cayman Islands' macroeconomic forecasts. These forecasts are a key determinant of the Government's Aggregate Financial Targets.

World Economic Position¹

The global economy, particularly the advanced economies, was increasingly challenged in 2007. In the second half of the year, the financial crisis that originated from the mortgage sector in the United States has spread to other advanced economies and has affected their growth performance. At the same time, a general increase in commodity prices, particularly for fuel and food, pushed inflationary pressures globally. Against this backdrop, global economic growth in 2007 was estimated at 5.0 percent, a slight decline from the 5.1 percent recorded in 2006.

Global growth came largely from the emerging and developing economies as they recorded a combined growth of 8.0 percent in 2007, a slight improvement from the 7.9 percent growth in 2006. On the other hand, advanced economies which comprise the majority of Cayman's financial and tourism market, slid from their combined growth of 3.0 percent in 2006 to 2.6 percent in 2007.

Inflation among the advanced economies eased slightly in 2007 to 2.2 percent from 2.4 percent in 2006, due to the moderation of consumer spending that partially checked the pressures from higher commodity prices. However, in emerging and developing countries where demand growth remained strong, consumer prices rose higher at 6.4 percent in 2007 from 5.4 percent in 2006.

World output was estimated to have slowed anew in the first half of 2008, and further weakening is projected for the second half of 2008. Consequently, global growth for the year is foreseen at 3.9 percent. This outlook is cast amidst a sharp downturn in the financial sector that has resulted in the restructuring and consolidation of major institutions, particularly in the US, causing a further tightening of credit for consumer and business spending.

The weakening of global output growth is anticipated to be accompanied by higher inflation due largely to the lingering impact of rising energy and commodity prices. Inflation in 2008 is foreseen to reach 3.6 percent among advanced economies, and 9.4 percent among emerging and developing economies.

The US remains an important market for the Cayman Islands. US growth deteriorated in 2007 to 2.0 percent from 2.8 percent in 2006, as the housing finance crisis further cut down demand for residential construction. Weakened income position of households along with higher commodity prices softened private consumption expenditure and non-residential investment, especially in the last quarter of 2007. On the other hand, the weakening of the dollar improved US net exports while government spending boosted domestic demand.

The growth of US gross domestic product (GDP) in the first three quarters of 2008 averaged 1.1 percent as compared to 3.2 percent in the same period a year ago. Further weakening is projected for the rest of the year, in light of diminished consumer confidence emanating from tight credit conditions precipitated by the financial crisis. US GDP growth in 2008 is forecasted at 1.6 percent.

Meanwhile, other advanced economies are also expected to show softer performance to bring the combined growth of the group to 1.5 percent in 2008. Sharp growth adjustments are foreseen for the United Kingdom (from 3.0% in 2007 to 1.0% in 2008) and Canada (from 2.7% in 2007 to 0.7% in 2008).

The global outlook for 2008 is expected to extend to 2009, as world output growth is projected to further weaken at 3.0 percent. GDP growth among advanced economies in 2009 is expected at 0.5 percent, led by the US with its growth forecasted at 0.1 percent. The UK is foreseen to experience a recession, with its growth forecasted at -0.1 percent, while Canada is expected to rebound at 1.2 percent.

¹ This assessment is based on the World Economic Outlook Update (International Monetary Fund, October 2008). US GDP data for 2006 up to the third quarter of 2008 are taken from the US Bureau of Economic Analysis's website www.bea.gov.

Meanwhile, global inflation is projected to ease in 2009 because of curtailed growth in domestic demand and improved outlook on commodity prices. The inflation rates for the US and the advanced economies are forecasted at 1.8 percent and 2.0 percent, respectively.

Table 2: Comparative Macroeconomic Actual Results and Forecasts (%), on a Calendar Year basis

	2006	2007	2008	2009
Real GDP growth (%)				
Cayman Islands	4.6	2.2	1.5	0.8
United States	2.8	2.0	1.6	0.1
World	5.1	5.0	3.9	3.0
Consumer Prices Inflation (%)				
Cayman Islands	0.8	2.9	5.2	2.4
United States	3.2	2.9	4.2	1.8
Advanced economies	2.4	2.2	3.6	2.0
Unemployment Rate (%)				
Cayman Islands	2.6	3.8	3.9	4.1
United States	4.6	4.6	5.6	6.9
Advanced economies	5.7	5.4	5.7	6.5
Current account of the balance of payments (% of GDP)				
Cayman Islands	-25.8	-25.6	-24.3	-25.3
United States	-6.0	-5.3	-4.6	-3.3
Advanced economies	-1.3	-0.9	-1.0	-0.6

Latest actual data. Sources: IMF World Economic Outlook (October 2008) for the United States, and global data; Cayman Islands Government, Economic and Statistics Office for the Cayman Islands data.

Cayman Islands Economy

Out-turns for 2007 and January to June 2008

The country's economic performance in 2007 was bolstered by a resilient financial services industry, strong growth in public consumption expenditure and robust growth in stay-over tourism. GDP grew by 2.2 percent during the year, albeit this was lower compared to the 4.6 percent growth in 2006. Indicators in the first half of 2008 for the major industries – financial services and stay-over tourism – show signs of softening and are consistent with the projected slide in GDP growth for 2008.

The financial services industry displayed its resilience throughout 2007, notwithstanding the global financial turmoil. With the exception of banks and trust licenses which dropped by 3.4 percent, increases were recorded in insurance company licenses (3.4%), mutual funds (15.7%), stock exchange listings (42.7%) and new company registrations (15.9%). During the first half of 2008, these services remained on the growth path, albeit at lower growth rates: mutual funds increased by 11.9 percent while insurance licences and stock market listings rose by 2.6 percent and 17.9 percent, respectively. However, banks and trusts licences declined by 2.4 percent while new company registrations slipped by 3.3 percent.

A mixed performance emanated from the tourism industry in 2007. The stay-over market showed strong performance as arrivals rose by 9.1 percent; this was extended in the first half of 2008 as arrivals improved anew by 9.3 percent. In contrast, cruise arrivals fell by 11.1 percent in 2007 and by 13.5 percent in the first half of 2008. Overall, tourist arrivals went down by 8.7 percent in 2007 and by 10.5 percent in the first half of 2008. Consequently, tourism receipts dipped by 6.6 percent in 2007 to reach \$399.1 million.

In 2007, construction moderated from the strong performances over the last two years. Building permits reached 1,090 (or 15.5% lower than in 2006) valued at \$446.3 million (up marginally by 0.1 percent compared to 2006). Building permits for the first half of 2008 fell anew by 2.9 percent to settle at 599; total value of these permits fell to \$211.5 million or 26.2 percent lower compared to the same period in 2007.

Total labour force as of fall 2007 was estimated at 36,476, reflecting a marginal growth of 1.4 percent over 2006. The unemployment rate went up to 3.8 percent in 2007 from 2.6 percent in 2006 as total employment increased modestly by 0.2 percent to reach 35,081.

The average Consumer Price Index continued to increase in 2007. The average inflation was 2.9 percent, higher than the 0.8 percent recorded in 2006. However, the inflation rate was on the downtrend throughout the year. From 4.4 percent in March 2007, this fell to 3.2 percent in June, 2.5 percent in September and 1.7 percent in December. For the first six months of 2008, average inflation was 4.0 percent, due to increases in the average prices of food (3.6%), household equipment (7.5%), transport and communication (5.3%), housing (5.1%), clothing (4.0%), education and medical (4.2%), personal good and services (0.9%) and alcohol and tobacco (0.5%).

Merchandise imports declined in 2007 to \$881.8 million, from \$888.7 million a year ago. This was mainly due to strong reduction in capital goods imports by 21.9 percent, while consumption goods also fell by 2.9 percent. In contrast, the value of fuel imports grew by 21.7 percent which could be traced to increases in both the unit price and the quantity of oil and petroleum products imported. For the first half of 2008, merchandise imports rose by 2.1 percent from the same period a year ago to reach \$457.6 million. The increase is due largely to oil and petroleum products which posted higher prices in the world market. The volume of fuel imports also grew moderately by 3.5 percent to settle at 38.3 million imperial gallons.

Total merchandise exports in 2007 was estimated at \$21.5 million, an 11.9 percent improvement above the previous year, mainly due to significant increases in rum exports and re-exports. Meanwhile, export of services was estimated at \$442.9 million, a surge of 3.6 percent over 2006, mainly on account of the growth in visitor expenditure which resulted from stay-over tourism.

With the decline in imports and increase in exports receipts, the country's balance of payments current account deficit fell in 2007 by 6.7 percent to \$376.8 million, or 17.6 percent of GDP.

Fiscal operations of the central government in 2007 resulted in a current surplus (total current revenue minus current expenditure) of \$77.4 million or 3.6 percent of GDP, down from 5.7 percent of GDP a year ago. Strong growth (27.4%) in expenditure outlays resulted in a decline in cash reserves and an increase of central government indebtedness. The central government's total outstanding debt stood at \$210.5 million as at December 2007 or 9.8 percent of GDP.

Estimates for the Financial Year 2008/9

Real growth of GDP in 2008/9 is projected to ease to approximately 1.2 percent, down from 1.9 percent in 2007/8. Specifically, GDP growth rates for calendar years 2008 and 2009 are forecasted at 1.5 percent and 0.8 percent, respectively. These forecasts take into account the heightened uncertainty in the economic outlook for the US and other advanced economies given that the country is a small, open-economy.

Inflation is expected to reach 3.8 percent in 2008/9, compared to 4.1 percent in 2007/8, as pressures on food prices, utilities, oil and petroleum products and manufactured goods persist.

The unemployment rate is forecasted at 4.0 percent for 2008/9 or slightly higher than in 2007/8. The latter projection takes into account the recorded unemployment rate of 3.8 percent for 2007.

For the financial year 2008/9, the deficit on the current account of the balance of payments (BOP) is expected to reach 24.8 percent of GDP. This marginal improvement is premised on a modest increase in imports (due to oil and petroleum products) and robust receipts from services.

Economic Forecasts for Financial years 2009/10 to 2011/12

Real GDP

Over the next three financial years, economic growth in the Cayman Islands is expected to moderate following the prognosis of a slowdown in the economic prospects of its key markets. Barring external shocks, GDP growth is forecasted at 1.7% in 2009/10, 2.5% in 2010/11 and 2.4% in 2011/12 (see Figure 1).

Employment level and Unemployment Rate

Given the above forecast growth rates, employment levels are expected at 35,729 in 2009/10, 36,161 in 2010/11 and 36,523 in 2011/12 (see Figure 2). The corresponding unemployment rates are forecasted at 3.9% in 2009/10, and 3.7% in 2010/11 and 2011/12 (see Figure 3).

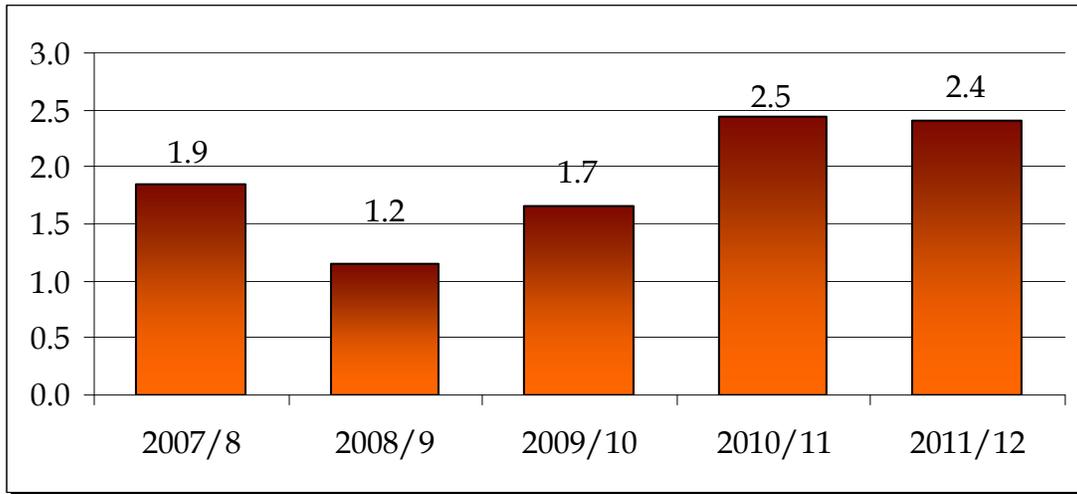
Inflation

Domestic inflation remains highly influenced by US inflation. Based on moderate inflation forecasts for the US, the local inflation forecasts are 2.7% for 2009/10, and 3.0% in 2010/11 and 2011/12 (see Figure 4).

Current account

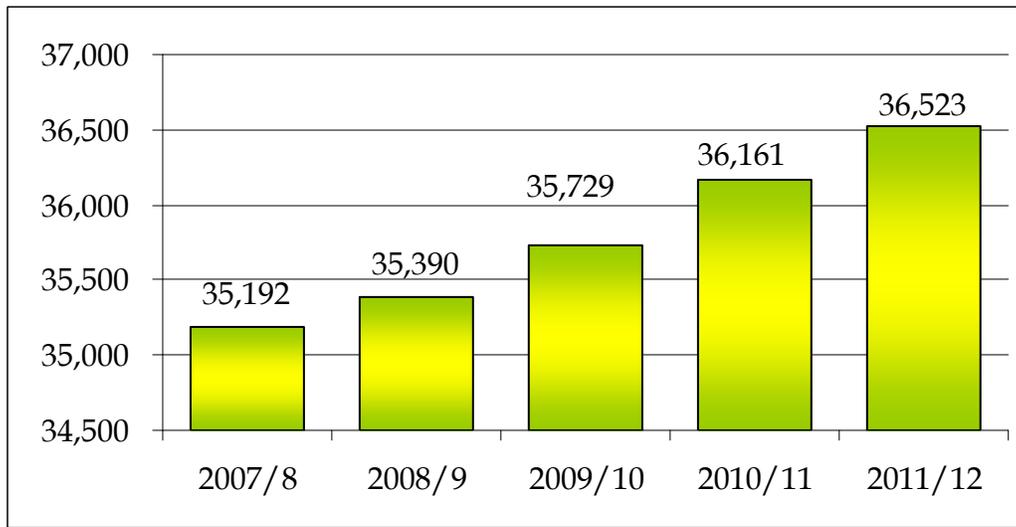
The balance of payments current account deficits are forecasted at 25.3% of GDP in 2009/10 and in 2010/11, and 24.7% in 2011/12 (see Figure 5).

Figure 1: Cayman Islands' Real GDP Growth (%)



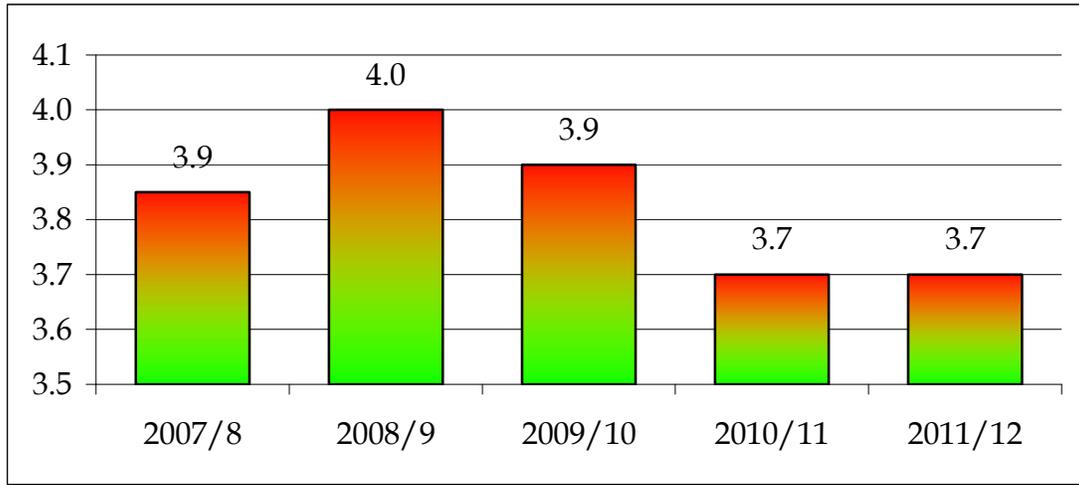
Source: Cayman Islands Government (Economics and Statistics Office)

Figure 2: Cayman Islands' Employment Level



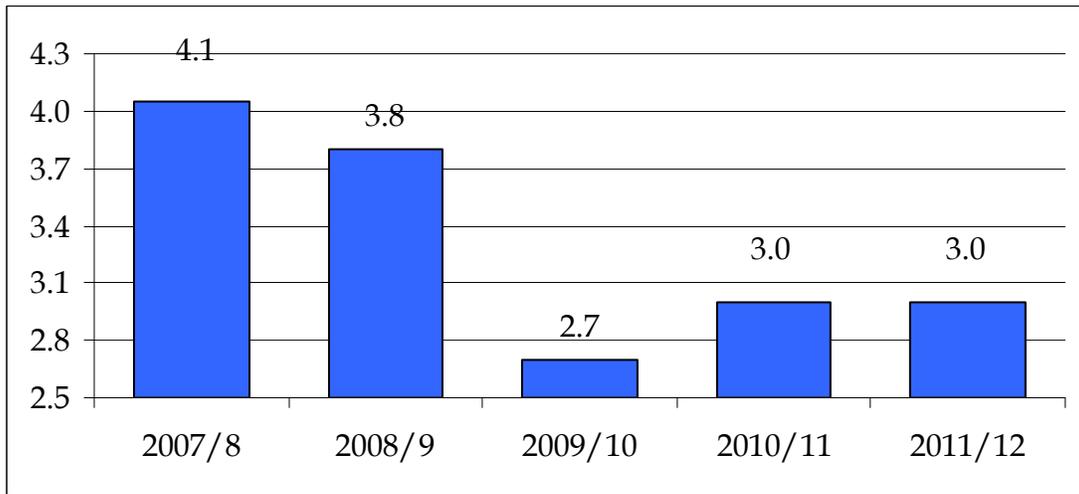
Source: Cayman Islands Government (Economics and Statistics Office)

Figure 3: Cayman Islands Unemployment Rates (% of Labour Force)



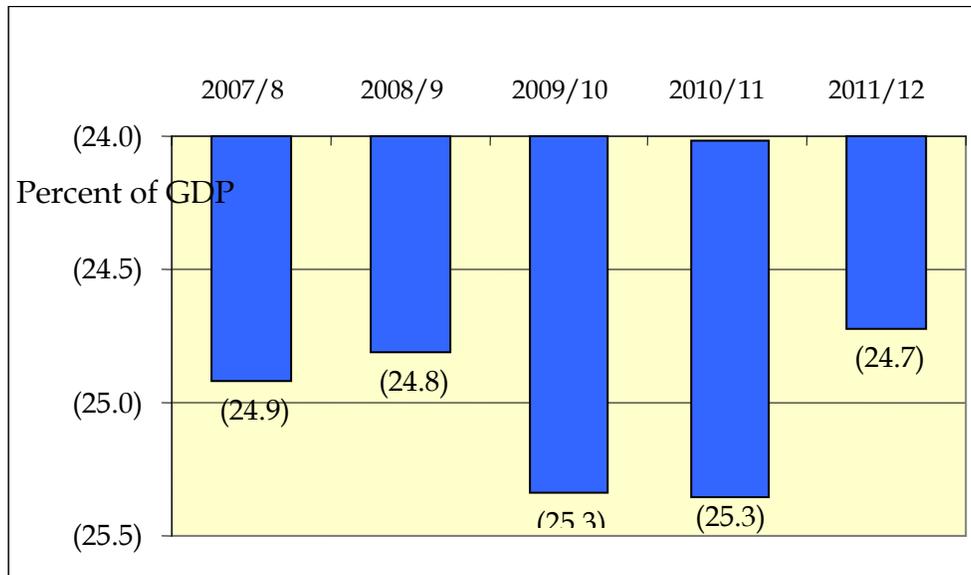
Source: Cayman Islands Government (Economics and Statistics Office)

Figure 4: Cayman Islands' Inflation Rates (%)



Source: Cayman Islands Government (Economics and Statistics Office)

Figure 5: Cayman Islands Current Account of the Balance of Payments



Source: Cayman Islands Government (Economics and Statistics Office)

Significant Assumptions Underlying the Economic Forecasts

The prevailing outlook of continuous weakening in global economic performances in 2008 and 2009 would be transmitted to softer performances in local industries. The sharp downturn in the global financial market could dampen the growth of the financial services sector and induce further consolidation in the banking and trust sector.

With regard to stay-over tourism, challenges from the weak growth prospects for the US and other advanced economies are expected to be sharper than in previous years. The World Tourism Organization (WTO) recorded air arrivals growth for the Americas at 4.7 percent in 2007, and projected growth of approximately 2.5 percent in 2008. In addition, increasing competition from other markets such as Europe may pose an additional challenge to the Cayman Islands, in view of robust booking trends for European cruise packages by North American travellers.

Unlike the credit difficulties abroad, it is assumed that the retail banking sector will maintain its robust supply of credit to businesses and households; this should help stabilize consumer and business confidence in general.

With regard to employment, it is assumed that immigration policies remain flexible in accommodating the requirements of local businesses.

Meanwhile, inflation forecasts continue to hinge on the use of the current CPI basket. A new CPI basket will be introduced in 2009 and forecasts based on this new basket will be issued starting in the SPS for 2010/11. The general outlook of commodity prices is derived from the global outlook.

Finally, the forecasts for the balance of payments current account deficit are directly linked to the moderate growth in forecasted imports and export receipts from services, barring major disasters.

4. Aggregate Financial Targets

Introduction

In addition to achieving the Government's broad policy objectives, the Budget must comply with the Principles of Responsible Financial Management (the Principles) specified in the PMFL. Accordingly, the SPS is required to specify the aggregate financial targets for the Core Government on which the Budget will be based, and show that those targets comply with the Principles.

This section specifies the aggregate financial targets for the Core Government established by Cabinet for the 2009/10 Budget and the planning targets for the 2010/11 and 2011/12 Budgets. The targets for 2010/11 and 2011/12 provide a planning guide for the Government and will be updated in subsequent SPS documents in light of changes to the financial position of the government and/or policy priorities.

This section also outlines the fiscal strategy rationale on which the aggregate financial targets are based as well as explaining how the targets comply with the Principles.

The Government's Fiscal Strategy

The Government's fiscal strategy continues to be the same as that outlined in the 2008/9 SPS. It consists of three elements: fiscal responsibility; the need to address the country's social and economic infrastructure needs; and economic management considerations.

Strategy 1: Fiscal Responsibility

As outlined in Section 2, foremost amongst the Government's outcome goals is sound fiscal management. The Government recognises that this is the bedrock upon which investor confidence in these Islands is built. It is also critical to the long term financial health of the country that the Government continues to manage its finances in a sound and controlled manner.

Accordingly, the Government is fully committed to the Principles. Compliance with the Principles is therefore the first, and most important, element of the Government's fiscal strategy. It is, and will continue to be, a key driver of the Government's financial decision-making.

Strategy 2: Addressing Social and Economic Infrastructure Needs

In addition to maintaining fiscal control, the Government also recognises that the social and economic infrastructure of the country needs to be improved. In particular, there are important infrastructure needs in the education, transportation and government administration sectors. These needs have both capital and operating requirements and their magnitude is considerable. The future of the country requires them to be addressed and the Government is doing so.

Accordingly, the second element of the Government's medium term fiscal strategy is to generate the cash flows necessary to finance priority capital and operating infrastructure needs. The Government's approach to achieve this is three-fold.

Source 1: Keep a tight rein on operating expenditure. Controlling operating expenditure helps generate operating surpluses that can then be used to finance new capital or other operating needs. In a pro-active move, the Government is controlling operating expenditure through two new measures. Firstly, a freeze has been placed on recruitment in order to restrict the growth in all public service entities, including Statutory Authorities and Government Owned Companies. Secondly, operating expenditure has been reduced within Core Government to minimise the potential impact of the global financial crisis and economic slow down of the local economy on forecast surplus positions. This approach has been adopted as a key element of the Government's expenditure management strategy for the 2008/9 revised budget, and again in the establishment of the aggregate targets that form part of this 2009/10 SPS.

Source 2: Ensure Public Authorities are Financially Sustainable. This will involve working with Statutory Authorities and Government Companies to develop financially stable business operations. The ultimate goal in this regard is to achieve an overall break-even position for the public authority sector. Fully achieving this goal will take some time but significant progress is being made towards reforming these entities to be more financially stable.

Source 3: Undertake New Borrowing. The Government's third financing strategy is new borrowing. The size of the new infrastructure needs is beyond the ability of the government to finance them from the first two sources. In addition, many of the necessary infrastructure investments (such as new schools, new Government accommodation building and new roads infrastructure) will have long-term benefits for several generations. In these circumstances, it is therefore appropriate for the government to borrow to finance these projects as, not only does this spread the financing costs, it also helps to match the costs and benefits over time.

The Government has established two important rules that are applied when determining the amount of new borrowing: borrowing must be within the limits established by the Principles; and the timing of capital expenditure is to be managed so as to minimise borrowing levels. The Government established these rules to ensure that the total amount of borrowing is maintained within serviceable limits and does not become an excessive burden on future generations of Caymanians. These caveats continue to be an important part of the Government's overall fiscal strategy.

Strategy 3: Economic Management Considerations

The third element of the Government's fiscal strategy relates to economic management. In determining the level of operating revenues, operating expenses, and capital expenditures, it will consider not only the need to comply with the Principles, and the need to address social and economic infrastructure needs, but also the economic impact these levels will have. In doing so, the Government will give due consideration to the PPM manifesto commitments to support the ongoing economic development of these Islands, particularly the twin pillars of tourism and financial services.

Aggregate Financial Targets for 2009/10 – 2011/12

Targets

The aggregate financial targets for the Core Government established by Cabinet for 2009/10 and the subsequent two financial years are provided in Table 3.

Table 3
Aggregate Financial Targets for Core Government

Financial Measure	2008/9 Revised Budget \$000s	2009/10 Target \$000s	2010/11 Target \$000s	2011/12 Target \$000s
Operating Targets				
Operating Revenue	525,190	535,038	555,447	571,880
Operating Expenses	(490,112)	(488,646)	(502,174)	(514,755)
Surplus Before Financing	35,078	46,392	53,273	57,125
Financing Expenses	(14,953)	(18,223)	(23,662)	(25,079)
Surplus (Deficit)	20,125	28,169	29,611	32,046
Balance Sheet Targets				
Borrowing (balance outstanding at year-end)	363,431	476,431	524,431	567,431
Net Worth	571,012	599,182	628,793	660,838
Cash Flow Targets				
Net Operating Cash Flows	38,889	56,628	58,107	60,595
Net Investing Cash Flows	(140,633)	(147,809)	(76,192)	(72,587)
Net Financing Cash Flows	79,579	88,579	23,579	14,419
Net Movement in Cash	(22,165)	(2,602)	5,494	2,427
Closing Cash Balance	118,747	116,145	121,639	124,066

Basis for the Targets

The targets in this 2009/10 SPS have been derived from a thorough forecasting exercise involving all Ministries and Portfolios. This has allowed the Government forecasts to more accurately reflect the expected financial impact of Government's policy priorities. As part of the forecasting exercise, operating revenues and expenses as well as capital investment forecasts were updated. These forecasts were reviewed to ensure that they are sustainable over the medium term; particularly in relation to capital expenditure and financing, and also that they are consistent with the Principles of Financial Management.

Explanation of the Targets

The aggregate targets fall into three groups: operating targets, balance sheet targets and cash flow targets.

Operating Targets

The operating targets reflect the three main numbers from the operating statement: operating revenue, operating expenses and operating surplus/deficit. The surplus/deficit is the key operating measure.

A healthy operating surplus is targeted throughout the three -year forecast period. These surpluses are consistent with the Government's fiscal strategy outlined above and will be used to fund essential social and economic infrastructure projects contained in the capital program.

The Balance Sheet Targets

The balance sheet reports the assets and liabilities of the core government and the difference between them is termed "net worth". Net worth can be thought of as the amount the citizens of the Islands have invested in the government and is equivalent to shareholder funds in a company.

The balance sheet targets reflect the two main measures important to assess a government's financial position: borrowings and net worth.

Aggregate borrowing (i.e. the balance outstanding at the end of the period) is expected to increase over the forecast period. This is consistent with the Government's fiscal strategy (see the fiscal strategy discussion above) and will be used to fund the development of new infrastructure. The borrowing levels targeted comply with the Principles throughout the forecast period.

Net worth is targeted to increase steadily over the period. This is consistent with increases in the operating surplus targets over the three years.

Cash Flow Targets

The cash flow targets relate to the three categories that make up the cash flow statement: operating cash flows (operating receipts and payments), investing cash flows (equity injections and the purchase or construction of assets) and financing cash flows (borrowing).

Net operating cash flows are targeted to remain at healthy positive levels. This reflects the operating surplus targets and is a deliberate fiscal strategy as these cash surpluses will be used to partially finance the Government's capital programme, thereby reducing the borrowing requirement.

In line with the Government's policy priorities, substantial net investing cash flows are targeted throughout the forecast period in order to fund the capital expenditure programme for the next three years, including new schools, a new Government Office Building and improved road infrastructure.

The net financing cash flows reflect the Government's anticipated borrowing programme over the period. This level of financing is consistent with the Government's fiscal strategy outlined above.

The cash position is targeted to be 90 days which reflects the requirement of the PMFL for the Government's cash reserves to be no less than 90 days of executive expenditure in 2009/10, 2010/11, 2011/12. The targeted closing cash balances for each of the three years satisfies the level of cash reserves required by the Principles of Responsible Financial Management.

Compliance with Principles of Responsible Financial Management

Table 4 summarises the extent to which the aggregate financial targets comply with the Principles. The table shows that the targets comply with all the Principles in each year of the forecast period.

Table 4
Compliance with Principles of Responsible Financial Management

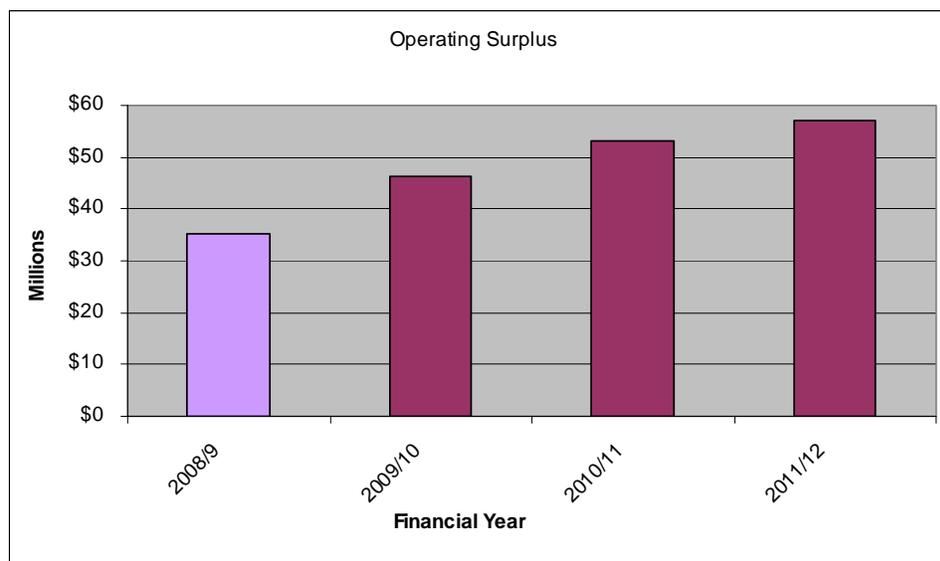
Principle	Degree of Compliance
<p>Operating surplus: should be positive</p> <p>(Operating surplus = core government operating revenue – core government operating expenses)</p>	<p>Complies in all years</p> <p>2009/10: \$28.169 million 2010/11: \$29.611 million 2011/12: \$32.046 million</p>
<p>Net Worth: should be positive</p> <p>(Net worth = core government assets – core government liabilities)</p>	<p>Complies in all years</p> <p>2009/10: \$599.182 million 2010/11: \$628.793 million 2011/12: \$660.838 million</p>
<p>Borrowing: Debt servicing cost for the year should be no more than 10% of core government revenue</p> <p>(Debt servicing = interest + other debt servicing expenses + principal repayments for core government debt and self financing loans)</p>	<p>Complies in all years</p> <p>2009/10: 8.0% 2010/11: 8.6% 2011/12: 9.3%</p>
<p>Net Debt: should be no more than 80% of core government revenue</p> <p>(Net debt = outstanding balance of core government debt + outstanding balance of self financing loan balance + weighted outstanding balance of statutory authority/government company guaranteed debt - core government liquid assets)</p>	<p>Complies in all years</p> <p>2009/10: 78.9 % 2010/11: 79.3 % 2011/12: 79.1 %</p>
<p>Cash Reserves should be no less than 90 days estimated executive expenses</p> <p>90 days in 2009/10 90 days in 2010/11 90 days in 2011/12 (Cash reserves = core government cash and other liquid assets)</p>	<p>Complies in all years</p> <p>2009/10: 90.0 days 2010/11: 90.6 days 2011/12: 90.3 days</p>
<p>Financial risks should be managed prudently so as to minimise risk</p>	<p>Complies in all years</p> <p>Insurance cover exists for key assets and major potential liabilities.</p> <p>Hurricane preparedness strategy in place</p>

Overview of the Projections

Figures 6 to 13 provide the financial projections for the periods 2008/9 to 2011/12. In summary the projections show:

- Net surplus position in each of the projected fiscal years. These projections are conservative in nature and assume moderate growth to revenue over the period along with continued prudent controls over operating expenditures.
- There is also a steady increase in the Government's projected net worth position. This is reflective of the continued surplus position being forecasted and is a positive indicator of the financial health of the Government (see Figure 6).
- The Government intends to borrow \$204 million over the next 3 financial years in order to finance its planned capital programme (see Figure 9). This borrowing is affordable over the medium and long term as the financial position is projected to remain fully compliant with the Principles of Responsible Financial Management throughout that period.
- Cash reserves will grow in tandem with the operating expenditures allowing the Government to always maintain a minimum of 90 days of executive expenditures at the end of each financial year as required under the Public Management and Finance Law (2005 Revision).

Figure 6
Government Operating Surplus



KEY

Budget

Forecast



Figure 7
Government Net Worth

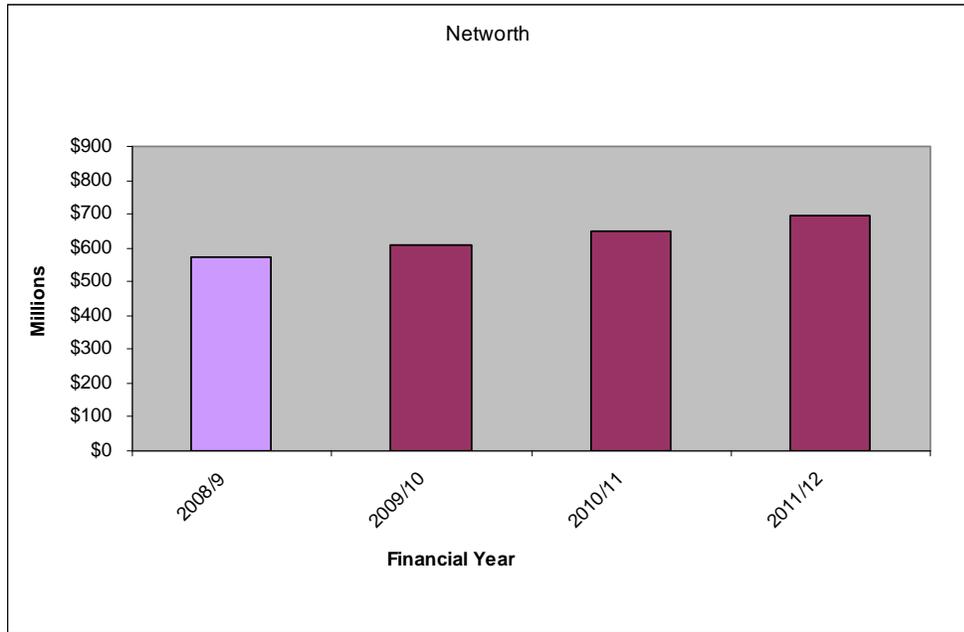


Figure 8
Executive Capital Investment Expenditure

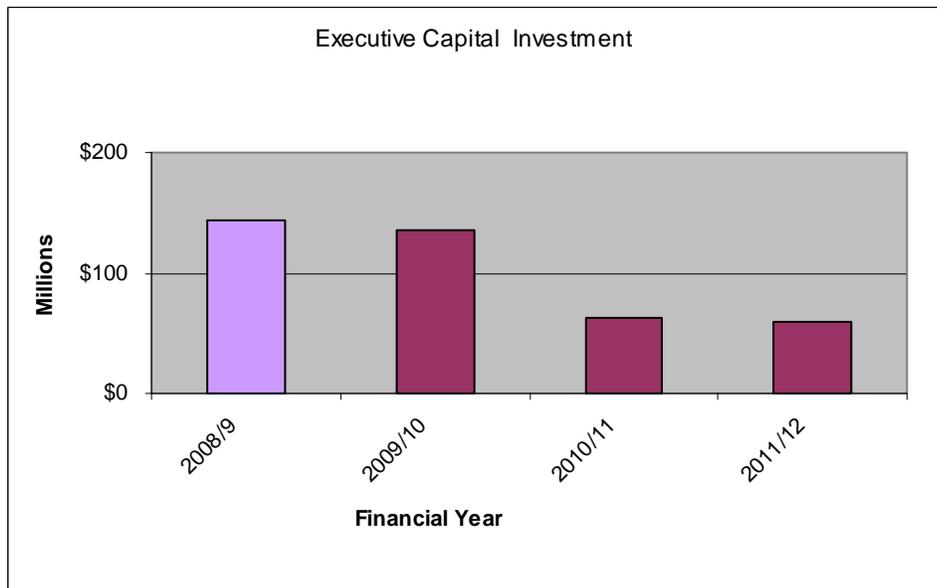


Figure 9
Government New Borrowing

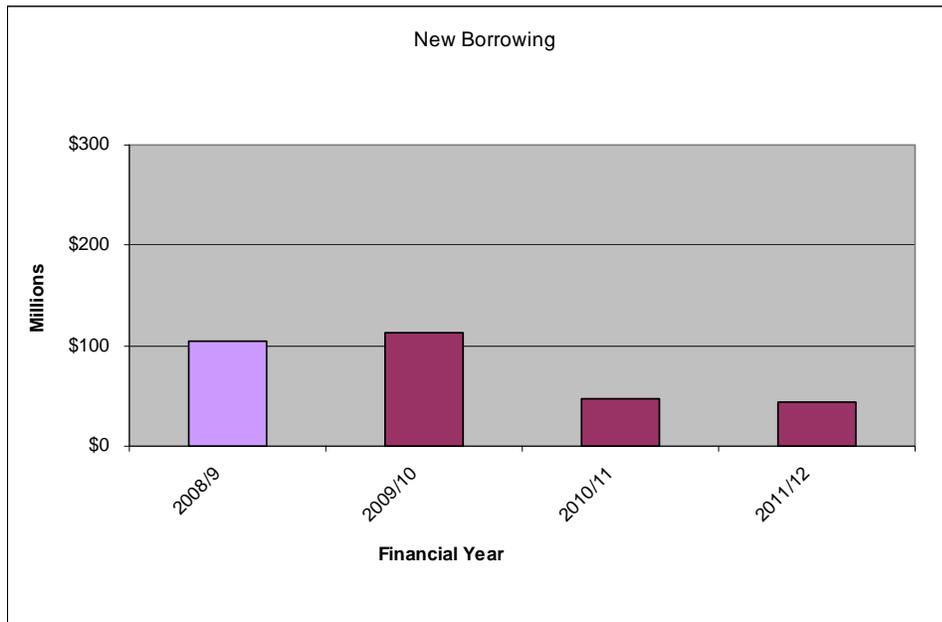


Figure 10
Government Public Debt Balance

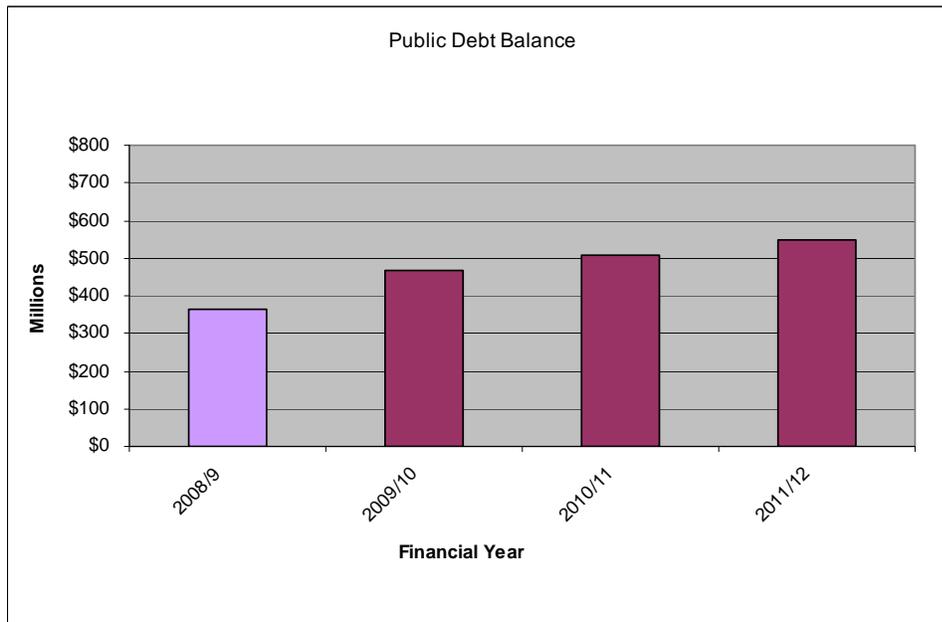
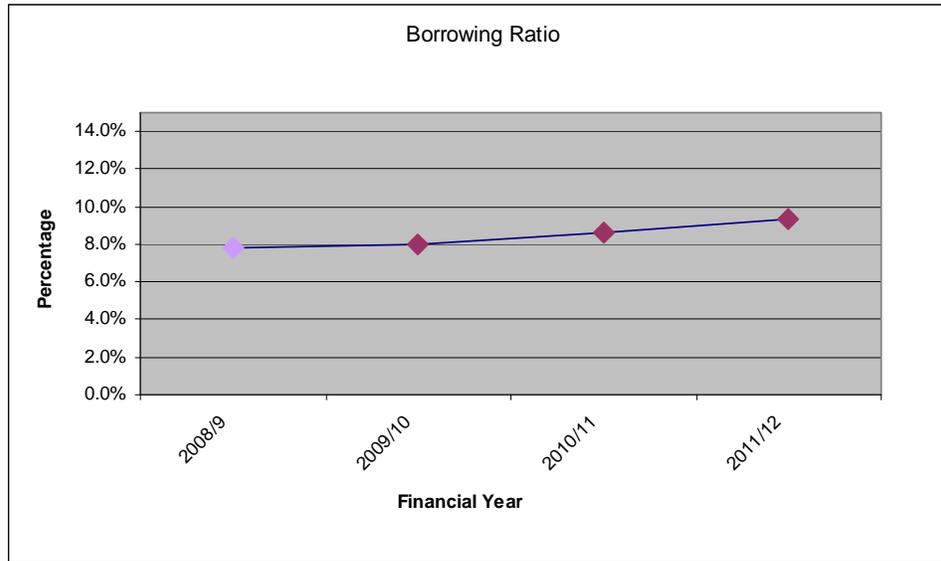


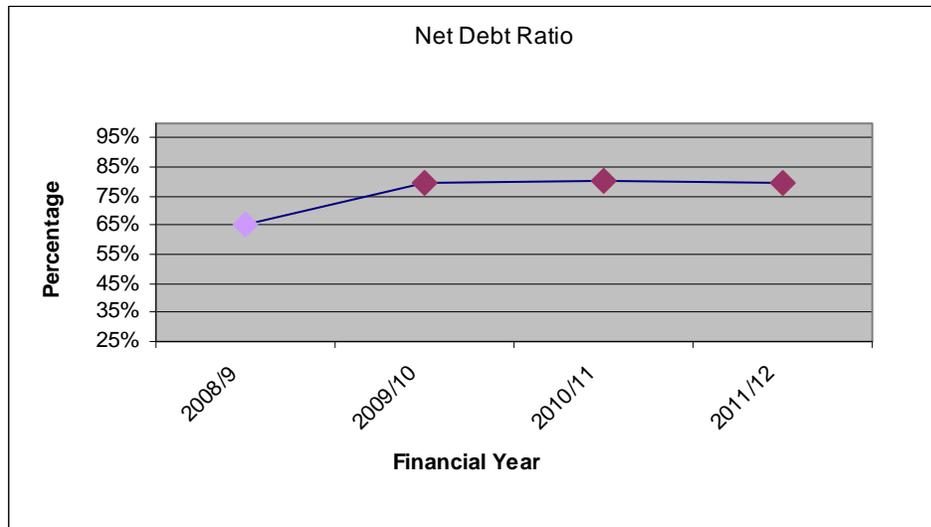
Figure 11
Borrowing Ratio



KEY: Budget Forecast

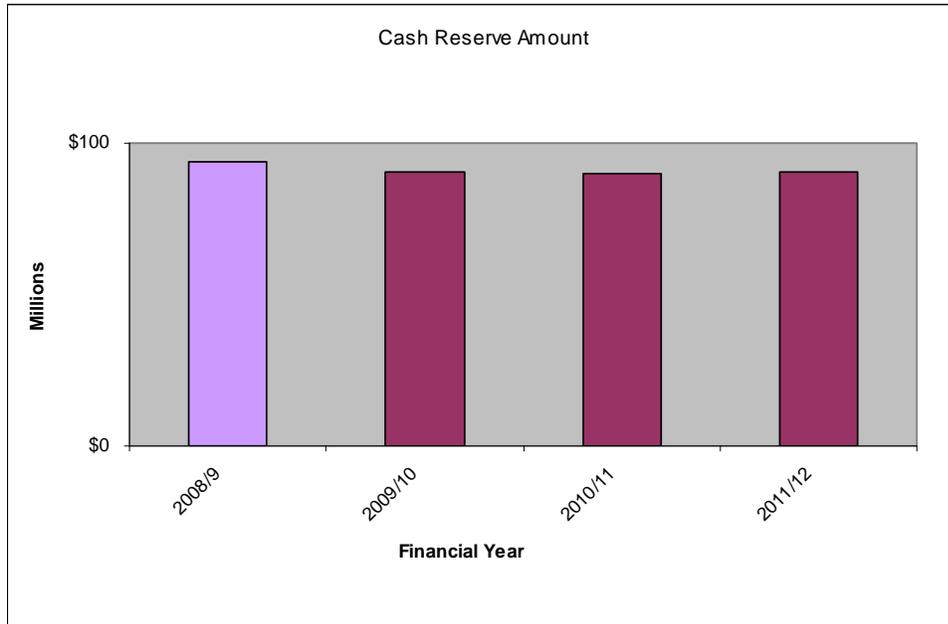
Figure 12
Government Net Debt Ratio



KEY: Budget Forecast

Figure 13
Cash Reserves Amount



KEY: Budget Forecast

5. Financial Projections

Introduction

The Government has developed a set of financial projections to help guide the setting of the three year fiscal targets.

Table 5

Fiscal Measure (\$Millions)	2008/9 Revised Budget	2009/10 Target	2010/11 Target	2011/12 Target
Operating Surplus (before financing)	35.078	46.392	53.273	57.125
Net Worth	571.012	599.182	628.792	660.838
Executive Capital Investment Expenditure	143.334	135.000	63.000	59.000
New Borrowing (during the fiscal year)	104.000	113.000	48.000	43.000
Borrowing (balance outstanding at year-end)	363.431	476.431	524.431	567.431
Cash Balance	118.747	116.145	121.639	124.066

6. Financial Allocations

Introduction

In accordance with the requirements of the PMFL this section specifies the indicative financial allocations to individual members of Cabinet for the 2009/10 Budget. These allocations are used as the basis for Ministers and Official Members and their Ministries and Portfolios to establish their outputs and detailed budgets for the 2009/10 financial year.

Operating Allocations

The aggregate financial targets set out in Section 4 establish the operating limits for the core government for the 2009/10 financial year. These include the total operating expenses for the forecast year.

Operating expenses are made up of two broad categories of expenses:

- Expenses of Ministries and Portfolios which are funded by revenue earned by them from sources other than Cabinet; and
- Executive expenses, being expenses incurred by the Cabinet in funding the outputs they are purchasing from Ministries, Portfolios, Statutory Authorities, Government Companies and Non-Governmental Output Suppliers, the cost of transfer payments and various other miscellaneous executive expense items.

Although the overall level of Government expenses is important for the financial management of the government as a whole, executive expenses are the focus of budget allocations. This is because executive expenses represent the amount Cabinet has to spend on buying outputs or funding other interventions.

Table 6 provides the indicative allocations of executive operating expenses to each Minister or Official Member for the forecast period. These allocations represent the amount available for each Minister or Official Member to purchase outputs from their ministries, statutory authorities and government companies, and other third parties (Non-Governmental Output Suppliers) and to fund transfer payments or other executive operating expenses for which the member of Cabinet is responsible.

Capital Allocations

The aggregate financial targets set out in Section 4 also establish a limit for capital expenditure.

It comprises the following:

- Executive investing cash flows, being the investing cash flows controlled directly by Cabinet.

The executive investing cash flow is the focus of the budget allocations because it represents the amount that Cabinet has at its disposal limit to spend on capital.

Table 7 provides the indicative capital (or investment) allocations to each Minister or Official Member for the forecast period. This allocation can be used to fund one of three capital items: equity investments into Ministries, Portfolios, Statutory Authorities, Government Companies; acquisition or replacement of executive assets; or loans-made.

Table 6
Executive Operating Expenditure Allocations

Cabinet Member	2009/10 \$000	2010/11 \$000	2011/12 \$000
Chief Secretary	76,653	79,705	82,059
Head of the Civil Service	16,396	16,588	16,717
Attorney General	7,914	8,261	8,520
Financial Secretary	80,337	85,685	87,794
Leader of Government Business	7,158	7,541	7,796
Minister of District Administration, Planning, Agriculture & Housing	29,689	31,360	32,473
Minister of Health & Human Services	69,173	70,143	70,855
Minister of Education, Training, Employment, Youth, Sport & Culture	101,960	105,710	108,492
Minister of Communications, Works & Infrastructure	17,171	17,662	18,027
Minister of Tourism, Environment, Investment and Commerce	54,423	56,740	58,107
Public Accounts Committee (Audit Office)	688	717	740
Oversight Committee of the Legislative Assembly (Complaints Commissioner)	850	898	932
Attorney General for Chief Justice (Judicial Administration)	8,644	8,823	8,965
Total Executive Expenditure Allocation	471,056	489,833	501,477

Table 7
Executive Investment Allocations

Cabinet Member	2009/10 \$000	2010/11 \$000	2011/12 \$000
Chief Secretary	4,200	4,000	4,000
Head of the Civil Service	0	0	0
Attorney General	100	0	0
Financial Secretary	2,300	2,000	1,500
Leader of Government Business	500	300	300
Minister of District Administration, Planning, Agriculture & Housing	37,000	35,000	5,000
Minister of Health & Human Services	2,100	3,000	3,000
Minister of Education, Training, Employment, Youth, Sport & Culture	70,000	5,000	30,000
Minister of Communications, Works & Infrastructure	12,800	7,700	9,200
Minister of Tourism, Environment, Investment and Commerce	6,000	6,000	6,000
Public Accounts Committee (Audit Office)	0	0	0
Oversight Committee of the Legislative Assembly (Complaints Commissioner)	0	0	0
Attorney General for Chief Justice (Judicial Administration)	0	0	0
Total Executive Investment Allocation	135,000	63,000	59,000

7. Conclusion

This Strategic Policy Statement establishes the policy and financial framework on which the 2009/10 budget will be prepared.

The policy goals and financial parameters outlined in this document clearly reflect a continuation of the policies established by the PPM Government. Those policies are based around eleven broad outcomes which include: supporting the economy; improving education and training; strengthening the family and community; fiscal management; and embracing Cayman Brac and Little Cayman.

The financial targets set out in this SPS allow for the funding of various interventions to progress the key policy initiatives relating to these outcomes. Particularly the targets provide for delivery of a capital development programme which includes additional schools, new Government Office Accommodation, Therapeutic Youth Facility, enhanced public safety and disaster response capabilities, continued improvement to the country's road network infrastructure and other significant assets. This capital programme will be funded by a combination of operating surplus and borrowings over the three year forecast period.

At the same time the financial targets reflect the Government's fiscal strategy: be fiscally responsible; acquire the resources necessary to address the country's social and economic infrastructure needs; and support the ongoing economic development of the country. Updated long-run fiscal projections continue to show that the targets are sustainable beyond the forecast period and therefore remain affordable.

This Strategic Policy Statement shows that the Government remains focussed and committed to delivering on its manifesto commitments. It shows that the Government is continuing with the policy direction it has established since coming into office, and it shows that the Government is continuing to manage the country's finances diligently, responsibly and transparently.

Hon. D. Kurt Tibbetts, JP
Leader of Government Business

9 December, 2008