

# THE FINANCIAL ADMINISTRATION AND AUDIT ACT

## The Financial Administration and Audit (Fiscal Responsibility Framework) Regulations, 2011

In exercise of the power conferred upon the Minister by section 50 of the Financial Administration and Audit Act, and of every other power hereunto enabling, the following Regulations are hereby made:-

- Citation. 1. These Regulations may be cited as the Financial Administration and Audit (Fiscal Responsibility Framework) Regulations, 2011.
- Receipt of grants or loans by a department, etc. 2. - (1) Where a department or agency of Government or an on-budget public body proposes to benefit from a loan or grant from any source, the Permanent Secretary in the ministry or the officer with responsibility for the department, agency or body, as the case may be, shall cause a proposal to be first developed and submitted to the Planning Institute of Jamaica for appraisal and pre-selection.
- (2) The proposal shall have regard to any Financial Instructions issued by the Financial Secretary from time to time and shall contain the following information in relation to the loan or grant –
- (a) the rationale for the loan or grant;
  - (b) the amount of the loan or grant;
  - (c) the potential financing source and cash flow;
  - (d) the disbursement schedule;
  - (e) the medium term budgetary impact including any additional recurrent costs associated with the programme or project; and
  - (f) in the case of a loan, the time profile of amortization and interest.
- (3) Selected proposals will be aligned to the strategic priorities of the Government.
- (4) Notwithstanding the provisions of paragraphs (2) and (3), instructions issued by the Financial Secretary shall stipulate the criteria for prioritizing programmes or projects financed by loans and grants for inclusion in the Budget.
- (5) All proceeds related to loans or grants shall be paid into the Consolidated Fund.

(6) Contravention of the provisions of section 7A of the Act or of this regulation shall be –

- (a) treated as a loss as provided for under section 20 of the Act if such contravention results in a financial loss to the Government; or
- (b) sanctioned by a written reprimand from the Financial Secretary for a first offence where the Financial Secretary considers the breach to be administrative and does not result in a financial loss to the Government;
- (c) the subject of a report to be submitted by the Financial Secretary to the Public Service Commission for appropriate action.

(7) The report submitted by the Financial Secretary under paragraph (6)(c) shall outline the circumstances of the current breach, the history of any previous breach and the action taken.

Content of report to Cabinet by Minister re warrant.

3. - (1) Where under section 9(2A) of the Act, the Minister proposes to suspend, withdraw, or impose conditions on a warrant under section 117 of the Constitution of Jamaica, he shall provide a report to the Cabinet specifying –

- (a) whether the decision is for a withdrawal, suspension, or imposition of conditions on the warrant;
- (b) the reasons for the decision, including any specified in paragraph (2) that may apply, and under what conditions it may be reversed; and
- (c) the implications the action may have on other warrants that have been issued under section 9 of the Act.

(2) The reasons referred to in paragraph (1) (b) include there being –

- (a) an insufficiency of cash resources in the Consolidated Fund to honour the warrant, given other current or future obligations;
- (b) a failure to meet the obligations under section 48C of the Act or its supporting regulations as a result of honouring the warrant; or
- (c) a failure to meet agreements with domestic or international partners as a result of honouring the warrant.

Consultation with the Financial Secretary.

4. - (1) Subject to paragraph (2), the consultation with the Financial Secretary of any proposed change as required under section 16(3) of the Act, shall include the following information –

- (a) the rationale for the change; and
- (b) detailed budget information of the impact of this change on expenditure and revenue for the financial year that is then current and for the medium term.

(2) Where the proposed change is anticipated to increase overall expenditures of the ministry, department or agency, the responsible accounting officer in consultation with the Financial Secretary shall indicate an offsetting expenditure.

(3) The Financial Secretary shall as soon as possible after consultation in accordance with paragraph (1) provide the Minister with an assessment of and recommendation in relation to the proposed change.

(4) Where there is a failure to comply with section 16(3) of the Act and this regulation, the Financial Secretary shall issue directions for a complete roll back or cessation of the change until there is full compliance.

(5) Where directions issued under paragraph (4) are not complied with, the Financial Secretary shall send a report to the Public Service Commission for appropriate action.

Managing  
expenditure.

5. - (1) For the purposes of the requirement under section 48D(d) of the Act, the total debt shall be reduced to, and thereafter maintained at a prudent level.

(2) When, having regard to paragraph (1), debt has reached a prudent level (60 per cent of Gross Domestic Product or less) the Fiscal Policy Paper shall demonstrate that on average, over the medium term, current revenue should equal or exceed current expenditure.

Ministry's  
Business  
Plan.

6. - (1) In pursuance of section 48E(2) of the Act, each Permanent Secretary shall develop and submit a three year Business Plan which shall -

- (a) include a financial summary outlining for the ensuing financial year and the next two following financial years, the recurrent and capital cost of the policies, plans and programmes being implemented; and
- (b) be consistent with the expenditure ceilings set out in the Budget Call Circular;
- (c) consolidate the plans of departments, agencies and on-budget public bodies of the portfolio ministry.

(2) The Financial Secretary shall defer finalization of the budget with an

accounting officer who fails to submit a business plan as required under section 48E(4) of the Act until there is full compliance.

Statement of  
Excess and  
Supplementary  
Estimates.

7. - (1) Before any excess or supplementary expenditure may take place, the Permanent Secretary generating the request for the expenditure shall submit to the Financial Secretary a report detailing –

- (a) the rationale for the excess expenditure and why it was not anticipated at the time the budget was submitted to Parliament;
- (b) the expenditure for the financial year that is then current and the expected expenditure for the following two years related to the excess using the current government accounting system; and
- (c) any corrective action that would minimize these expenditures.

(2) The Financial Secretary shall submit the report under paragraph (1), with his assessment and recommendation to the Minister for submission to the Cabinet for appropriate action.

(3) If the request is supported by the Minister, the Financial Secretary shall prepare an appendix to the Submission that demonstrates how the expenditure will be financed, including possible expenditure offsets, and that the proposed implementation would be consistent with sections 48C and 48D of the Act.

(4) If the Cabinet supports the request, the Financial Secretary shall send a report to the Public Administration and Appropriations Committee of the House of Representatives and the Financial Secretary and Permanent Secretary in the Ministry requesting the excess expenditure shall appear before the Committee as required.

(5) The Public Administration and Appropriations Committee in preparing its report to the House in accordance with section 48G of the Act shall have regard to the Financial Secretary's report.

(6) If the Public Administration and Appropriations Committee considers the expenditure requested to be of an urgent nature, then it may make an appropriate recommendation in its Report to the House.

(7) Where an accounting officer –

- (a) fails to comply with the requirements of this regulation; or
- (b) exceeds the approved budgeted allocation without the appropriate prior

approval,

the Financial Secretary shall cause a report to be sent to the Public Services Commission for appropriate action.

(8) Where the Financial Secretary, upon receipt of a request from an accounting officer for excess or supplemental expenditure fails to take the necessary steps to deal with the request within one month of the request being received, the accounting officer of the ministry concerned may make a report to the Cabinet Secretary who may direct the Financial Secretary to act within a specified time.

(9) Where the Financial Secretary fails to comply with the directives of the Cabinet Secretary, the Cabinet Secretary shall send a report on the matter to the Public Services Commission for appropriate action.

Fiscal Policy  
Paper.

8. Upon presentation of the annual Estimates of Revenue and Expenditure, the Minister shall lay before the Houses of Parliament, a Fiscal Policy Paper setting out a Macroeconomic Framework, a Fiscal Responsibility Statement; and a Fiscal Management Strategy.

Fiscal responsibility  
statement.

9. - (1) The fiscal policy measures to be set out in the Fiscal Responsibility Statement required under section 48B(4)(b) of the Act shall be such as would facilitate –

- (a) a reduction and maintenance of Government debt at prudent levels;
- (b) the making of policy decisions that have due regard to the financial implications for future generations;
- (c) support for adequate levels of national saving;
- (d) promotion of stable and predictable levels of taxation and spending;
- (e) moderation of cyclical fluctuations in economic activity, as appropriate;
- (f) maintenance of the integrity of the tax system by minimizing special incentives, concessions and exemptions;
- (g) pursuit of expenditure policies that would provide impetus for economic growth, poverty reduction, and improvement in human welfare;
- (h) proper maintenance of physical assets of the government; and
- (i) implementation of expenditure policy in a manner consistent with the achievement of desired fiscal outcomes.

(2) For the purposes of the declaration of the Minister required pursuant to section 48B(4)(c) of the Act, adherence to principles of prudent fiscal management requires that the declaration of the Minister as to the proposed fiscal policy measures shall –

- (a) explain the broad strategic priorities on which the estimates of revenue and expenditure and longer term fiscal policy are, or will be based, consistent with the Fiscal Management Strategy and Macroeconomic Framework;
- (b) explain the government's long-term fiscal objectives, in both qualitative and quantitative terms, within which shorter-term fiscal policy will be framed;
- (c) specify for the ensuing financial year and the next following two financial years, the key fiscal targets including the fiscal balance, primary balance, domestic and external debt, and contingent liabilities including guarantees;
- (d) explain in sufficient detail why these targets are prudent and consistent with longer term sustainability;
- (e) specify the key and new fiscal measures needed to ensure the achievement of the targets given in sub-paragraph (c) and against which fiscal policy will be assessed;
- (f) quantify and justify fiscal policy actions taken or to be taken by the government that are temporary in nature, adopted for the purpose of moderating cyclical fluctuations in economic activity, or addressing disruptions caused by natural disaster, national emergency, or other severe occurrence as specified in section 48C(2) of the Act, and indicate the process for their reversal;
- (g) explain how the fiscal objectives, strategic priorities, and measures outlined in the preceding paragraphs relate to the principles of sound fiscal management;
- (h) explain any inconsistencies between the priorities, objectives, and policies in this statement and other government policy papers and documents;
- (i) provide a broad assessment of the risks, including those associated with the price of oil and other key natural resources, external and domestic demand, domestic inflation, external and domestic interest rates, natural disaster, contingent liabilities, and guarantees; and

- (j) explain, in accordance with the requirements of section 48E of the Act, the reporting basis on which the Government's fiscal reports will be prepared, and any change in accounting standards or classification that affect any of the targets in this section of the regulation.

Macroeconomic Framework.

10. - (1) For the purposes of section 48B(3)(a) of the Act, the Macroeconomic Framework in providing an overview of the current state of the economy shall –

- (a) indicate the key assumptions that will inform the development of the estimates of revenue and expenditure, as well as provide an evaluation of the economy's performance, an assessment of the prospects for economic growth, and its interrelationship with fiscal policy –
  - (i) include the following information – real and nominal Gross Domestic Product and its components;
  - (ii) the prevailing exchange rate;
  - (iii) the prices of oil, bauxite, and other key commodity prices that affect the economy and fiscal policy;
  - (iv) the external accounts, with emphasis on the current account of the balance of payments and international reserves;
  - (v) domestic and international interest rates;
  - (vi) domestic consumer prices (inflation);
  - (vii) key monetary variables; and
  - (viii) unemployment or other labour market developments.

(2) The Macroeconomic Framework shall include –

- (a) an explanation of the consistency of Government policies including the level of Government expenditure, revenue and debt with the projections of the economic variables specified in paragraph (1);
- (b) an explanation of the implications that changes in government policies are likely to have on growth, inflation, and other key domestic variables;
- (c) quantitative information for at least, the financial year that is current, the two financial years preceding the current year and the next two financial years following the current year;
- (d) an explanation of any substantive difference among macroeconomic

indicators contained in the Fiscal Policy Paper and those in other documents produced by the Government and key stakeholders, such as the International Monetary Fund, noting any inconsistencies resulting from the timing of when reports are produced and differences in accounting methods.

Fiscal Management Strategy.

11. - (1) For the purposes of section 48B(5) of the Act, the Fiscal Management Strategy in giving an assessment of the current and projected finances of the Government in respect of a specified planning period of not less than three years, and conforming to the Fiscal Responsibility Statement and the Macroeconomic Framework shall provide –

- (a) a comparison of the outcome of the fiscal indicators with the targets for the previous financial year, giving reasons for any deviation, explaining, any significant revision in fiscal data for the two financial years preceding the current year including any explanation for these revisions and the implications of those revisions for current and future fiscal performance;
- (b) an explanation of how these deviations are likely to affect the remainder of the budget year, if applicable, and future outturns of these indicators;
- (c) an explanation of whether corrective actions need to be taken;
- (d) a rationale for all new measures referred to in regulation 9(2)(e);
- (e) a report on any policy change that has been made since the presentation of the previous Fiscal Policy Paper or its update; including an explanation of why the policy changes were made and the estimated fiscal and economic effects from these policies; and
- (f) an explanation of how the information provided in the preceding subparagraph 3 is consistent with the objectives in the Fiscal Responsibility Statement.

(2) The Fiscal Management Strategy shall also include the following indicators, namely –

- (a) revenue broken down into the main sources of tax revenue; non tax current revenue, and capital revenue; and in the case of non-tax and capital revenue, any item that counts for over fifty *per cent* of that category or twenty *per cent* of total revenue shall be shown as a sub-component of the total;

- (b) grants received emphasizing any major year to year change and deviations from the previous forecast;
- (c) expenditure broken down into economic classifications and by sector ministry with –
  - (i) the economic categories including wages and salaries, goods and services, domestic and external interest payments, transfers to and from self financing public bodies, other transfers and capital expenditures;
  - (ii) an explanation of all deviations of outturns relative to the estimates of revenue and expenditure for the current financial year or changes in the forecast for the current or future financial years greater than 10 per cent in nominal terms or greater than 0.2 per cent of GDP;
- (d) for the wage bill, a detailed explanation as to how it is consistent with the targets identified in section 48C of the Act;
- (e) repayment of principal debt, new loans and any other liability needed to finance the recurrent and capital operations of the government with –
  - (i) a statement of the budget deficit and the source of financing, or in the case of a surplus, how the net debt stock will be reduced; and
  - (ii) the consistency between expenditure, revenue, and financing being documented;
- (f) for the purposes of sections 48C(1) (b) and 48D of the Act, the following information –
  - (i) current debt broken down into domestic and external creditors and by ownership;
  - (ii) expected new borrowings and loans, consistent with section 48D of the Act;
  - (iii) the expected trajectory of debt consistent with the medium term macroeconomic framework and fiscal projections contained in the Fiscal Policy Paper and the fiscal targets under section 48C(1)(b) of the Act;

- (iv) all arrangements that may give rise to future liabilities including guarantees and contingent liabilities; and
- (v) any other information deemed necessary by the Minister of Finance.

Auditor-General's examination of Fiscal Policy Paper.

12. The Auditor-General shall submit, to both Houses of Parliament, the Auditor General's examination of the Fiscal Policy Paper identified in section 48B(2) of the Act within six weeks of the Paper being laid before the Houses of Parliament.

Confidential information.

13. Where under section 48E(2) of the Act the Minister proposes to reserve any information, he may notify the Auditor-General of his intention.

Interim report.

14. - (1) Of the reports required pursuant to section 48E(3) of the Act, one shall be tabled within three months after the end of the 2<sup>nd</sup> quarter of the financial year that is then current.

(2) The report required to be so tabled shall –

- (a) focus primarily on the mid-year outturn, the implications for the remainder of the financial year and the medium term; and
- (b) provide information which will inform discussions relating to the ensuing financial year while providing a preliminary and indicative view of that year's estimates of revenue and expenditure;
- (c) notwithstanding the foregoing, present expenditures data at a relatively aggregate level.

Dated this 19<sup>th</sup> day of September, 2011.



Minister of Finance and the Public Service