

DRAFT

**GOVERNMENT OF ANGUILLA:
FRAMEWORK FOR FISCAL RESPONSIBILITY**

1. The Government of Anguilla is committed to delivering a prosperous and stable future for the people of Anguilla firmly based on the implementation of sound economic and financial principles.
2. This framework for fiscal responsibility (“the Framework”) sets out the key principles by which the Government of Anguilla will deliver this commitment.
3. The Government of Anguilla will continue to be open and transparent in its management of the public finances consistent with the highest standards of governance and democracy. The principles of the Framework will therefore be encapsulated in a new public financial management law in Anguilla which will also specify the detailed requirements necessary to deliver the principles in practice. Subject to the agreement of the House of Assembly, this new law will enter into force by [1 June 2012].
4. The Government of Anguilla and the United Kingdom Government reaffirm their commitment to work in partnership and to respect the rights and responsibilities specified in the Framework and the new public financial management law.

POLICY PRINCIPLES

5. The Government of Anguilla is committed to the following principles:
 - a. Effective **medium-term planning**, to ensure that the full impact of fiscal decisions is understood;
 - b. Putting **value for money** considerations at the heart of the decision making process;
 - c. Effective **management of risk**; and
 - d. Delivering improved **accountability** in all public sector operations.

IMPROVING MEDIUM TERM PLANNING

Medium term fiscal plan

6. The Government of Anguilla will assess the impact of all proposals and decisions on expenditure, revenues, and borrowing in the context of a

medium term fiscal plan (MTFP) covering a period of at least three fiscal years.

7. The MTFP will include, as a minimum, the information defined in paragraph 15 of Annex A.

Transparency

8. The MTFP will be updated and published annually. The budget that is presented for the forthcoming fiscal year will be consistent with the MTFP.

Measurement

9. The collection of accurate internal and external economic, business and social data is fundamental to effective medium term fiscal planning.
10. The Government of Anguilla will assess any gaps in information that is required and take steps to improve inputs to the MTFP, including by:
 - a. improving the quality of statistical data gathered to measure accurately economic variables including economic growth, inflation, and employment; and
 - b. ensuring that the Government of Anguilla receives information about in-year developments in expenditure, performance against objectives and developing risks (whether or not quantifiable) from government departments and other bodies in receipt of public funds.

DELIVERING VALUE FOR MONEY

11. The Government of Anguilla recognises that achieving value for money is central to the appropriate use of public funds. Central government and other public sector bodies will therefore ensure that effective processes are in place to provide confidence and ensure suitability, effectiveness, prudence, quality, good value and avoidance of error and other waste. The Government of Anguilla will remain focussed on developing expertise and improving processes to ensure that value for money is consistently delivered.

Projects

12. There are four key stages that will be undertaken by the Government of Anguilla in the planning, development and execution of a project:

- a. appraisal and business case;
- b. tendering and procurement;
- c. contract management; and
- d. evaluation.

Appraisal and business case

13. The Government of Anguilla will ensure that all projects, whether funded from recurrent surpluses, conventional borrowing or novel financing transactions, are suitably appraised before the procurement stage to ensure value for money and that a robust cost-benefit analysis has been carried out.
14. For projects with a lifetime value above EC\$15m or for those where the use of PPPs or any other form of novel financing is being considered, the Government of Anguilla will commission independent accounting, legal, financial, economic, environmental, and other technical advice as appropriate to ensure robust investment appraisals are produced.
15. For all projects, the business case which results from the appraisal process should: demonstrate the economic need for the project; include a fully argued and costed risk and impact assessment; and specify the benefits the project is designed to deliver to ensure that an informed decision can be made on whether or not to proceed to the procurement stage.
16. All proposed capital projects with an expected lifetime value of EC\$15 million or more will be incorporated in the published MTFP, and appraisals will be published for public consultation prior to procurement.

Procurement

17. Procurement processes will be open, transparent and competitive. The Government of Anguilla will adhere to agreed statutory tender processes. For projects with a lifetime value above EC\$15m and where any other form of novel financing is used, the Government of Anguilla will commission independent accounting, legal, financial, economic, environmental, and other technical advice to ensure value for money.

Contract management

18. The Government of Anguilla will retain sufficient expert advice, whether internal or external, to ensure that it is an “intelligent customer” of services or other arrangements agreed with private sector suppliers.

Delivery

19. The Government of Anguilla will put together sufficiently competent teams to manage all projects and ensure receipt of high quality services and products as agreed at the procurement stage.

Evaluation

20. For projects with an expected lifetime value of more than EC\$15 million, the Government of Anguilla will undertake an evaluation of project performance within 6 months of project completion. This evaluation will be made publicly available within 9 months of project completion.

Processes

21. The Government of Anguilla will establish and maintain robust processes to:
 - a. measure the performance of government departments and other bodies in receipt of public funds;
 - b. allocate expense budgets, profile expenses and monitor actual results against profile budget in a timely manner;
 - c. determine revenue targets, profile receipts and monitor actual results against budget on a timely basis;
 - d. track and quantify developing risks to determine the value of actual and contingent liabilities to assess calls on current expenditure budgets and, in exceptional cases, the reserve;
 - e. report total public sector debt, profile debt repayments and determine debt service costs;
 - f. forecast cash needs on a monthly basis; and
 - g. undertake timely internal and external audits and act on the findings.

PUBLIC PRIVATE PARTNERSHIPS AND NOVEL FINANCING ARRANGEMENTS

22. The option to enter into Public Private Partnerships (PPPs) and any other form of novel financing within the limits set out in the Framework will not be exercised by either the Government of Anguilla or its Statutory Authorities, Government Companies or other organisations within the public sector until:
 - a. the Government of Anguilla has been in compliance with the Framework for two consecutive fiscal years; and

- b. the Government of Anguilla and the United Kingdom Government agree that the capacity to contract and manage such arrangements is in place.

23. All mention of PPP and other novel financing transactions in this framework will be subject to these conditions.

24. The processes for ensuring that projects deliver value for money will also be applied for projects involving PPPs or any other form of novel financing, and will follow any additional processes required for projects with a lifetime value above EC\$15m where these are different to the standard process.

25. In addition, for projects where the use of PPPs or any other form of novel financing is being considered, the Government of Anguilla will commission independent accounting, legal, financial, economic, environmental, and other technical advice as appropriate to ensure robust investment appraisals are produced.

26. PPPs or any other form of novel financing will only be considered where:

- a. there is a sound appraisal underpinning the proposed project before financing means have been determined;
- b. a financial appraisal demonstrates improved value for money against a conventionally financed alternative;
- c. the long term affordability case has been assessed by the Government of Anguilla in the context of the MTFP; and
- d. the correct accounting treatment in the public accounts has been utilised and agreed upon by an independent qualified accountant.

27. PPPs or any other form of novel financing will not be considered by the Government of Anguilla for:

- a. projects with a lifetime value of less than EC\$80m and therefore too small to justify the transaction costs; or
- b. projects where the fast pace of change in the sector makes it difficult to define effectively the outputs it requires in a long term contract (such as Information Communication Technology projects).

MANAGING RISKS

Contingent and actual liabilities

28. The Government of Anguilla is committed to managing risks and ensuring that contingent and actual liabilities which accrue are consistent with sustainable public finances.
29. The Government of Anguilla will make contingent and actual liabilities, including (but not limited to) pensions and healthcare schemes, subject to actuarial assessments at least every three years. Actuarial assessments will be published within three months of receipt. The Government will publish its proposals to address the results of the assessments no later than the budget following the receipt of the actuarial assessment.
30. The Government of Anguilla will set out in the MTFP their strategy for managing contingent and actual liabilities and report on progress in delivering the strategy.

Capital expenditure

31. A capital investment fund will be established to fund capital expenditure which would not yield sufficient revenues to fund debt service costs. Contributions will be made to the fund from revenues received by the Government of Anguilla in accordance with the rates specified in the MTFP.
32. The total cost of all projects which propose to make use of the capital investment fund must not exceed the amount available in the capital investment fund; the House of Assembly must give its approval before the capital investment fund is accessed.

Debt

33. Where capital expenditure will yield sufficient revenues to fund debt service costs and the Government of Anguilla proposes to use debt finance to fund the expenditure, preference will be given to borrowing from concessional lenders which should ensure that the lender's expertise is brought to projects.
34. To ensure that the level of debt is affordable and consistent with the delivery of macroeconomic and fiscal sustainability and financial stability in the short, medium and long term, the Government of Anguilla will:
 - a. comply with the borrowing limits defined in Annex A by no later than the dates specified in Annex D;
 - b. comply with the transitional ratios established in Annex D by the timeframes specified;

- c. remain in compliance with the borrowing limits subsequent to the dates specified in Annex D or such earlier date by which compliance is achieved; and
- d. put in place arrangements to repay loan principal.

35. The repayment of principal will be achieved either through:

- a. agreeing a fully amortized structure with the lending institution; or
- b. establishing a dedicated sinking fund with a binding contribution schedule capable of offsetting the outstanding principal repayment on maturity of the debt.

ACCOUNTABILITY

36. The Government of Anguilla is committed to delivering improved accountability mechanisms through the transparency delivered by the Framework and subsequently a new public financial management law and by ensuring that public accounts are:

- a. prepared on a timely basis in line with International Public Sector Accounting Standards (IPSAS); and
- b. subject to an annual external audit the results of which will be subject to the Public Accounts Committee's scrutiny and publications.

PARTNERSHIP WITH THE UK

37. In support of the commitments to deliver fiscal responsibility made by the Government of Anguilla, the United Kingdom Government will:

- a. undertake an annual assessment of the economy of Anguilla, including the state of the public finances;
- b. provide technical assistance by monitoring compliance with the Framework;
- c. provide support in identifying sources of expertise at the request of the Government of Anguilla;
- d. consider requests for technical support made by the Government of Anguilla where any such requests are accompanied by a business case and specific terms of reference.

Exchange of information

38. The Government of Anguilla will submit the information specified in Annex C to the person(s) from time to time specified by the United Kingdom Government.
39. The Government of Anguilla will supply the United Kingdom Government with such other information it may request, including further information on:
- a. any aspect of the MTFP, including specific capital investment projects and proposed borrowing; and
 - b. the draft budget.
40. All information will be submitted by the Government of Anguilla within the timescales specified in Annex C unless, in exceptional circumstances, different timescales are agreed in advance in writing by the Government of Anguilla and the United Kingdom Government.

Consideration of representations

41. The Government of Anguilla will consider fully any representations made by the Secretary of State on the information provided.
42. The Government of Anguilla will not proceed with any project on which the Secretary of State has made representations until fifteen working days after a full written response has been received by the Secretary of State to those representations.

Approvals Process

43. Where the Government of Anguilla is not in compliance with the Framework, the Government of Anguilla will present, for the approval of the Secretary of State, a plan that is consistent with the MTFP to remedy the breach. The maximum period which may be permitted to rectify a breach is three fiscal years from the point at which the breach occurred or, in exceptional circumstances, such other period that may be agreed in writing between the Government of Anguilla and the Secretary of State.
44. In the event of any non-compliance by the Government of Anguilla in respect of the Framework and until the breach has been rectified the Government of Anguilla will obtain, on an annual basis, written approval from the Secretary of State before:
- a. the MTFP is finalised;

- b. any public borrowing or any refinancing of public borrowing is undertaken;
- c. proceeding with any project with a lifetime value of more than EC\$15 million;
- d. using public assets as collateral as part of any arrangement with a party external to Government of Anguilla;
- e. the hypothecation of any revenue stream; or
- f. the divestment of public assets.

45. For the avoidance of doubt, any failure to comply with the borrowing limits or forecast failure to comply within the lifetime of the MTFP will be deemed a failure to comply with the Framework.

46. In exceptional cases, the Government of Anguilla may request the Secretary of State's approval to make in-year changes to the approach set out in the MTFP. In such cases, the Government of Anguilla will supply the Secretary of State with:

- a. a written request to make the changes, to be received no later than two months before such changes are considered to be required by the Government of Anguilla unless a shorter period is agreed in writing by the Government of Anguilla and the United Kingdom Government;
- b. a compelling evidence based business case to support the request for approval; and
- c. a revised MTFP, which sets out the measures the Government of Anguilla intends to take to return to the course set previously. If approval is granted, the Government of Anguilla will publish the revised MTFP.

Signed: Date:
 Chief Minister, Anguilla

Signed: Date:
 Governor, Anguilla

Signed: Date:
Minister for Overseas Territories, Foreign and Commonwealth Office

ANNEX A: DEFINITIONS

1. **Expenditure**, unless otherwise specified, refers to all public expenditure (inclusive of subventions, interest and debt repayments, capital and recurrent expenditure).
2. **Public accounts** include all the accounts of the Government of Anguilla and of all Statutory Authorities/Government Companies.
3. **Public borrowing** includes:
 - conventional borrowing from commercial and concessional institutions;
 - the capitalised value of all novel financing transactions (including PFI/PPP arrangements) that will place future financial obligations (in terms of increased expenditure or reduced revenue) on the Government of Anguilla;
 - the risk weighted debts and PPP/PFI arrangements of statutory authorities, government corporations and companies;
 - borrowing that is contracted by the Government of Anguilla, but then on-lent; and
 - any other debt guaranteed by the Government of Anguilla.
4. Public borrowing taken out to clear informal debt (including arrears) will be treated as new debt.
5. The risk weighting attached to debts and PPP/PFI arrangements of Statutory Authorities, Government Companies or other organisations within the public sector will be agreed with the Secretary of State according to the following criteria:

Risk-weighting	Description
100%	Outstanding contractual commitments to PFI or PPP arrangements of any form, agencies with a consistent demand for subventions
80%	A high likelihood of subventions being required
50%	Moderate likelihood of subventions being required
20%	No subventions required in the last three years

6. A list of Statutory Authorities, Government Companies or other organisations within the public sector with assigned risk-weights is attached at Annex B.

Risk-weights can be updated to reflect recent financial performance at the request of either the Government of Anguilla or the Secretary of State.

7. The Government of Anguilla and the Secretary of State will agree risk-weights for new Statutory Authorities, Government Companies or other organisations within the public sector before any such Statutory Authority [/Government Company] can take on debt.

8. **Borrowing limits** mean the following:

<u>Net Debt</u>	80% maximum of recurrent revenue	<u>Debt Service</u>	10% maximum of recurrent revenue	<u>Liquid Assets</u>	At least 25% of recurrent expenditure
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9. **Net Debt** is defined as the total outstanding value of public borrowing minus liquid assets.

10. **Debt service** is defined as annual payments resulting from public borrowing commitments and finance leases or any other form of borrowing.

11. **Liquid Assets** are defined as the lowest total balance of unallocated liquid funds at the disposal of the Government of Anguilla during the fiscal year. These funds should not be pledged against budgeted expenses or liabilities of any form.

12. **Capital investment fund** is defined as a fund established by the Government of Anguilla for the purpose of funding capital expenditure which would not yield sufficient revenues to fund debt service costs.

13. **Past fiscal performance**, unless otherwise specified, should be assessed on the basis of audited financial statements for the previous financial year, where available.

14. **Lifetime value** is defined as the discounted net present value of financing obligations calculated using a discount rate of 3.5%.

15. **Medium Term Fiscal Plan** means a document which, at a minimum, sets out:

- A statement of the Government of Anguilla's economic and fiscal objectives;

- A summary of the broad outcomes, the specific outcomes, and the links between them, that the Government of Anguilla intends to achieve in the next financial year and for at least the following two financial years;
- A summary of recent economic statistics, trends and forecasts;
- A statement of the prior two years fiscal performance, and analysis of variance from previous budgets and plans;
- A statement of existing public sector borrowing, including Statutory Authorities [/Government Companies] (whether guaranteed by government or not). For each loan this should include quantum, currency, date and origin of issue, maturity, and repayment and interest rate structures;
- A statement of expenditure and revenue arrears, the creditor/debtor and age of each debt;
- A statement detailing the actual and contingent liabilities of the Government of Anguilla and an explanation of how each will be managed/financed, progress to date and intended financing for the current and next three financial years;
- A capital investment plan for the next financial year and for each of the following two financial years. This should include details of new and continuing projects which are anticipated to have a lifetime value of over EC\$15m for the next financial year and for each of the following two financial years;
- Anticipated revenue and expense measures and actions for the next financial year and for each of the following two financial years;
- A forecast statement of the current position and forecasts for the next three financial years for each of the following:
 - Forecast summary Statement of Cash Flows;
 - expenditure (by budget head and department)
 - revenue performance (by budget head and department);
 - reserve levels for each month;
 - borrowing;
 - performance against borrowing limits;
 - surplus or deficit, being the difference between total recurrent revenue and total recurrent expenditure;
 - net worth;
 - net cash flows for each of its operating, investing and financing activities;
 - the anticipated impact of any proposals to refinance existing debt;
 - the value of contingent and actual liabilities, including pensions and healthcare schemes, and the steps taken to mitigate these liabilities.

ANNEX B: PARASTATAL RISK-WEIGHTS

<i>Statutory Agency/Government Company</i>	<i>Risk Weight</i>
<i>Anguilla Tourist Board</i>	<i>50%</i>
<i>Anguilla Development Board</i>	<i>20%</i>
<i>ANGLEC</i>	<i>20%</i>
<i>Anguilla Health Authority</i>	
<i>Social Security Board</i>	
<i>Ports Authority</i>	
<i>Financial Services Commission</i>	
<i>National Trust</i>	
<i>Public Utilities Commission</i>	
<i>Anguilla Water Board</i>	
<i>Post Office</i>	

Risk-weights for these statutory authorities which do not have risk weights in the above table would need to be agreed if any of them wish to undertake Government guaranteed borrowing.

ANNEX C: MONITORING

The Government of Anguilla will provide the following information to the United Kingdom Government:

- Triennially: Actuarial reviews of contingent and actual liabilities, including healthcare and pensions provisions.
- Annually:
- (i) Annual audit reports for the Government of Anguilla and Statutory Authorities/Government Companies.
 - (ii) Debt and PPP/PFI breakdown for Government of Anguilla and Statutory Authorities/Government Companies.
 - (iii) Annual updates on GDP figures, employment, and the performance of key sectors to the extent that this is not separately identified in budget documentation or the MTFP.
 - (iv) The Government of Anguilla's MTFP, accompanied by a written request for any approvals that may be necessary over the course of the next fiscal year owing to the Government of Anguilla failing to comply with the Framework. Both should be submitted to the United Kingdom Government no later than five weeks before the MTFP is due to be published.
 - (v) The Government of Anguilla budget in draft no less than five weeks before it is due to be presented, and when finalised.
- Monthly:
- (i) Liquid Assets fund balances and variance analysis.
 - (ii) Current and capital revenue; capital and recurrent expenditure outturns and forecast reports with accompanying variance analysis
- On request:
- (i) Details of the stock and composition of debt, currency, date and origin of issue, maturity, and repayment and interest rate structures.
 - (ii) Updates on capital project progress.
 - (iii) Details of proposed capital investments, PFI, PPP and alternative forms of private finance, an independent accounting

opinion on the IPSAS accounting treatment and the capitalised value of the arrangement, and implications for public expenditure prepared and signed off by appropriate independent professionals.

(iv) Completed investment appraisals.

(v) Such other information as may reasonably be requested.

ANNEX D: TRANSITIONAL PROVISIONS

47. The unprecedented global financial crisis has forced the Government of Anguilla to operate beyond the borrowing limits defined in Annex A.
48. The Government of Anguilla will publish its first Medium Term Fiscal Plan prior to the development of the 2013 budget.
49. The Government of Anguilla will return to compliance with the borrowing limits by the following dates:
- **Net debt:** by no later than the beginning of 2016;
 - **Debt service:** by no later than the beginning of 2016; and
 - **Liquid assets:** by no later than the beginning of 2016.
50. In order to reach compliance, the Government of Anguilla will ensure compliance with milestones towards full compliance such that:
- Net debt ratio:
 - Is at a maximum of X% by the beginning of 2014
 - Is at a maximum of Y% by the beginning of 2015
 - Debt service ratio:
 - Is at a maximum of X% by the beginning of 2014
 - Is at a maximum of Y% by the beginning of 2015
 - Liquid assets ratio:
 - Is at a minimum of X% (XX days) by the beginning of 2014
 - Is at a minimum of Y% (YY days) by the beginning of 2015