

**Tabled in the Legislative Assembly 16<sup>th</sup> March 2004**



**CAYMAN ISLANDS GOVERNMENT**

**BUDGET 2004/5**

**STRATEGIC POLICY  
STATEMENT**

**For the financial year ending 30 June 2005**

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## 1. Introduction

### Purpose

The purpose of this Strategic Policy Statement (SPS) is to outline the Government's strategic policy priorities for the 2004/5 financial year and the subsequent two financial years. The SPS is deliberately strategic and high level in nature and the timing of its preparation is deliberately several months before the detailed Budget for the year is finalised. This is so that it can guide the preparation of the detailed Budget.

### Content of the SPS

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

Policy priorities cannot be set in isolation from their economic and financial implications. Section 3 therefore contains an overview of the expected medium term economic position. This has been prepared by the Economic and Statistics Office of the Portfolio of Finance and Economics.

Section 4 establishes the aggregate financial targets that the Government has set for 2004/5 and the subsequent two financial years.

Section 5 sets out the indicative allocations to each Ministry and Portfolio for the 2004/5 Budget. These allocations are to be used as the basis for Ministers/Official Members and Ministries/Portfolios to establish their outputs and detailed budgets for the 2004/5 financial year.

### Accrualisation of the Financial Figures in the SPS

Although the layout and content of the 2004/5 SPS is similar to previous years, the financial figures presented in this document have been calculated on a different basis from that used in the past. These changes reflect the move to accrual budgeting and reporting required by the Public Management and Finance Law 2003 Revision. This change takes effect from the 2004/5 financial year and *this Strategic Policy Statement is the first financial document of the Government of the Cayman Islands to be prepared using accrual accounting.*

The adoption of accrual accounting and other changes required by the Public Management and Finance Law has resulted in four major changes to the way the financial figures have been compiled for 2004/5.

Firstly, the *financial activity is measured on an accruals basis.* This provides a more accurate reflection of revenues and expenditures and means that:

- A strict operating/capital distinction is maintained with separate statements prepared for operating activity (the Operating Statement), assets and liabilities (the Balance Sheet), and cash flows (Statement of Cash Flows). As a consequence separate targets are established for each of these statements in this SPS.
- Operating revenue is recognised in the Operating Statement when it is due, not when the cash is collected (which is reported in the Statement of Cash Flows). Revenue due but not collected is recorded as a debtor in the balance sheet.
- Operating expenses are recognised in the Operating Statement when the expense is incurred (usually the point the expenditure is committed) not when the cash flows out (which is reported in the Statement of Cash Flows). Expenses payable but not yet paid are recorded in the balance sheet as a creditor.
- Non-cash expenses are also recognised in the Operating Statement. These were previously not recognised under the old cash accounting method. The major non-cash expense is depreciation. This reflects the use (or wearing out) of assets and means that the replacement of these assets is now covered by the funding of depreciation. This funding occurs through inclusion of depreciation in the output price paid to Ministries/Portfolios. Any write-off or reduction in the value of assets is also recorded as an accrual expense, as is the increase in any liabilities (such as the unfounded public service pension liability).

Secondly, in accordance with the Public management and Finance Law (as recently amended) the *aggregate targets* (for operating items, balance sheet and cash flows) that have been established are for the Core Government. The Core Government comprises the Legislative Assembly, Cabinet, Ministries and Portfolios, the Judicial Administration, the Audit Office and the Office of the Complaints Commissioner, together with the net investment in and net operating results of, Statutory Authorities and Government Companies. In accordance with generally accepted accounting practice, transactions between organisations within the Core Government are eliminated.

To provide a basis of comparison the 2003/4 cash budget has been recasted onto an accruals basis and comparative accrual 2003/4 Budget figures have been provided in this Strategic Policy Statement. Accrualised forecast financial statements for the 2003/4 Budget are also provided in Appendix 2 to assist Members of the Legislative Assembly and the public better understand the difference between the cash and accrual approach.

Thirdly, from 2004/5 the expenditure allocations established by this SPS (and in due course the appropriations) will be to Ministers and Official Members, not to the chief officer of the Ministry/Portfolio. In addition *the operating allocations are only for executive expenditure*. 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).

In line with this approach, from 2004/5 the funding that Ministries and Portfolios receive will only be for the outputs that Cabinet is buying. However, they will also be able to keep the entity revenue they earn from providing outputs to other government agencies and third parties and then use this to fund the cost of producing those outputs. The allocations in this SPS reflect this approach.

Fourthly, consistent with this change, from 2004/5 Ministries and Portfolios will charge each other for the services they provide to each other (e.g. internal outputs provided by Personnel, Computer Services, Legal Services to other agencies of Government). As a result the central service departments there will not receive direct funding from Cabinet for the inter-agency outputs they provide to another department. The cost of those central services will be allowed for in the output cost of the Ministries and Portfolios that use the services and the allocations reflect this.

## **2. Outcome Goals**

### **Introduction**

Outcomes are the states of well being of all people living in the Cayman Islands.

Despite our wishes to the contrary, the Government's resources are limited and so we are unable to tackle all things at once. We therefore have to choose our outcome goals carefully, prioritising on the basis of the best economic and social gain that can be achieved for the resources committed.

With this in mind the Cabinet has established the Government's outcome goals on the basis of three key factors:

- The vision and strategies contained in the National Strategic Plan 1999-2008, and as further articulated in the Cayman Islands Economic Development Plan (CEDP) 2004-2009;
- The Government's policy objectives; and
- The views and advice of the civil service.

### **Broad Outcome Goals**

In the 2003/4 SPS the Government established eleven overarching broad outcome goals and these outcomes are unchanged for the 2004/5 to 2006/7 period. These eleven broad outcomes provide a comprehensive and clear statement of the outcomes the country is seeking to achieve as outlined in the National Strategic Plan.

The broad outcomes are as follows:

- 1 *A strong economy that generates employment, income and a high standard of living.*
- 2 *A healthy resident population.*
- 3 *A socially protected resident population.*
- 4 *A strong Caymanian community and culture.*
- 5 *An environment protected for the use of current and future generations.*
- 6 *A well educated and vocationally trained resident population.*
- 7 *A safe and secure country for residents and visitors.*
- 8 *Open, efficient and accountable Government.*
- 9 *Young persons positively involved in the community.*
- 10 *Strong family units.*
- 11 *Economically and socially vibrant Sister Islands.*

These broad outcomes are interrelated in that the achievement of one will influence the achievement of another. For example, high standards of educational achievement (goal six) will most likely have a positive impact on goal one (a strong economy) and goal nine (involvement of young persons).

The Government recognises that while it can play a major part in achieving these broad outcome goals, it does not totally control them. Events outside the Cayman Islands, and actions of individual citizens can also have a significant influence on whether the outcomes are achieved. Nevertheless, the Government's policy actions are focused on achieving these eleven broad outcomes.

### **Specific Outcomes**

The Government has established a range of more specific outcomes that it will seek to achieve as a means of influencing its broad outcome goals. These specific outcomes are outcome goals defined at a more detailed level and are unchanged from 2003/4.

The Government's specific outcome goals, together with the broad outcomes to which they relate, and success measures for both, are summarised in Appendix 1.

## Key Policy Initiatives

The Government has established some key policy initiatives it intends to pursue in 2004/5 to help achieve its outcomes. The Government intends to include these key initiatives, which are summarised in Table 1 below, in the Annual Plan and Estimates when it is prepared.

**Table 1: Key New Policy Initiatives for 2004/5**

<b>Outcome</b>	<b>New Policy Initiatives</b>
<b>Broad Outcome Goal: 1</b> <i>“A strong economy that generates employment, income and a high standard of living”</i>	<ul style="list-style-type: none"> <li>• Review and implement the Draft Economic Development Plan (CEDP) 2004-2009</li> <li>• Provide increased financial support for Cayman Airways</li> </ul>
<b>Broad Outcome Goal: 2</b> <i>A healthy resident population.</i>	<ul style="list-style-type: none"> <li>• Provide operating support for the Cayman Islands National Insurance Company (CINICO)</li> </ul>
<b>Broad Outcome Goal: 5</b> <i>An environment protected for the use of current and future generations.</i>	<ul style="list-style-type: none"> <li>• Purchase parts of Barkers Park (using Funds from the Environmental Protection Fund)</li> <li>• Upgrade landfill facilities in Grand Cayman and Cayman Brac</li> </ul>
<b>Broad Outcome Goal: 6</b> <i>“A well educated and vocationally trained resident population”</i>	<ul style="list-style-type: none"> <li>• Complete construction and commission the Prospect primary school</li> <li>• Provide temporary classrooms for existing secondary schools</li> <li>• Begin construction of a new secondary school at Frank Sound</li> </ul>
<b>Broad Outcome Goal: 7</b> <i>A safe and secure country for residents and visitors</i>	<ul style="list-style-type: none"> <li>• Provide additional security equipment for the Police</li> <li>• Commence construction of a new facility for the Drugs Task Force</li> <li>• Build and equip a Fire Station at Bodden Town</li> <li>• Commence construction of the new Court House building</li> </ul>
<b>Broad Outcome Goal: 8</b> <i>“Open, efficient and accountable Government”</i>	<ul style="list-style-type: none"> <li>• Operationally establish the Office of the Complaints Commissioner</li> <li>• Implement the Government personnel reforms</li> <li>• Implement governance legislation for Public Authorities</li> </ul>

### **3. Economic Overview**

#### **Introduction**

This section outlines the forecast economic position of the country for the period 2003/4 to 2006/7. The level of economic activity is a key determinant of the Government's Aggregate Financial Targets, which are outlined in section 4.

In addition, this section includes a brief review of the economic situation of other countries and past performance by sector in this country to provide the context for the Cayman Islands' forecast. The forecast level of economic activity is a key determinant of the Government's Aggregate Financial Targets, which are outlined in section 4.

#### **World Economic Position**

##### *Overview*

Global economic growth rebounded to 3.0 percent in 2002 from a low of 2.4 percent in 2001, mainly on account of strong consumer spending. Fiscal and monetary easing in developed countries also provided support to this expansion. Without a sustained increase in business spending, however, the recovery was weaker and less broad-based than previously anticipated. Strong growth was seen in many areas of the world, although in the United States, Europe, Japan and Latin America growth was below the world average.

The world economy continues to show further improvements and is expected to accelerate slightly to 3.2 percent in 2003 and to 4.1 percent in 2004. This expansion in 2004 is contingent upon a sustained recovery in business spending and continued strength in consumer spending.

##### *US Economy*

The Cayman Islands' economy is a small, open economy highly dependent on trade, particularly with the United States. About 80 percent of tourists arrive from the US and about 70 percent of the total value of imports arrives from the US (note, however, that visitors, and goods, from other countries arrive to the Cayman Islands through US airports and ports, resulting in some overstating of the influence of the US). Detailed breakdowns of the importance of the United States to the wellbeing of the Islands' financial sector are not available, although it is known that over 80 percent of insurance companies in Cayman Islands provide risk protection to North America. There is no doubt that the US economy is the major influence on the Cayman Islands' economy.

The US economy grew by 2.4 percent in 2002, up from 0.3 percent in 2001. The current projection is for real growth of 2.6 percent in 2003 and acceleration in real output to 3.9 percent in 2004.

There are encouraging signs that the US economic recovery is gathering momentum. Consumer spending strengthened in the second quarter of 2003 and non-residential investments showed positive growth for the first time since the second-quarter of 2000. Government spending on national defence also boosted growth in the second quarter. Other encouraging signs of economic recovery include a rebound in equity markets during 2003 and a slight decline in oil prices.

The jobless nature of the recovery is of concern and may cause consumers to restrict discretionary spending. Unemployment, which averaged 4.0 percent in 2000, rose to a nine-year high of 6.4 percent in June of 2003.

Another major concern is the US current account deficit, which has risen to 5 percent of GDP. However, possible changes in exchange rates of some major trading partners, particularly China, may reduce this deficit to a more sustainable level.

In the longer run, the federal deficit may make it harder to cope with the financial needs of the baby-boom generation and may crowd out private investment.

### *Other Countries*

Over the next five years, the International Monetary Fund anticipates that the rate of growth in real GDP in “advanced” economies will lag behind that experienced in developing countries. Global growth rates are higher than the rates in the United States, Europe, and the Caribbean, including the Cayman Islands. On the other hand, these “advanced” economies can expect inflation rates and unemployment rates below the global rates. The Cayman Islands’ projections follow this trend.

The forecast GDP performance for Bermuda projects an increase in real GDP of 1.5 percent in 2003, while the Cayman Islands is expected to outperform this at 2.0 percent.

**Table 2**  
**Comparative Macroeconomic Forecasts (%)**

	2002			2003			2004		
	Cayman Islands	U.S.	Global	Cayman Islands	U.S.	Global	Cayman Islands	U.S.	Global
<b>Real GDP Growth</b>	1.7	2.4	3.0	2.0	2.6	3.2	2.5	3.9	4.1
<b>Inflation (Consumer Price Index)</b>	2.4	1.6	n/a	2.2	2.1	n/a	2.8	1.3	n/a
<b>Unemployment Rate</b>	5.4	5.8	n/a	5.0	6.0	n/a	4.8	5.7	n/a

Sources: IMF World Economic Outlook September 2003 for United States, and Global Data; Cayman Islands Government Economic and Statistics Office for the Cayman Islands data

## **The Cayman Islands Economy**

### *Out-turns for 2002 and January to June 2003*

The Cayman Islands economy grew by 1.7 percent in 2002 and is projected to expand by 2.0 percent in 2003. This follows a 0.6 percent expansion in 2001. This rebound was supported by an upturn in global economic activity.

Revenues to government reflect the Islands’ economic structure and reliance on traditional revenue sources in recent years. Fees paid by the financial services sector and company registrations accounted for about 30 percent of government revenue in 2002. Hotel room tax and cruise ship charges accounted for 7 percent in 2002, while work permit fees accounted for 8 percent and stamp duty from land transfers accounted for 4 percent. Import duties made up one-third of government revenue.

During calendar year 2002 and the first six months of 2003, the financial services industry recorded mixed results with positive growth in mutual fund registrations, insurance company registrations and a significant increase in insurance premiums from captives. While bank and trust license numbers showed declines from 2001 levels, banks’ net worth increased. The number of stock listings grew throughout the period, but the stock market capitalization declined. As well, although the number of new companies registered continued to decline as first evidenced in 2000, the rate of decline slowed over the period January 2002 to June 2003.

The level of tourism visitor expenditures remained a concern throughout the period, with the continued shift in visitor arrivals from air arrivals, which have visitors with higher per diem expenditures and longer stays, to cruise ship arrivals.

The value of building permits in Cayman Islands trebled in 2002 from the previous year. Sixty percent of this large increase, however, can be attributed to three hotel/condominium projects. House permits grew by 18 percent while construction of a new wastewater treatment plant resulted in a large increase in the industrial building permits category. The first six months of 2003 saw building permits decline sharply as construction advanced on some of the major 2002 projects.

Import duties and consumption taxes, which constitute a large portion of government's revenues, are primarily affected by the overall health of the Cayman Islands' economy. The value of imports declined in 2002 but increased in the period January - June 2003. Revenue from import duties increased by 11 percent during the first half of 2003.

Unemployment fell to 5.4 percent in October 2002 and then to 4.6 percent in the first half of 2003. This is a reduction from a peak of 7.5 percent in October 2001 following the 9/11 terrorist attacks on the United States.

Consumer inflation amounted to a modest 2.4 percent in 2002 and 0.5 percent in early 2003, compared to 1.1 percent in 2001. A general rise in economic activity, an increase in fees at the Cayman Islands Health Services Authority, as well as increases in tuition fees charged at private schools influenced the increase in inflation in 2002.

In summary, the Cayman Islands' economy has shown moderate, steady growth during the past 18 months, although vulnerabilities to the economic base from external factors remain.

***Prospects for FY2003/4***

Real growth is projected to rise to 2.3 percent in FY2003/4 from 1.9 percent in the previous fiscal year based upon the anticipated strengthening of global economic conditions. Unemployment is expected to continue its downward trend to 4.7 percent in FY2003/4 from 5.2 percent in FY2002/3. Inflation is expected to decline from 1.6 percent in FY2002/3 to 1.3 percent in FY2003/4.

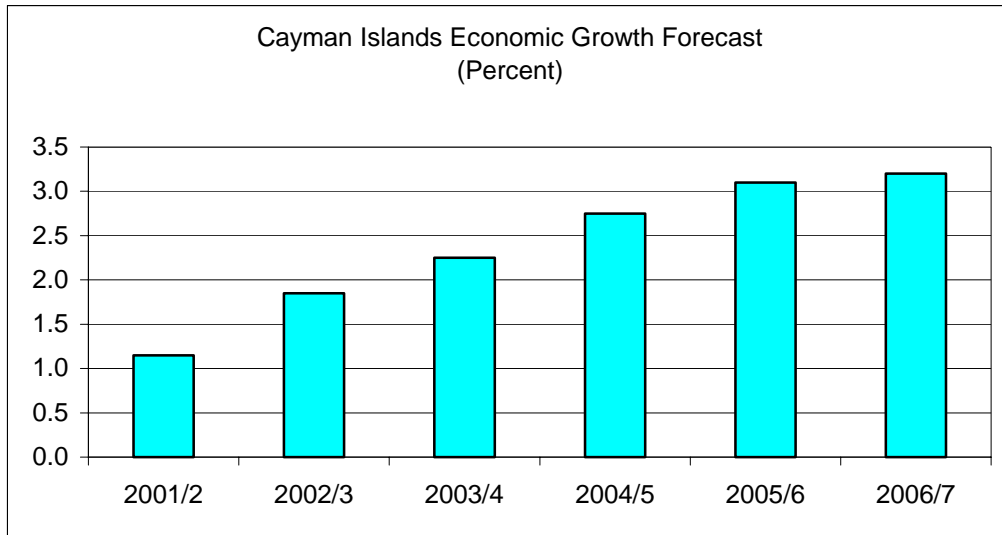
***Table 3  
Macroeconomic Forecasts 2004/5 to 2006/7***

<b>(Percent)</b>	<b>2001/2</b>	<b>2002/3</b>	<b>2003/4</b>	<b>2004/5</b>	<b>2005/6</b>	<b>2006/7</b>
	<b>Actual</b>	<b>Preliminary</b>	<b>Forecast</b>			
Economic Growth	1.2	1.9	2.3	2.8	3.1	3.2
Unemployment	6.6	5.2	4.7	4.5	4.3	4.1
Inflation	1.8	1.6	1.3	2.1	2.6	2.9

***Forecast for FY2004/5 to FY2006/7***

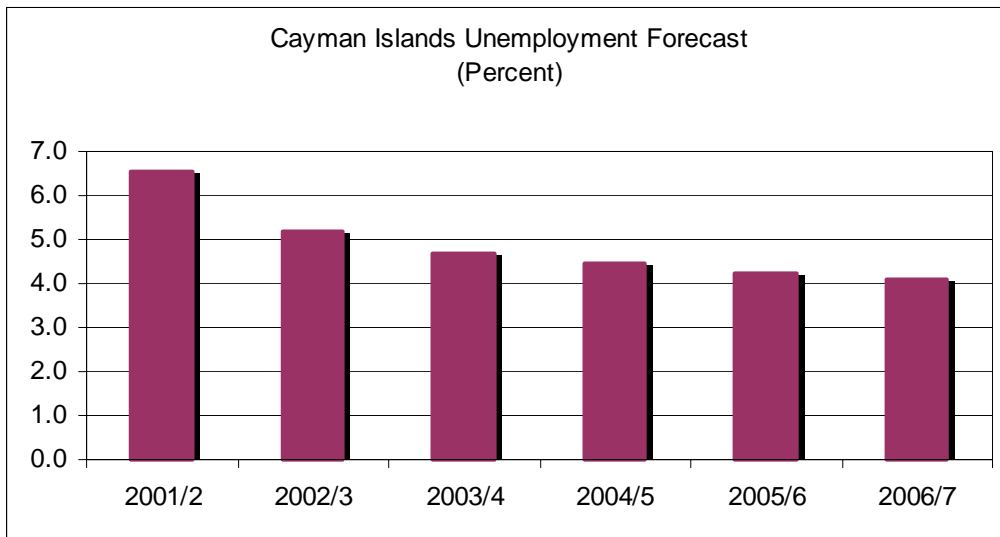
Continued expansion is expected in Cayman's economy from 2.8 percent in FY 2004/5 to 3.1 percent in FY2005/6 and 3.2 percent in FY2006/7.

**Figure 1**  
**Cayman Islands Economic Growth Forecasts**



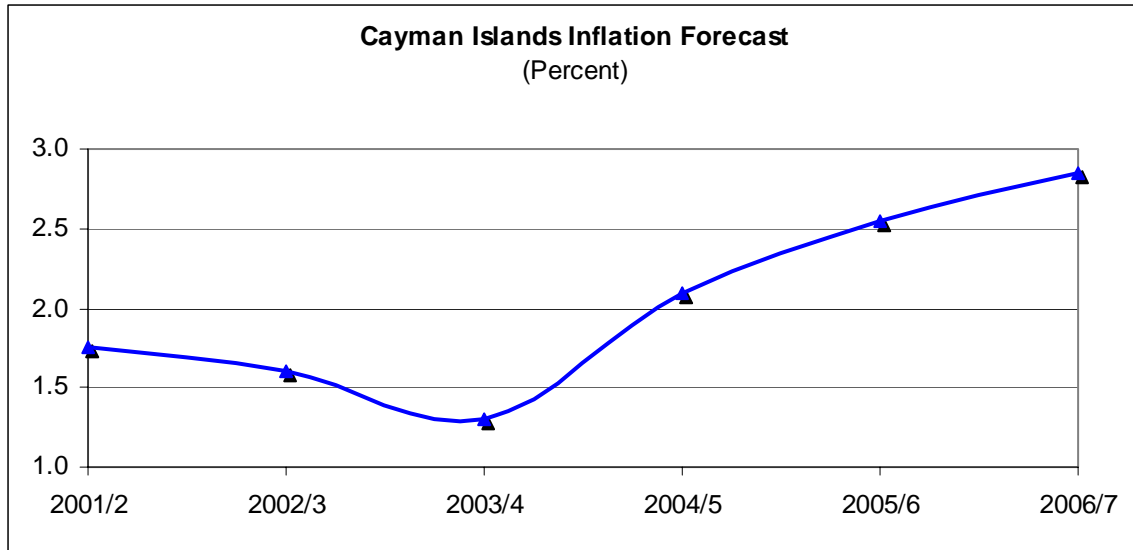
The forecast for unemployment is for a continued gradual decline from 4.5 percent in FY2004/5 to 4.3 percent in FY2005/6 and 4.1 percent in FY 2006/7.

**Figure 2**  
**Cayman Islands Unemployment Forecasts**



Inflation is expected to remain modest during the period, rising from 2.1 percent in FY2004/5 to 2.6 percent in FY2005/6 to 2.9 percent in FY2006/7.

*Figure 3*  
*Cayman Islands Inflation Forecast*



## 4. Aggregate Financial Targets

### Financial Targets

The Cabinet has established a set of aggregate financial targets for the Core Government. As outlined in the Introduction to this SPS these targets have been prepared using accrual accounting including, where relevant, allowing for eliminating transactions between organisations within the Core Government. The aggregate targets are provided in Table 4.

The targets have been developed on the basis of the accrualised information for 2003/4<sup>1</sup>, the economic forecasts outlined in section 3, and initial revenue forecasts for 2004/5.

*Table 4  
Summary of Aggregate Financial Targets for Core Government*

Financial Measure	2003/04	2004/05	2005/06	2006/07
	Budget (Accruals)	Target (Accruals)	Target (Accruals)	Target (Accruals)
	\$000s	\$000s	\$000s	\$000s
<b>Operating Targets</b>				
Operating Revenue	304,887	328,167	349,576	361,057
Operating Expenses	303,775	307,146	307,321	312,479
Surplus/Deficit <sup>2</sup>	(9,645)	1,004	23,115	37,947
<b>Balance Sheet Targets</b>				
Borrowings (Balance Outstanding)	162,762	195,711	202,461	187,370
Net Worth	524,994	525,998	549,113	587,060
<b>Cash Flow Targets</b>				
Net Operating Cash Flows	243	21,381	45,019	51,757
Net Investing Cash Flows	(22,576)	(49,572)	(46,802)	(30,036)
Net Financing Cash Flows	25,933	32,949	6,750	(15,092)

### Explanation of the Accrual Targets

As can be seen from Table 4, 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.

Consistent with the requirements of the Public Management and Finance Law, the operating targets are accrual rather than cash targets. As a result they include items not previously recognised. The impact of this can be

<sup>1</sup> The definitive opening balance sheet as at 1 July 2004 for the Government is still in the process of being developed. The forecasts and targets for 2004/5, 2005/6 and 2006/7 have been based on the best information available at this time. However, the value of a number of asset and liability items have had to be estimated and as a result the aggregate targets for Government established in this section may need to be adjusted at the time of the Budget to reflect any final asset and liability values.

<sup>2</sup> In accordance with the format for the Operating Statement established by International Public Sector Accounting Standards, the Operating Surplus/Deficit includes a number of items classified as "Non-Operating Revenue and Expenses" (see Appendix 2). This includes the net loss of Statutory Authorities and Government Companies in all years. Consequently, the Operating Surplus/Deficit is not just the sum of Operating Revenue and Operating Expenses.

seen from Table 5 which provides a reconciliation of the cash-based operating surplus/deficit reported in the 2003/4 Annual Plan and Estimates and the equivalent accrualised number. As can be seen from that Table the cash surplus is equal to an accrual loss.

**Table 5**  
**Reconciliation between 2003/4 Cash and Accrual Budget for Government**

	<b>\$M</b>
<b>Net Surplus per Cash Budget reported in the 2003/4 Annual Plan &amp; Estimates</b>	<b>5.7</b>
<b>Less Costs not previously recognised</b>	
Operating costs (maintenance) previously treated as capital	(3.5)
Depreciation	(8.6)
Other non-cash items	1.0
<b>Equivalent Net Accrual Loss - old basis of reporting</b>	<b>(5.6)</b>
Net loss of Statutory Authorities/Government Companies	(4.0)
<b>Net Accrual Loss - GAAP Basis of reporting</b>	<b>(9.6)</b>

***The Balance Sheet Targets***

The balance sheet reports the assets and liabilities of the Core Government and the difference between them being the 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 measure a Government's financial position: borrowings and net worth. While the borrowings measure has been available under the old cash basis, the net worth measure is new and results from the move to accrual accounting.

***Cash Flow Targets***

The cash flow targets are those that are most similar to those used historically. They reflect the cash flows of the Core Government (what comes and goes through the bank account) and these are usually somewhat different from the operating revenue and expenses.

The cash flow targets reflect the three categories that make up a cash flow statement: operating cash flows (operating receipts and payments), investing cash flows (mainly equity injections and the purchase or construction of assets) and financing cash flows (borrowing). The 2003/4 budget tables were prepared on a basis very similar to the cash flow statement. However, the cash flow statement uses the same strict operating/capital distinction as the operating statement. This means that a number of items are treated differently between the 2003/4 AP&E budget tables and the accrual budget cash flow statement. The differences are shown in Table 6.

**Table 6**  
**Reconciliation between 2003/4 Cash Budget (per AP&E) and 2003/4 Accrual Cash Flow Statement**

	<b>\$M</b>
<b>Net Surplus per Cash Budget</b>	<b>5.7</b>
<b>Less amounts treated differently</b>	
Operating costs (maintenance) previously treated as capital	(3.5)
Contributions from Statutory Authorities not treated as operating receipts in cash flow statement	(2.6)
Other items treated differently	0.6
<b>Net Operating Cash Flows</b>	<b>0.2</b>

## **Rationale for the Targets and the Government's Financial Strategy**

Although the accrual numbers provide a much more accurate reflection of the Government's true financial position, they also highlight the difficult position the Government inherited and continues to find itself in. The true, underlying operating financial position for 2003/4, measured on an accrual accounting basis is actually a loss not a surplus as indicated by the cash numbers.

This is something that has almost certainly been the case for a good number of years but has never been apparent. The Government's commitment to fiscal transparency through the adoption of accrual accounting has now brought it to light and it is something that the Government is determined to correct. As a consequence, the Government has established operating targets for the three-year forecast period that ensure an operating surplus.

The Government remains committed to running government finances in accordance with the Principles of Responsible Financial Management and in a prudent manner. The Government financial strategy, which is reflected in the targets specified in Table 4, is based on the following:

### *Operating Strategy:*

- Allowing revenue to increase with economic growth and limiting new revenue measures to essential levels;
- Constraining expenditure so as to achieve an operating surplus (measured on accruals basis);

The revenue Targets for 2004/5 and 2006/7 assume no new revenue measures in those years but allow for Government revenue to increase with economic growth. The revenue Target for 2005/6 allows for an additional \$18 million from new revenue measures in that year. This will be the first adjustment to revenue measures in three financial years. The Government has decided that this modest increase is necessary to fund the operational support for key statutory authorities and Government companies as outlined in Table 1. This approach reflects the Government's ongoing strategy of financing operational activity (including operational support for public authorities), and capital expenditure with short-term benefit, from operating revenue.

### *Balance Sheet Strategy:*

- Ensuring positive net worth;
- Keeping within the borrowing ratio;
- Building cash reserves in accordance with the transition path established in the Public Management and Finance Law.

The borrowing targets allow for new borrowing of \$45.8 million in 2004/5 and \$21.3 million in 2005/6. This borrowing is to fund essential capital expenditure that has a long-term benefit to the country and which is beyond the capacity of the country to fund from operating surpluses. These capital expenditure reflect the key policy initiatives outlined in Table 1, including the new schools, the new Fire Station and the new facilities for the Drug Task Force. The targeted borrowing level continues to be well below the debt servicing and net debt levels established by the Principles of Responsible Financial Management.

## **Compliance with Principles of Responsible Financial Management**

Table 7 summarises the extent to which the aggregate financial targets comply with the Principles of Responsible Financial Management. As can be seen from the Table, the Targets comply with all the Principles over the forecast period.

**Table 7**  
**Compliance with Principles of Responsible Financial Management**

<b>Principle</b>	<b>Degree of Compliance</b>
<p><b>Operating surplus:</b> should be positive</p> <p>(Operating surplus = core government operating revenue – core government operating expenses)</p>	<p><b>Complies in all years</b></p> <p>2004/5: \$1.004 million 2005/6: \$23.115 million 2006/7: \$37.947 million</p>
<p><b>Net Worth:</b> should be positive</p> <p>(Net worth = core government assets – core government liabilities)</p>	<p><b>Complies in all years</b></p> <p>2004/5: \$525.998 million 2005/6: \$549.113 million 2006/7: \$587.060 million</p>
<p><b>Borrowing:</b> 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><b>Complies in all years</b></p> <p>2004/5: 6.8% 2005/6: 6.9% 2006/7: 6.8%</p>
<p><b>Net Debt:</b> 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><b>Complies in all years</b></p> <p>2004/5: 62.1% 2005/6: 56.7% 2006/7: 45.4%</p>
<p><b>Cash Reserves</b> should be no less than estimated executive expenses for:</p> <ul style="list-style-type: none"> <li>• 30 days 2004/5</li> <li>• 45days 2005/6</li> <li>• 60 days 2006/7</li> </ul> <p>(Cash reserves = core government cash and other liquid assets)</p>	<p><b>Complies in all years</b></p> <p>2004/5: 64 days 2005/6: 70 days 2006/7: 77 days</p>
<p><b>Financial risks</b> should be managed prudently so as to minimise risk</p>	<p><b>Complies in all years</b></p> <ul style="list-style-type: none"> <li>• Major risks and strategies to manage them now identified.</li> <li>• Insurance cover exists for key assets and major potential liabilities.</li> <li>• Hurricane Preparedness Strategy in place</li> </ul>

## **5. Allocations for Budget 2004/5**

### **Introduction**

This section specifies the financial parameters on which the 2004/5 Budget will be based.

### **Operating Limit**

#### ***Total Executive Expenses***

The aggregate financial targets set out in section 4 establish the operating limits for the 2004/5 financial year. These include the total operating expenses for the forecast year.

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

- Expenses relating to the production of outputs by ministries, portfolios, statutory authorities and government companies, which are funded by revenue directly earned by those entities; 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 the budget process and the budget allocations. This is because executive expenses represent the funding that is provided to government agencies by the Cabinet. To comply with the Government's fiscal strategy, the total forecast executive expense must be less than the total forecast executive revenue for the period.

#### ***Approximate Allocation of Executive Expenses for each Ministry and Portfolio for each Financial Year***

Table 8 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).

The allocations are for planning purposes rather than as a definitive allocation of resources and may change as the detailed budget is developed and finalised.

### **Capital Limits**

The Government has established a capital limit for the 2004/5 year to accompany the operating expense limit. This limit provides the total amount that will be spent on capital activity controlled by the Cabinet, namely:

- Equity investments into ministries, portfolios, statutory authorities and government companies;
- Acquisition or replacement of Executive Assets;
- Loans-made.

In a cash flow sense capital expenditure is either funded from operating surpluses or from borrowings. The principles of responsible financial management limit the extent of public borrowing and the Government has established its capital limits to ensure that its borrowing remains within the limit established by the principles.

The total capital limit has been set at \$44.004 million for the year. This level of capital investment and related borrowings are reflected in the financial targets in section 4. The approximate allocation of this limit by capital category is shown in Table 9 and the allocation to individual Ministers or Official Members is shown in Table 10.

**Table 8**  
**Executive Expenditure Allocations for 2004/5**

<b>Minister/Official Member</b>	<b>2004/5 Allocation \$M</b>
Chief Secretary	36.353
Attorney General	4.277
Financial Secretary	58.624
Leader of Government Business	1.383
Minister of Tourism, Environment, Development and Commerce	40.154
Minister of Health Services, Agriculture, Aviation and Works	25.220
Minister of Education, Human Resources & Culture	65.756
Minister of Planning, Communications, District Administration and Information Technology	23.513
Minister of Community Services, Youth, Sport and Gender Affairs	43.302
Public Accounts Committee (Audit Office)	0.693
Complaints Commissioner	0.200
Chief Justice (Judicial Administration)	6.048
<b>Total Executive Expenditure Allocated</b>	<b>305.526</b>

**Table 9**  
**Capital Limit and Composition for 2004/5**

<b>Capital Item</b>	<b>2004/5 Allocation \$M</b>
Equity Investments	33.479
Loans-Made	0.400
Purchase or Construction of Executive Assets	10.125
<b>Total Capital</b>	<b>44.004</b>

**Table 10**  
**Capital Allocations for 2004/5**

<b>Minister/Official Member</b>	<b>Equity Investments \$M</b>	<b>Loans- Made \$M</b>	<b>Executive Assets \$M</b>
Chief Secretary	1.500		0.300
Financial Secretary	0.220	0.400	
Minister of Tourism, Environment, Development and Commerce	9.750		8.000 <sup>3</sup>
Minister of Health Services, Agriculture, Aviation and Works	5.664		0.300
Minister Education, Human Resources and Culture	14.420		
Minister Planning, Communications, District Administration and Information Technology	1.165		0.525
Minister Community Services, Youth, Sports and Gender Affairs	0.760		
Chief Justice			1.000
<b>Total Amount Allocated</b>	<b>33.479</b>	<b>0.400</b>	<b>10.125</b>

<sup>3</sup> Relates to the purchase of Barkers Park funded from the Environmental Protection Fund

## **6. Conclusion**

The Government's goal is to build a secure, prosperous Cayman Islands that can be a proud legacy for the children and grandchildren of the people of these islands. This Strategic Policy Statement lays out a set of policy and financial parameters designed to achieve this goal.

The Government is also committed to the principle of fiscal transparency and the publication of this first Strategic Policy Statement prepared on an accrual accounting basis is a reflection of this commitment.

The accrualisation of the 2003/4 Budget has provided us all with an understanding of the Government's true financial position for the first time. It contains an unpleasant surprise – an accrual operating deficit - and highlights the difficult financial position the Government inherited.

This is not something of the Government's doing but something that has been the case for a good number of years and never been apparent. Nevertheless the Government is committed to the ongoing sound management of government finances and as outlined in this Strategy has established a path to ensure the Government's operating position is a surplus over the three-year forecast period, while still progressing important economic and social strategic priorities for the Cayman Islands.

This Strategic Policy Statement is yet another a clear illustration of how the country's financial stewardship is in good hands with the United Democratic Party Government.

**Hon. McKeeva Bush O.B.E J.P.**  
**Leader of Government Business**

Tuesday, 16 March 2004

**Appendix 1: Broad and Specific Outcome Goals for 2004/5 to 2006/7**

<b>Broad Outcome Goal: 1</b>	
<i>A strong economy that generates employment, income and a high standard of living</i>	
<u>Measures:</u>	
<ul style="list-style-type: none"> <li>• Real economic growth at or above 3% per annum</li> <li>• Inflation at or below 3.2% per annum</li> <li>• Unemployment at or below 4.0% per annum</li> </ul>	
<b>Related Specific Outcomes</b>	
<i>Develop the tourism sector</i>	Measures: <ul style="list-style-type: none"> <li>• Increase air arrivals by 2% per annum</li> <li>• Increase cruise ship arrivals by 1% per annum</li> </ul>
<i>Foster an internationally competitive financial and business services sector</i>	Measures: <ul style="list-style-type: none"> <li>• Increase the number of financial institutions operating in the Cayman Islands</li> <li>• Increase the number of listings on the Cayman Islands Stock Exchange by 10% per annum</li> <li>• Adherence to internationally accepted standards for the operation of a financial services industry</li> <li>• Increase the size of the shipping registry</li> <li>• Increase number of companies registered in the Cayman Islands</li> </ul>
<i>Facilitate the operation of an efficient private sector</i>	Measures: <ul style="list-style-type: none"> <li>• Increase the use of e-business by 5% per annum</li> <li>• Decrease telecommunication costs by 20%</li> <li>• Improve the operation of the labour market</li> <li>• Ensure the provision of essential economic infrastructure and utilities</li> </ul>
<i>Improve the efficiency and effectiveness of government</i>	Measures: <ul style="list-style-type: none"> <li>• Manage government finances in accordance with the Principles of Responsible Financial Management</li> <li>• Decrease in government expenditure as a proportion of GDP</li> <li>• Improved prioritisation of government services to key outcomes</li> </ul>
<i>Promote and support economic diversification</i>	Measures: <ul style="list-style-type: none"> <li>• Improve access to micro-entrepreneurial and new venture capital</li> <li>• Promote the development of the aquaculture industry</li> </ul>

<b>Broad Outcome Goal: 2</b>	
<i>A healthy resident population</i>	
<b>Measures:</b>	
<ul style="list-style-type: none"> <li>• Health statistics at or above international standards</li> </ul>	
<b>Related Specific Outcomes</b>	
<i>Ensure all residents and visitors have access to essential primary, secondary and tertiary healthcare</i>	<b>Measures:</b> <ul style="list-style-type: none"> <li>• Required health services accessible 90% of the time</li> </ul>
<i>Improve the mental health status of the community</i>	<b>Measures:</b> <ul style="list-style-type: none"> <li>• Decreased rates of mental health related criminal offences</li> </ul>
<i>Reduce the level of illegal drug use</i>	<b>Measures:</b> <ul style="list-style-type: none"> <li>• Reduction in drug-related offences</li> <li>• Improved rehabilitation rates for drug addicts</li> </ul>
<i>Reduce the incidence of preventable and communicable disease</i>	<b>Measures:</b> <ul style="list-style-type: none"> <li>• Maintain rates of preventable disease within the World Health Organization standards</li> <li>• No widespread outbreaks of communicable disease.</li> </ul>

<b>Broad Outcome Goal: 3</b>	
<i>A socially protected resident population</i>	
<b>Measures:</b>	
<ul style="list-style-type: none"> <li>• All residents have acceptable standards of housing.</li> <li>• All residents have at least subsistence levels of income.</li> </ul>	
<b>Related Specific Outcomes</b>	
<i>Adequate social support for unemployed, indigent and socially disruptive residents.</i>	<b>Measures:</b> <ul style="list-style-type: none"> <li>• All residents adequately housed and provided with appropriate income support</li> <li>• Appropriate facilities and support provided for socially disruptive persons</li> </ul>

<p><b>Broad Outcome Goal: 4</b></p> <p><i>A strong Caymanian community and culture</i></p> <p><u>Measures:</u></p> <ul style="list-style-type: none"> <li>• Active communities</li> <li>• Gender equality</li> <li>• Vibrant arts and culture sector</li> </ul>	
<p><b>Related Specific Outcomes</b></p>	
<p><i>Community involvement by and for youth</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Increase youth facilities and activities</li> <li>• Increase in church based youth programmes</li> </ul>
<p><i>Active and supportive communities</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Increased number of community groups and associations</li> <li>• Active community groups</li> </ul>
<p><i>Good citizenship through sport and other leisure activities</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Increased participation in sports and social activities</li> <li>• Societal identification with good role models</li> </ul>
<p><i>Gender equity and equality</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Equality in pay scales between genders</li> <li>• Equality in social acceptance</li> </ul>
<p><i>The rights of children and the elderly are adequately protected</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Appropriate legal protections</li> </ul>
<p><i>Promote Caymanian arts and culture and history</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Active arts and culture sector</li> </ul>
<p><i>A common national identity and sense of unity</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Common understanding of National Identity</li> <li>• Commonly agreed Caymanian moral and spiritual values</li> </ul>

<b>Broad Outcome Goal: 5</b>	
<i>An environment protected for the use by both current and future generations.</i>	
<u>Measures:</u>	
<ul style="list-style-type: none"> <li>• No loss of native fauna, flora and marine life.</li> <li>• Air and ground water quality within International Standards.</li> </ul>	
<b>Related Specific Outcomes</b>	
<i>Protect mangroves and other wetlands, from depletion and destruction</i>	Measures: <ul style="list-style-type: none"> <li>• Maintain or increase the area of mangroves and wetlands protected</li> </ul>
<i>Protect coral reefs and other marine life from depletion and destruction</i>	Measures: <ul style="list-style-type: none"> <li>• Maintain the level of marine life at existing levels</li> <li>• Maintain or increase the marine areas protected</li> </ul>
<i>Protect the quality of air, ground water and other natural resources</i>	Measures: <ul style="list-style-type: none"> <li>• No toxic waste spills</li> <li>• Air and ground water quality within International Standards</li> </ul>

<b>Broad Outcome Goal: 6</b>	
<i>A well educated and vocationally trained resident population.</i>	
<u>Measures:</u>	
<ul style="list-style-type: none"> <li>• 95% of school leavers meet expected educational standards.</li> <li>• 90% of all adults have basic language and numeric skills.</li> <li>• Number of adults undertaking vocational training increased.</li> </ul>	
<b>Related Specific Outcomes</b>	
<i>Ensure high quality education is available to all students in the compulsory education sector</i>	Measures: <ul style="list-style-type: none"> <li>• 99% of all school age pupils regularly attend school</li> <li>• Improvement in average exam marks at all levels</li> <li>• Decrease in number of students who fail all exams</li> </ul>
<i>Increase the % of population with a tertiary education qualification</i>	Measures: <ul style="list-style-type: none"> <li>• Increase in number of school leavers undertaking tertiary studies</li> <li>• Increase in number of adults completing tertiary studies</li> </ul>
<i>Ensure a vocationally trained adult population</i>	Measures: <ul style="list-style-type: none"> <li>• Number of adults undertaking vocational training increased</li> <li>• Vocational training reflects the needs of the market place</li> </ul>
<i>Improve IT and communication skills in the resident population</i>	Measures: <ul style="list-style-type: none"> <li>• Increase in IT literacy</li> </ul>

<b>Broad Outcome Goal: 7</b>	
<i>A safe and secure country for residents and visitors</i>	
<u>Measures:</u>	
<ul style="list-style-type: none"> <li>• The majority of residents and visitors are generally satisfied with the level of safety and security</li> </ul>	
<b>Related Specific Outcomes</b>	
<i>Ensure that an efficient and fair legal and judicial system operates</i>	Measures: <ul style="list-style-type: none"> <li>• Enacted laws are fair and equitable</li> <li>• Independent and qualified judiciary operates</li> <li>• Cases awaiting judicial action are expedited with minimal delay</li> </ul>
<i>Reduce the levels of petty and serious crime</i>	Measures: <ul style="list-style-type: none"> <li>• Decrease the overall level of crime per capita by 5%</li> <li>• Increase the rates for crimes solved</li> </ul>
<i>Reduce the rate of re-offending by convicted offenders</i>	Measures: <ul style="list-style-type: none"> <li>• Reduce the rate of recidivism over time</li> </ul>
<i>Ensure secure and humane custody of offenders with custodial sentences</i>	Measures: <ul style="list-style-type: none"> <li>• Number of custodial break-outs = zero</li> <li>• Custodial conditions comply with internationally accepted standards</li> </ul>
<i>Maintain appropriate Border security and protection</i>	Measures: <ul style="list-style-type: none"> <li>• Reduction in the number of illegal immigrants entering the country or overstaying</li> <li>• Reduction in the importation of illegal substances</li> </ul>

<p><b>Broad Outcome Goal: 8</b></p> <p><i>Open, efficient and accountable Government.</i></p> <p><u>Measures:</u></p> <ul style="list-style-type: none"> <li>• Increased voter turnout.</li> <li>• Increased participation of citizens in public fora of debate.</li> <li>• Compliance with the Principles of Responsible Financial Management.</li> </ul>	
<p><b>Related Specific Outcomes</b></p>	
<p><i>Open and transparent government decision making</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Public access to legislative debate and information</li> <li>• Access to information about government policies, activities and decisions</li> </ul>
<p><i>Public debate of important public issues</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Majority of citizens informed about key public issues</li> <li>• Regular opportunities provided for public consultation on government policies and actions</li> </ul>
<p><i>Government Finances are Managed in a Fiscally Responsible Manner</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Compliance with the Principles of Responsible Financial Management</li> </ul>
<p><i>Efficient and Effective Government Management</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• The Government operates a management system that has a strategic policy focus which encourages the achievement of outcomes, encourages good service delivery and financial performance, and ensures ethical behaviour by public officials.</li> </ul>

<p><b>Broad Outcome Goal: 9</b></p> <p><i>Young persons positively involved in the community.</i></p> <p><u>Measures:</u></p> <ul style="list-style-type: none"> <li>• Decrease in the number of negative incidents reported to government agencies relating to the actions of young persons</li> </ul>	
<p><b>Related Specific Outcomes</b></p>	
<p><i>Involvement of young persons in all aspects of community affairs</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Increase in the number of young business owners</li> <li>• Increase involvement of young persons in voluntary and charitable activities</li> <li>• Increase the number of opportunities for young persons to contribute to debates on public policy issues</li> </ul>
<p><i>The community recognises the contribution that young persons can make to society</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Maintain or increase the number of awards and recognition opportunities for young persons</li> </ul>
<p><i>Young persons making a positive contribution to society</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Maintain or increase the mediums of expression for youth</li> <li>• Decrease in the number of negative incidents reported to government agencies relating to the actions of young persons</li> </ul>

<p><b>Broad Outcome Goal: 10</b></p> <p><i>Strong family units.</i></p> <p><u>Measures:</u></p> <ul style="list-style-type: none"> <li>• Reduction in the number of dysfunctional family matters reported to various government agencies.</li> </ul>	
<p><b>Related Specific Outcomes</b></p>	
<p><i>Maintain functional family units</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Reduction in the number of reported cases of domestic violence</li> <li>• Reduction in the number of one-parent families</li> </ul>
<p><i>Protect the handicapped and ensure their inclusion in mainstream life</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Increase in the number of handicapped persons in mainstream employment</li> <li>• Increase in the number of handicapped persons living independently</li> </ul>
<p><i>Protect the elderly and ensure their inclusion in mainstream life</i></p>	<p>Measures:</p> <ul style="list-style-type: none"> <li>• Income levels for elderly persons sufficient to maintain an adequate standard of living</li> <li>• Decrease in the number of elderly persons living in substandard housing</li> </ul>

<b>Broad Outcome Goal: 11</b>	
<i>Economically and socially vibrant Sister Islands.</i>	
<u>Measures:</u>	
<ul style="list-style-type: none"> <li>• Number of Cayman Brac and Little Cayman residents maintained</li> <li>• Level of services in Cayman Brac and Little Cayman maintained</li> </ul>	
<b>Related Specific Outcomes</b>	
<i>A diversified Sister Islands economy</i>	<u>Measures:</u> <ul style="list-style-type: none"> <li>• An increase in the types of businesses operating in Cayman Brac and Little Cayman</li> <li>• An increase in tourism visitors to Cayman Brac and Little Cayman</li> </ul>
<i>A protected Sister Islands environment</i>	<u>Measures:</u> <ul style="list-style-type: none"> <li>• Maintain or increase the land or marine based environmental areas protected</li> </ul>
<i>Ongoing Social Development of the Sister Islands</i>	<u>Measures:</u> <ul style="list-style-type: none"> <li>• Adequate infrastructure and government services provided in Cayman Brac and Little Cayman</li> <li>• The number of community social activities maintained or increased</li> </ul>

**Appendix 2: Accrual Based Forecast Financial Statements for 2003/4 (Based on the 2003/4 Budget)**

**CAYMAN ISLANDS GOVERNMENT  
CORE GOVERNMENT FORECAST FINANCIAL STATEMENTS  
BUDGETED OPERATING STATEMENT FOR THE YEAR ENDING 30 JUNE 2004**

	<b>Cash (Per 2003/4 AP&amp;E)<sup>4</sup> \$</b>	<b>Accrual \$</b>
<b><i>Coercive Revenue</i></b>		
Levies on international trade and transactions	123,546,000	115,563,504
Domestic levies on goods and services	166,321,000	156,175,263
Levies on property	1,153,000	1,152,761
Fines	1,496,000	1,495,958
<i>Total Coercive Revenue</i>	<u>292,516,000</u>	<u>274,387,486</u>
<b><i>Trading Revenue</i></b>		
Sale of Outputs (goods and services) to Others	7,774,000	26,835,703
Investment revenue	4,890,000	1,415,414
Other operating revenue	3,128,000	2,248,720
<i>Total Trading Revenue</i>	<u>15,792,000</u>	<u>30,499,837</u>
<b>Total Operating Revenue</b>	<b><u>308,308,000</u></b>	<b><u>304,887,323</u></b>
<b><i>Operating Expenses</i></b>		
Personnel costs	154,286,000	154,330,263
Supplies and consumables	71,332,000	76,745,170
Depreciation	0	8,600,541
Outputs from non-governmental organisations	11,027,000	11,027,710
Outputs from Statutory Authorities and Government Companies	46,898,000	38,840,770
Transfer payments	12,322,000	12,322,417
Other operating expenses	0	1,907,680
<b>Total Operating Expenses</b>	<b><u>295,865,000</u></b>	<b><u>303,774,551</u></b>
<b><i>Surplus from Operating Activities</i></b>	<b><u>12,443,000</u></b>	<b><u>1,112,772</u></b>
Financing expense	(7,832,000)	(7,832,350)
Gains/(losses) on foreign exchange transactions	1,100,000	1,100,000
Net profit/(loss) of Statutory Authorities and Government Companies		(4,025,048)
Other Non-Operating revenues/(expenses)		0
<b>Total Non-Operating Revenue and Expenses</b>	<b><u>(6,732,000)</u></b>	<b><u>(10,757,398)</u></b>
<b>Surplus before extraordinary items</b>	<b><u>5,711,000</u></b>	<b><u>(9,644,626)</u></b>
Extraordinary items	0	0
<b>Net Surplus/(Loss)</b>	<b><u>5,711,000</u></b>	<b><u>(9,644,626)</u></b>

<sup>4</sup> This column has been provided for comparative purposes to provide a trail back to the 2003/4 Budget document. However, the cash and accrual numbers are not strictly comparable on a line by line basis due to the accrualisation differences (see Table 5 on page 13). Care therefore needs to be taken in comparing the cash and accrual columns.

**BUDGETED BALANCE SHEET AS AT 30 JUNE 2004**

	\$
<b><i>Current Assets</i></b>	
Cash and cash equivalents	44,158,137
Marketable securities and deposits	3,816,863
Accounts receivable	53,728,400
Inventories	825,074
Other current assets	597,969
<b>Total Current Assets</b>	<b><u>103,126,433</u></b>
<b><i>Non-Current Assets</i></b>	
Loans	3,324,488
Other investments	120,902
Net Worth of Statutory Authorities and Government Companies	491,284,467
Property, plant and equipment	248,693,499
Other non-current assets	325,099
<b>Total Non-Current Assets</b>	<b><u>743,748,455</u></b>
<b>Total Assets</b>	<b><u>846,874,879</u></b>
<b><i>Current Liabilities</i></b>	
Accounts payable	10,047,381
Unearned revenue	5,864,301
Employee entitlements	4,860,365
Other current liabilities	1,296,086
<b>Total Current Liabilities</b>	<b><u>22,068,133</u></b>
<b><i>Non-Current Liabilities</i></b>	
Employee entitlements	463,358
Unfunded Pension liability	130,200,000
Borrowings	162,762,008
Currency issued	0
Other non-current liabilities	6,387,443
<b>Total Non-Current Liabilities</b>	<b><u>299,812,809</u></b>
<b>Total Liabilities</b>	<b><u>321,880,942</u></b>
<b>TOTAL ASSETS LESS TOTAL LIABILITIES</b>	<b><u>524,993,955</u></b>
<b>NET WORTH</b>	
Asset revaluation reserve	
Accumulated surpluses	524,993,955
<b>TOTAL NET WORTH</b>	<b><u>524,993,955</u></b>

## BUDGETED CASH FLOW STATEMENT FOR THE YEAR ENDING 30 JUNE 2004

	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
<i>Receipts</i>	
Coercive receipts	274,387,486
Sale of Outputs (goods and services) to Others	27,027,210
Interest received	1,175,414
Other receipts	3,588,720
<i>Payments</i>	
Personnel costs	(154,330,262)
Suppliers	(79,674,454)
Outputs from non-governmental suppliers	(11,027,710)
Outputs from Statutory Authorities and Government Companies	(38,840,770)
Transfers	(12,322,417)
Interest paid	(7,832,350)
Other payments	(1,907,680)
<b>Net cash flows from operating activities</b>	<b><u>243,187</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of non-current assets	(13,834,431)
Purchase of investments	(120,902)
Capital Injections in Statutory Authorities and Government Companies	(17,622,000)
Proceeds from sale of non-current assets	6,689,268
Proceeds from sale of investments	20,136
Capital Withdrawals/Dividends from Statutory Authorities and Government Companies	2,291,733
<b>Net cash flows from investing activities</b>	<b><u>(22,576,196)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from borrowings	35,000,000
Repayment of borrowings	(9,066,667)
<b>Net cash flows from financing activities</b>	<b><u>25,933,333</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>3,600,324</b>
Cash and cash equivalents at beginning of period	<u>40,557,813</u>
<b>Cash and cash equivalents at end of period</b>	<b><u><u>44,158,137</u></u></b>

**RECONCILIATION OF BUDGETED OPERATING SURPLUS TO BUDGETED CASH FLOWS  
FROM OPERATING ACTIVITIES FOR THE YEAR ENDING 30 JUNE 2004**

<b>Operating surplus/(deficit)</b>	<b>\$ (9,644,626)</b>
<i>Non-cash movements</i>	
Depreciation	8,600,541
Increase in provision for doubtful debts	0
Increase in payables/accruals	(2,768,698)
Net gain/loss from sale of fixed assets	0
Net profit/loss in Statutory Authorities and Government Companies	4,025,048
Net gain/loss from sale of investments	0
Increase in other current assets	39,345
Increase in investments due to revaluation	0
Increase in receivables	(8,423)
<b>Net cash flows from operating activities</b>	<b><u>243,187</u></b>