

Project Future: Creating a sustainable future for the Cayman Islands

Review of Public Services - Cayman Islands Government

September 2014

CABINET - IN - CONFIDENCE





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Hon. Franz Manderson, Cert Hon, JP
Deputy Governor, Head of the Civil Service
Office of the Deputy Governor
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Review of the Public Service: Phase V Rationalisation

Dear Mr Manderson

EY (“we” or “our”) is pleased to provide the Cayman Islands Government (“CIG”, “the Government”, “you” or “Client”) with this report outlining the findings from our Phase V rationalization review of the public service (the “Report”). This Report is in accordance with the statement of work and associated Statement of Work between CIG and EY dated 15 April 2014 (the “Statement of Work”).

We understand that the CIG has undertaken a number of reviews of the public service over the past 10 years. You have asked us to assist in the Phase V Rationalization Review, which involves reviewing previous Reports, identifying a range of recommendations that should be pursued to achieve Government objectives and developing a roadmap for implementation.

Purpose of our Report and restrictions on its use

This Report was prepared on the specific instructions of the Cayman Islands Government solely for the purpose of:

- Conducting a reliable assessment of past recommendations and a strategic review taking into account the current conditions of the Cayman Islands
- Assessing the feasibility of implementing previous recommendations from internal and external reports
- Identifying those functions that would be better carried out by the private sector across the Government’s portfolio of entities
- Reviewing the Government’s assets and recommending those that could be sold to the private sector where a fair market exists
- Developing a considered and appropriate roadmap for execution to guide the organizational transformation of the Cayman Islands Government’s Ministries and other entities to deliver an efficient and effective Public Service
- Cutting red tape for business, the Government and the broader Cayman Islands community

1 September 2014

This Report should not be used or relied upon for any other purpose. If other parties choose to rely in any way on the contents of this Report, they do so entirely at their own risk. We understand you may wish to provide a copy of our Report to the public. However, if this Report is published publicly, it must contain this Transmittal Letter. Persons reading this Report must accept that they place reliance on such sections at their own risk and that Ernst & Young Ltd., its partners, employees and agents neither owe nor accept any duty of care or responsibility to them and shall not be liable in respect of any loss, damage or expense of any nature which is caused by any use the unauthorised person may choose to make of this Report. If unauthorised persons choose to rely upon any of the contents of this Report they do so at their own risk.

Scope and nature of our work

The scope and nature of our work, including the basis and limitations, are detailed in the Statement of Work reproduced in the Appendix. The engagement letter was signed on 15 April 2014, with our field work commencing on 12 May 2014 and report being completed in draft form on 28 July 2014. Therefore our Report does not take account of events or circumstances arising after that date. In the period following the delivery of the draft report to the date of this final report the Deputy Governor was given the opportunity to ensure the factual accuracy of the document, however no material new information was received

This report provides indicative advice and analysis to support your consideration as to future actions with regards to the rationalization of the CIG at a defined point in time. Assumptions have been made within this report where required, and these assumptions have been explicitly stated. Our work in connection with this assignment is of a different nature to that of an audit or a review of information, as defined by generally accepted auditing standards and other professional standards applicable to the Cayman Islands to audit and review engagements. Our Report to you is based on inquiries of and discussions with the management of various departments and entities of Government, a review of accounts and other documents made available to us, and analytical procedures applied to data provided. We have not, except to such extent as we agreed to undertake, sought to verify the accuracy of the underlying data or the information and explanations provided by CIG employees. Indications of value contained in this report are high-level estimates and are not considered a formal business valuation.

Information received

All the information we have received is the responsibility of the Cayman Islands Government. We have not sought to establish the reliability of information given to us except as specifically stated in the Report. Consequently, we give no assurance on such financial information. If we have made adjustments to financial information provided to us they have been based on analytical procedures carried out on information supplied to us, and should be regarded as illustrative. Such analysis is necessarily subjective.

The information contained in this Report has been primarily based on:

- Documents provided by the Cayman Islands Government
- Interviews conducted with all CIG departments and entities
- Option testing meetings conducted with selected CIG departments and entities
- Emails from CIG employees provided to us through a centrally managed project team
- Discussions with and consultation with the private sector stakeholders
- Secondary research conducted by EY

For our Priority 1 and 2 recommendations, we enabled CIG representatives to provide comments on the proposed recommendations, and these were taken into account in our Report.

Limitations and constraints

Our Report was developed within a three month timeframe, and is limited by the time available to us to develop our recommendations. Given the short time frame in which the work has been undertaken relative to the scope of the exercise, it has not been possible to analyse all of the information in depth. In addition, due to the time limitations and the information available to us, further work may be required to develop more detailed business cases for approved recommendations. A full list of limitations and constraints can be located in the introduction, background and approach section of the report.

We note that the financial statements of many CIG ministries and entities have been qualified by the Auditor General. As such there may be limitations in the accuracy of our estimate of financial impact of recommendations.

Cayman Islands Government Prospective Financial Information (“CIGPFI”)

References to EY in the Report relate to our advice, recommendations and analysis and do not indicate that we take any responsibility for the information concerned or are assembling or associating ourselves with it. We did not assist in the preparation of the CIGPFI or in the development of any assumptions therein. Our Report includes tables showing a range of approximate benefits in order to illustrate indicative financial impacts. Those tables should not be regarded as a restatement of CIGPFI or preparation of revised CIGPFI; they are provided as a means of summarising our findings and recommendations to assist you in considering their implications for a recommendation. It is your responsibility to consider our findings and make your own decision based on the information available to you, including such findings and recommendations.

We have reached factual conclusions and made recommendations about specific assumptions and components of the CIGPFI herein, where we had sufficient evidence to provide a reasonable basis for them. We have not provided any opinion, conclusion or any type of assurance about specific assumptions or components of the CIGPFI or on the CIGPFI as a whole.

There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We take no responsibility for the achievement of projected results. Thank you for your instructions and entrusting this work to EY. We wish to place on record our appreciation of the assistance we have received from all members of the Cayman Islands Government. It has been a pleasure working with you and your team on this important Report.

Please contact Dan Scott, Rohan Small or Keiran Hutchison if you have any questions.

Yours sincerely



Keiran Hutchison for
Ernst & Young Ltd.

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Glossary

Acronym	Description	Acronym	Description
\$	Cayman Island Dollar	CIO	Chief Information Officer
ASO	Administrative Service Only	CIPS	Cayman Islands Postal Service
ASTEC	Aruba Stevedoring company	CISX	Channel Islands Stock Exchange
BCB	The Broadcasting Corporation of The Bahamas	CMOU PSC	Caribbean Memorandum of Understanding on Port State Control
BISX	Bahamas International Securities Exchange	CMSA	Capital Market Supervisory Agency
BSE	Bermuda Stock Exchange	CPA	Curacao Airport Partners N.V.
BS	Balance Sheet	CSD	Computer Services Department
BMU	Bermuda Monetary Authority	CSX	Cayman Island Stock Exchange
CAGR	Compound Annual Growth Rate	CTF	Cayman Turtle Farm
CAPEX	Capital Expenditure	CUC	Caribbean Utilities Company
CBPL	Cayman Brac Power & Light	D&B	Design & Build
CC	Complaints Commission	DBFMO	Design, Built, Finance, Maintain and Operate
CG	Government Company	DBFMOT	Design, Built, Finance, Maintain, Operate and Transfer
CI	Cayman Islands	DEH	Department of Environment Health
CIAA	Cayman Islands Airport Authority	DES	Department of Educations Services
CIDB	Cayman Islands Development Bank	DPO	Designated Postal Operator
CIG	Cayman Islands Government	DVDL	Department of Vehicles and Driving Licences
CIGPFI	Cayman Islands Government Prospective Financial Information	DVES	Department of Vehicle and Equipment Services
CINICO	Cayman Island National Insurance Company	EOI	Expression of Interest

Glossary

Acronym	Description	Acronym	Description
EBITDA	Earnings Before Interest, Tax, Depreciation & Amortisation	IPO	Initial Public Offering
EMS	Emergency Medical Services	IPSAS	International Public Sector Accounting Standards
ERA	Electricity Regulatory Authority	ISC	Implementation Steering Committee
FFR	Framework for Fiscal Responsibility	ISWMS	Integrated Solid Waster Management System
FOI	Freedom of Information	JV	Joint Venture
FTE	Full Time Equivalent	KPI	Key Performance Indicator
FY	Financial year i.e. from 1 July to June 30	MACI	Maritime Authority of the Cayman Islands
GAT	General Aviation Terminal	Mgmt	Management
GDP	Gross Domestic Product	MOU	Memorandum of Understanding
GIS	Government Information Service	NGO	Non Governmental Organisation
GOAB	Government Office Administration Building	NRA	National Roads Authority
HSA	Health Services Authority	NRP	National Roads Plan
IaaS	Infrastructure as a Service	OECD	Organisation for Economic Co-operation and Development
ICO	Information Commission Office	OPEX	Operating Expense
ICTA	Information & Communications Technology Authority	ORIA	Owen Roberts International Airport
IDX	Indonesian Stock Exchange	p.a.	Per annum
IM	Information Memorandum	PACI	Ports Authority of the Cayman Islands
IMO	Integration Management Office	PAYT	Pay As You Throw

Glossary

Acronym	Description	Acronym	Description
PFC	Passenger Facility Charge	SLA	Service Level Agreement
PFI	Public Financial Institutions	SMART	Specific, Measurable, Achievable, Reliable and Time Scaled
PMFL	Public Management and Finance Law 2012	SPA	Sale & Purchase Agreement
PMO	Program Management Office	SPV	Special Purpose Vehicle
PPP	Public Private Partnership	TEU	Twenty-foot Equivalent Unit
PR&C	Parks, Recreation & Cemeteries services	TUPE	Transfer of Undertaking Protection of Employment
PSPB	Public Services Pensions Board	UCCI	University College of the Cayman Islands
Q&A	Question and Answer	UPUC	Universal Postal Union Convention
RCIPS	Royal Cayman Islands Police Service	VTP	Valparaiso Passenger Terminal
REIT	Real Estate Investment Trust	WAC	Water Authority Cayman
RESA	Runway end safety area		
RFP	Request for Proposal		
RVS	Rapid vendor shortlist		
SA	Statutory Authority		
SaaS	Software as a Service		
SAGC	Statutory Authorities and Government Companies		
SHIC	Standard health insurance contract		

Executive summary

Executive summary

2014 presents a unique opportunity to the CIG to capitalize on many positive economic factors and to refresh the foundations of the country's infrastructure and Government to foster future prosperity

Background and the Case for Change

- In June 2014, the Government handed down its Annual Plan and Budget Estimates for the year ending 30 June 2015 together with details of the expected 30 June 2014 year end public sector financial statements.
- At a time when many countries, including a large number of the island economies in the Caribbean and Atlantic region, continue to struggle with high levels of Government debt, deficit budgets and domestic economic malaise, the Cayman Islands budget outlines a sound current position for Cayman and up trending economic prospects.
- For the year end 30 June 2014 for the Cayman Islands the Government projects:
 - A debt to GDP % of approximately 25.6%, declining to 23.4% in FY15
 - An operating account net surplus for the entire public sector estimated at \$108 million and an FY15 forecast at \$128 million
 - Stable whole of public sector operating revenues at approximately \$852 million (projected to increase to \$873 million in FY15) and equivalent operating expenses at \$708 million for FY14 and \$711 million for FY15
 - Closing FY14 cash reserves of \$162 million
 - Real GDP growth of 1.6% and a forecast FY15 growth rate of 2%
 - Inflation rates in line with GDP growth
 - Stable to declining rates of unemployment at 6.2%
- Relative to its peers and relative to many, much larger and more diversified economies, the Cayman Islands enjoys some solid financial metrics.
- However, Cayman cannot afford to rest at this juncture. Total public sector debt at 30 June 2014 is stated to amount to \$874.5 million. If unfunded pension liabilities are included, total public sector liabilities amount to \$1.115 billion at FY14 and are projected to amount to \$1.047 billion in FY15. These liabilities amount to 43.4% of the public sector's gross assets in FY14 and a projected proportion still at close to 40% in FY15.
- Increasing operating costs continue to apply pressure to annual budgets and Government debt levels.
- Critically, the CIG is not in a position to significantly invest in infrastructure upgrades and developments vital to the country's development and future. As solid as the financial metrics may be, the Government remains unable to borrow to invest under the terms of the PMFL.
- In the course of undertaking our project, we have identified calls from almost every area of Government for additional funding to invest in and replace essential infrastructure. Whilst many investment decisions can and have been delayed, particularly in the wake of the 2008 global financial crisis, many decisions cannot be delayed for much longer without beginning to create negative economic and social impacts.
- In line with best practice globally, it has been recognised that the CIG needs to review its activities to ensure that the focus remains on delivering the core Government functions of policy development and implementation of regulation on par with community expectations.
- It has been recognised in previous reviews and reports that many areas of CIG activity could better be delivered through the private sector. This recognition sits neatly with the best practice trend globally of streamlining Government operations and the specific Cayman Islands needs to right size Cayman Government operations. Rationalizing the activities of Government will provide the headroom in Government finances for much needed infrastructure investment and the opportunity for greater Government/private sector cooperation in infrastructure development. This in turn contributes to economic growth and stimulus in the country.

Our engagement

- This report was commissioned by the Deputy Governor in April 2014 to examine opportunities for Government rationalization and commercialization.
- Following meetings and discussions with the management of all Government ministries and departments, most statutory authorities and Government companies, we have identified (through a series of investigations, discussions and analysis) some 14 priority recommendations, 12 secondary recommendations and 26 ancillary recommendations covering most departments and aspects of Government activity.

Executive summary

2014 presents a unique opportunity to the CIG to capitalize on many positive economic factors and to refresh the foundations of the country's infrastructure and Government to foster future prosperity

How to read this Report

Following this executive summary, the Report commences with an introduction, background and explanation of our approach. This provides details of our scope of work, the framework that outlines our approach and the guiding principles and objectives underpinning our review and analysis.

From here we move on to discuss and examine the case for change wherein we provide commentary on CIG's financial position, performance and the financial, economic and capital drivers for this review.

The main body of this report is split into 'priority 1 recommendations', 'priority 2 recommendations' and 'other recommendations' (details of which are discussed further below). With regard to each recommendation within the priority 1 and 2 sections we have sought to identify the various options considered using a standard matrix before moving on to present the background to the particular area/entity subject to review.

Each option considered is then analysed in terms of the potential benefits, risks and issues, implementation considerations and initiative profiles. We then seek to evaluate the recommendations against a common set of factors including: alignment to Government's role, financial impact, work force impact etc., before we provide our recommendations. An implementation roadmap including indicative timing is then presented to accompany each recommendation.

With regard to 'other recommendations', details are provided in summary form and limited to recommendation overviews.

At the culmination of this report is an implementation governance structure and high level plan that outlines the various work streams, projects and initiatives to be considered and implemented, again with indicative timings.

Our findings

On the following pages we set out a schedule of our recommendations beginning with what we have categorised as "priority recommendations". We have classified a priority recommendation as one where in our assessment the recommendation could have significant impact in terms of Government's objectives to streamline operations, particularly non-core activities that free up capital and have a relative ease of implementation. Our recommendations cover the following types of initiatives:

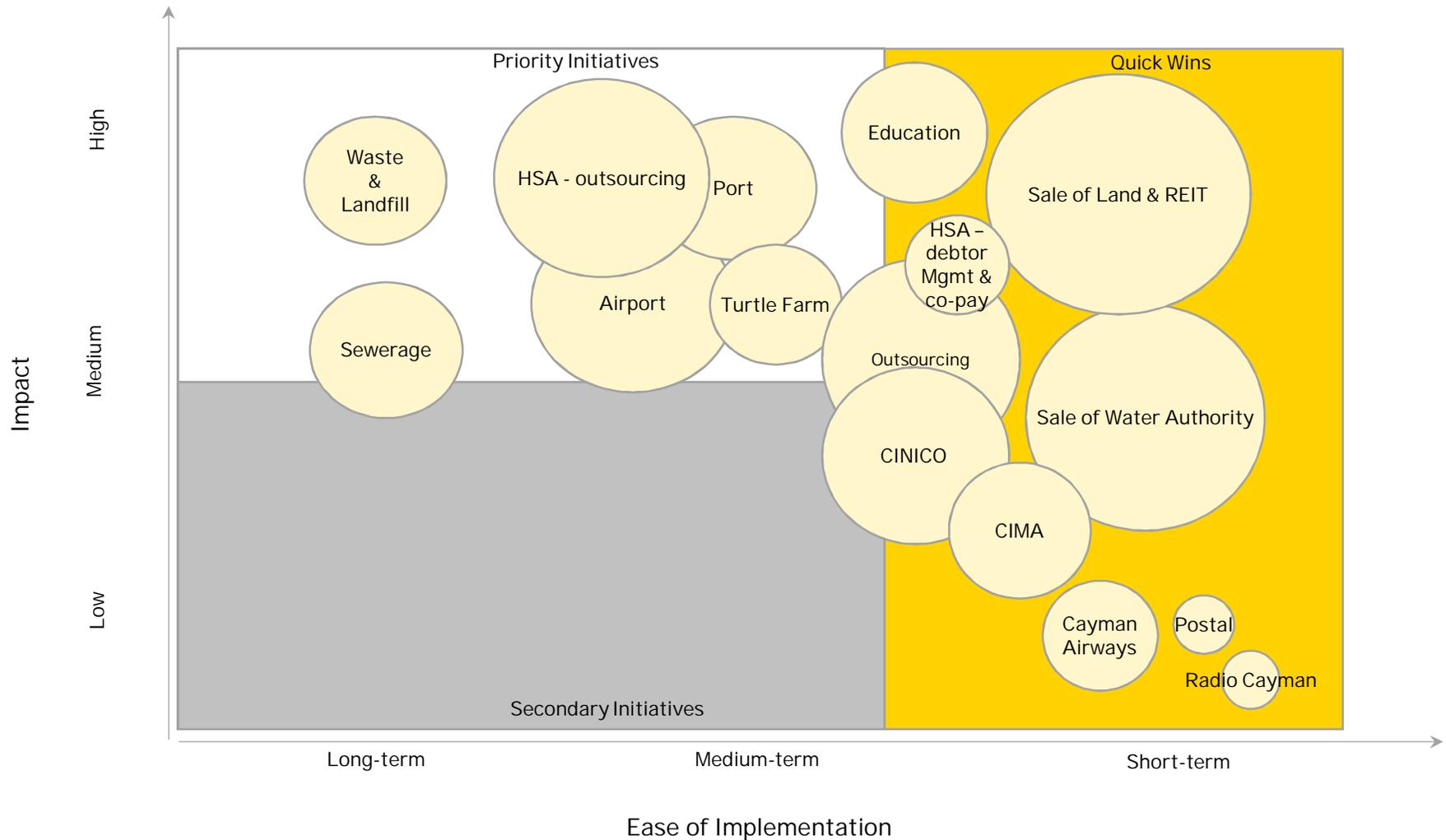
- Sale of businesses (either trade sale or Initial Public Offerings).
- Long term lease of entities or businesses.
- Public private partnerships (PPPs), joint ventures (JVs) and concessions.
- Outsourcing of services to the private sector.
- Entity rationalization and restructuring.
- Mergers of departments and entities.
- Investments in immediate rectification of infrastructure issues.
- Government process and performance improvements, including shared services, changes to fees and charges and financial management improvements.

To illustrate the ranking of the recommendations, a bubble chart has been created that plots the potential impact and ease of implementation. The size of the bubble for each recommendation also indicates the potential short term dollar value to Government, either in terms of capital raised or in terms of capital and resources released.

When seeking to categorise a particular recommendation as 'priority 1', 'priority 2' or 'other', we sought to map the indicative impact and ease of implementation of the recommendation so as to then position each on a matrix. We should emphasize that the split between priority 1 and priority 2 and ancillary recommendations is highly subjective and is influenced by our perceptions of areas within Government and public concern. In reviewing this report it would be entirely appropriate for Government to reprioritize these recommendations to match its policy objectives.

Mapping of options: Priority 1

Each recommendation has been mapped against potential value and ease of implementation to identify quick wins as well as the priority initiatives that should be pursued. The representation of Options is subjective however we believe that by taking into account factors such as the option's potential financial contribution, the potential for reducing the size of government and the ease of implementation that this provides a fair illustration of the potential positive attributes of each option.



The size of the circle aims to illustrate the \$ value of the option in terms of cash saving/ability to generate capital or existing CIG financial support. It does not illustrate the potential \$ benefit as a result of capital injection, restructuring or implementation of an option. This chart is illustrative only and can be subject to many timing variables.

Executive summary

Outline and summary of Priority 1 recommendations in terms of option overview, key benefits and potential risks

Sale of Excess Land & Real Estate Investment Trust (REIT)

Overview of recommendations

- Sale of surplus lands and properties.
- Establishment of a REIT to acquire Government properties from investment capital raised from Caymanians, Cayman Pension Funds and external capital.

Key benefits

- According to analysis undertaken by the Department of Lands & Surveys the sale of surplus lands could raise \$65 million in freed up capital for the retirement of debt and other essential infrastructure.
- The establishment of a REIT could raise substantial capital from both external and Caymanian sources. The extent being driven by the number of properties being sold into the REIT. By way of example the Government building is a prime property for consideration and it is currently valued at \$90 million.
- These measures provide significant opportunity to quickly release capital for immediate debt retirement and public works which will provide economic stimulus and community utility.

Potential risks

- There are public perception concerns around the sale of land by Government.
- Land sales would need to be managed and conducted over a period of time.
- The concept of the sale of Government buildings into a REIT may also carry negative concerns around the potential for foreign investment or ongoing lease payments which present a material ongoing cost to Government.

Health Services Authority

Overview of recommendations

- Outsourcing of medical operations, potentially all facilities including: George Town, District Clinics, Faith Hospital, and Dental Clinic.
- Improvements to processes to reduce bad debts.
- Passing old debts to a debt collection agency for recovery.

Key benefits

- The engagement of a large brand name third party operator should result in a reduction in the cost of the provision through economies of scale and operational efficiencies.
- Improved quality of patient care, standards, services and public perception.
- High quality employees, specialist knowledge, technology, advancements, cutting edge training and equipment.
- Improved debt recovery procedure, better recoveries and associated cost reductions for service.

Potential risks

- Difficulty in attracting an operator due to the relatively small scale of the George Town hospital operation.
- Contract agreement and management.
- Potential for service failure and need for Government to step in and take the service over.

Executive summary

Outline and summary of Priority 1 recommendations in terms of option overview, key benefits and potential risks

CINICO

Overview of recommendations

- Entering into a joint venture with the private sector, which could assist with commerciality and a move into the private sector.
- The pooling of risks across the health insurance.
- Introduction of a concept of co-pay and deductibles for CINICO customers.

Key benefits

- Enables CINICO to compete on a more equal footing with some of the private medical insurers allowing diversification and dilution of the costs associated with managing a high risk portfolio of clients who require more frequent and costly medical care.
- Reduction in the overall health costs for Government.
- Reduction in Government involvement and headcount.

Potential risks

- Potential for push back from the private sector companies regarding competition and in relation to risk premium increases.
- Identification, agreement and management of joint venture partner and ensuring service levels are maintained.
- Potential for discontent amongst civil service for the introduction of deductibles and co-pay charges.

Education

Overview of recommendations

- That the charter schools type of approach be pursued in a phased manner.
- The merger of primary schools in Cayman Brac.

Key benefits

- Increases in educational performance.
- Reduction in the size of the Government civil service and associated costs savings.
- Allows for private sector participation in Government service delivery, focusing Government on educational policy, regulation and evaluation of outcomes.

Potential risks

- Need to ensure the private sector brings sufficient educational capabilities to the running of schools.
- Need to ensure sufficient inspections and monitoring regimes are negotiated with the private sector and undertaken effectively by DES.

Executive summary

Outline and summary of Priority 1 recommendations in terms of option overview, key benefits and potential risks

Turtle Farm

Overview of recommendations

- Exploration of a sale/ joint venture of the tourist element (likely to a cruise ship operator) whilst continuing to subsidise the meat production-facility.

Key benefits

- Potential for a significant reduction on the ongoing cost to Government via private sector equity injection.
- This joint venture would eliminate any closure and therefore ensure services and amenities as well as safeguarding of jobs.
- Any new owner or partner in a joint venture should be selected on the basis of access to capital that could enable improvements to the site, amenities and overall offering to tourists.

Potential risks

- Identifying a potential private sector partner willing to participate and engage.
- Due to history of losses Government would be likely to need to sweeten the deal with the inclusion of development land and or concessions on work permit fees/ duties for a period.
- Structuring a deal that would be attractive to both parties.

Water Authority

Overview of recommendations

- Running a dual track process (trade sale and IPO) to identify the divestment process that provides maximum value to the Government.
- Implementation of a user pays initiative to achieve a cost reflective charge.

Key benefits

- Allows the Government to focus on core services and water regulation.
- Enables capital to be raised for the benefit of the Government.
- Reduces the headcount and operating expenditure of the Government.
- Provides access to private sector technology and processes as well as the transfer of market demand risk to the private sector.

Potential risks

- Asset condition could impact value of the transaction.
- The water and waste water treatment assets form a natural monopoly on the Islands, which would need careful consideration and the establishment of an effective regulator.
- It is a small system serving a small market, which presents risk to the operator/owner.
- Pricing and service standards would need to be regulated.

Executive summary

Outline and summary of Priority 1 recommendations in terms of option overview, key benefits and potential risks

Port Authority

Overview of recommendations

- Clarity from Government is required over specific capital objectives and the interplay with existing PPP processes for the cruise terminal.
- Should capital injection be a priority, then consider trade sale or IPO, subject to thorough market testing and consideration of transaction perimeter & structure.
- Thorough market testing prior to a formal transaction option being selected particularly with regard to addressing the benefits and long term needs and whether a separate facility provides the optimal solution.

Key benefits

- PPP contract enables capital investment without the need to transfer long term ownership of the asset.
- Potential for improvements to port efficiency and volumes from private sector performance.
- The establishment of a modern facility that will separate cruise and cargo handling to avoid the conflicts which now result from the dual function of the existing port.

Potential risks

- Due to restrictions under the Public Management and Finance law (PMFL), the Government is unable to finance the construction of port facilities through conventional borrowing methods.
- Determining whether a stand-alone cruise terminal is financially viable.
- Impact on the natural environment as project requires dredging .
- Private investors exposed to demand risk and growth in trade revenues as well as land rents may need to consider Government subsidy, particularly in relation to Little Cayman and Cayman Brac terminals.

Airport Authority

Overview of recommendations

- Pursue improvement plan to existing facility in the short term, however, further clarity from Government is required over specific objectives. Should a sale be desired, then consider trade sale or IPO.
- Should a PPP be desired, we recommend thorough market testing of appetite for economic PPP and market/demand risk transfer.
- Option of development at a new site should be considered vis a vis with current site expansion.

Key benefits

- Transfer of future capital funding obligations, enabling investment in airport capacity.
- PPP contract enables capital investment without the need to transfer long term ownership of the asset.
- Facilitates growth and increased revenues from improved/new facilities, including growth in aeronautical and non-aeronautical revenues.
- Transfer of operational risk.
- Improvements to airport efficiency and volumes from private sector performance.

Potential risks

- Pool of buyers will need to be further tested, likely to be a small pool of local investors or trade buyers including local pension funds.
- Sale/lease of airport operations on all 3 islands potentially creates the need for regulations to govern pricing.
- Current site is constrained and deal may need to include development of a new site in the mid to long term.

Executive summary

Outline and summary of Priority 1 recommendations in terms of option overview, key benefits and potential risks

Waste Disposal & Collection

Overview of recommendation

- Continue with their existing directive to develop a Comprehensive Solid Waste Disposal Management System and engage a in PPP process to facilitate and provide the capital funding to complete the project.
- Commence a process to identify and examine the most effective and cost effective method of introducing waste collection fees.
- Outsource waste collection to the private sector.

Key benefits

- PPP could provide a solution to the numerous and many existing problems and provide capital investment to support the initiatives.
- Reduce and ultimately eradicate the CIG's current subsidy for waste collection fees and landfill services. By imposing a financial cost to the users of waste collection this should lead to better behaviours and incentives to reduce waste.
- CIG can reduce headcount and focus on core Governmental roles of monitoring and regulating rather than operation of facilities.

Potential risks

- CIG is unable to finance an expensive waste management solution (e.g. a waste to energy solution) through conventional borrowing methods.
- Identifying a suitable PPP partner and operator and structuring a suitable agreement to protect and ensure CIG's needs and requirements are met.
- CIG will need to augment their skills to enable them better monitor and regulate waste disposal as opposed to operating facilities.
- Public reception to waste collection fees and difficulties agreeing a new landfill location and approach to processing waste.

Cayman Airways

Overview of recommendation

- Pro-active improvement in the transparency of operations, strategic functions and benefits.

Key benefits

- Cayman Airways provides a range of crucial services to CIG that provide a number of financial, social and strategic benefits to CIG and other stakeholders.
- Allow the general public to better appreciate the costs and commercial considerations that drive the financial performance of Cayman Airways.

Potential risks

- Correctly and accurately price the outputs. This activity may require some significant upfront analysis and review.
- There is a potential for some negative public sentiment towards certain outputs and their cost.

Executive summary

Outline and summary of Priority 1 recommendations in terms of option overview, key benefits and potential risks

Postal Service

Overview of recommendations

- Implementation of a range of initiatives to reduce and contain the costs.
- Development and exploration of the available revenue generating activities that the Cayman Islands Postal Service (CIPS) can engage in, similar to those pursued by other Government owned postal services across the world through a joint venture with a private sector operator.

Key benefits

- Reduction in the existing Government subsidy.
- By partnering via a joint venture, CIPS will be able to benefit from the skills and experience of an established commercial operator in developing a broader range of services and retail lines which can be sold through post offices.

Potential risks

- Culture change and up skill of operations and employees.
- The Government may need to provide capital improvements to commercialize the organisation and attract operators.
- Identifying a suitable and willing joint venture partner.
- Likely that the existing network of post offices will have to reduce in number and /or not all outlets will be suitable for an increase in scope of services or retail opportunities.

Radio Cayman

Overview of recommendations

- Immediate sale with the benefit of a two to three year Government contract for the provision of defined community, cultural and emergency services at a fixed price.

Key benefits

- Government is able to cap the cost of the provision of community and cultural programming and would have certainty over these costs for the life of a services contract.
- CIG can reduce headcount and focus on core Governmental roles.

Potential risk(s) of recommendations

- Government would have to monitor the performance of an outsourced contract for community services.

Executive summary

Outline and summary of Priority 1 recommendations in terms of option overview, key benefits and potential risks

Service Outsourcing

Overview of recommendations

- A range of outsourcing opportunities across a number of departments and statutory authorities.

Key benefits

- Financial cost savings.
- Improvement in delivery efficiency and quality.
- Reduces the size of the Government civil service and related health and pension liabilities.
- Allows for private sector participation in Government service delivery, focusing Government on policy, regulation and evaluation.

Potential risks

- Lack of capability to manage the outsourced contracts – not a core Government capability at this point in time.
- Potential lack of sufficient volume of current providers in Cayman Islands.
- Potential for service failure.

CIMA

Overview of recommendations

- An operational review of CIMA and the General Registry to improve its efficiency and financial performance.
- Explore the merits combining elements of CIMA and the General Registry.

Key benefits

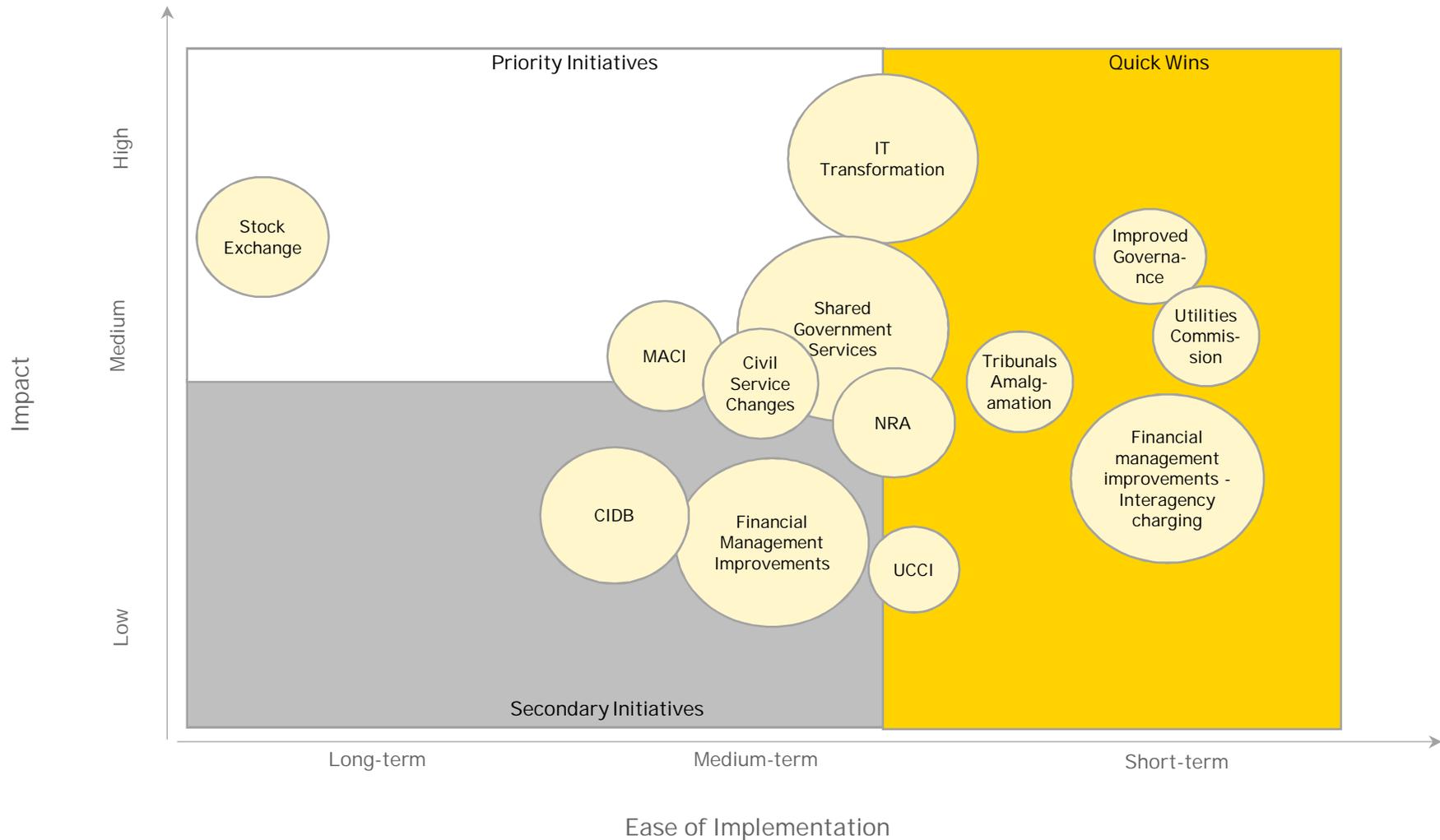
- Creates a one-stop online shop for businesses when either dealing with Government registers or the financial services regulator.
- Improvement in regulatory processes, practices and systems.
- Reduced duplication in systems, resources and effort between the General Registry and CIMA.
- Potential for financial savings through increased process efficiency.

Potential risks

- Integration and alignment of systems, processes and people will take careful planning.
- Legislation changes may be required.

Mapping of options: Priority 2

Each recommendation has been mapped against potential value and ease of implementation to identify quick wins as well as the priority initiatives that should be pursued. The representation of Options is subjective however we believe that by taking into account factors such as the option's potential financial contribution, the potential for reducing the size of government and the ease of implementation that this provides a fair illustration of the potential positive attributes of each option.



The size of the circle aims to illustrate the \$ value of the option in terms of cash saving/ability to generate capital or existing CIG financial support. It does not illustrate the potential \$ benefit as a result of capital injection, restructuring or implementation of an option. This chart is illustrative only and can be subject to many timing variables.

Summary of Priority 2 recommendations

High level summary

Area	Summary recommendation/ strategy
<ul style="list-style-type: none"> UCCI 	<ul style="list-style-type: none"> We recommend that Ministry of Education pursue the recommendation to increase private sector involvement and improve financial performance, and reviews the option for a sale of UCCI in 2 to 3 years.
<ul style="list-style-type: none"> MACI 	<ul style="list-style-type: none"> We recommend that the opportunities available to continue and improve the commerciality of MACI with a view to ensuring that it is profitable are pursued with immediate effect.
<ul style="list-style-type: none"> CIDB 	<ul style="list-style-type: none"> We recommend that the direction and future of CIDB requires the establishment of a political position in this regard. We do not view a trade sale as a viable option for a range of reasons particularly that commercial banks will not have an appetite or ability to absorb the functions. This leaves recapitalisation and commercialisation or abolishment as the alternatives. If there is no political imperative to support the functions of the CIDB then it should be abolished and its current loan book sold or run off.
<ul style="list-style-type: none"> CI Stock Exchange 	<ul style="list-style-type: none"> We recommend pursuing an improvement program over the next 3 to 5 years with the purpose of preparing the business for sale. Once financial performance has improved, with EBITDA of approximately \$2 million, we recommend looking to sell the asset at a favourable multiple.
<ul style="list-style-type: none"> Improve Governance & Long Term Strategy 	<ul style="list-style-type: none"> We recommend the development of a 2025 Vision for the Cayman Islands as a country. This will allow improvements to strategic planning, budgeting, objective setting and performance appraisal of CIG employees. This should be pursued as a near term opportunity to streamline Government and improve service delivery. This option must also be done in conjunction with improvements in performance management, financial budgeting and reporting. The development of a long term strategy should give rise to the identification of various performance metrics for the various agencies and arms of Government.
<ul style="list-style-type: none"> Civil Service Changes 	<ul style="list-style-type: none"> We recommend improvements to performance management are pursued as a near term opportunity to streamline Government and improve service delivery, including the investment in implementing the Oracle time and attendance and employee self service modules. The improvements should focus on the alignment of Government strategy with the personal goals of employees.
<ul style="list-style-type: none"> Centralisation 	<ul style="list-style-type: none"> We recommend that the establishment of shared services for whole of Government under the Finance Ministry (including transactional HR, procurement support, treasury, IT, revenue collection, AP/AR and others) is pursued as a near term opportunity to streamline Government and improve quality of financial information. This would need to be carried out in various stages. Procurement could be done fairly quickly and Government has already taken measures to be able to implement this. For areas such as Finance and HR processes, an initial exercise would need to be undertaken to review the processes in place throughout CIG and also consider the number of finance staff across Government to assess the role they fulfil. This centralisation should extend to all Government departments and statutory authorities.

Summary of Priority 2 recommendations

High level summary

Area	Summary recommendation/ strategy
<ul style="list-style-type: none"> Financial Management 	<ul style="list-style-type: none"> We recommend that simplifications to the budgetary and financial reporting are pursued as a near term opportunity to streamline Government and improve the quality of financial information. Additionally we also recommend increasing oversight powers of the central financial function and the re-introduction of limited interagency transactions primarily in relation to shared services in financial reporting be pursued as near term opportunities to improve service delivery and accountability. We also suggest that practical solutions to the issue of qualified audit opinions should be sought to improve Government's credibility and improve the quality of financial reporting.
<ul style="list-style-type: none"> NRA Improvements 	<ul style="list-style-type: none"> We recommend that retention as a Statutory Authority (SA), with increased focus on efficiency and private sector involvement, be pursued, as the entity structure of NRA as a SA is appropriate. There is too limited a market to pursue complete exit of road construction and maintenance at this stage - though it should be reviewed in the future or piloted where possible for specific road construction projects. The activities of the NRA must be better governed, managed and executed to achieve its mandate. Outsourcing and PPPs should be pursued where a market exists or can be created, including the use of employee mutuals.
<ul style="list-style-type: none"> IT Transformation 	<ul style="list-style-type: none"> We recommend that this initiative is pursued with urgency, with a project formed to begin planning and executing the implementation alongside an outsourcing program. The eGovernment initiative should be put on hold until a CIO and central IT strategy can be completed.
<ul style="list-style-type: none"> Utilities Commission 	<ul style="list-style-type: none"> We recommend that the creation of a Utilities Commission is pursued as a 'quick win' opportunity, with an initial phase to understand legislative changes required, size the new Utilities Commission function and develop the future operating model.
<ul style="list-style-type: none"> Tribunals Administration 	<ul style="list-style-type: none"> We recommend that a Centralised Tribunal Service is pursued as a 'quick win' opportunity with an initial phase to understand legislative changes required, size the Tribunal Administration function and develop the operating model.

Introduction, background and approach

Introduction and background

The CIG sought an advisor to review the feasibility of previous recommendations, provide a view on additional opportunities to rationalize the public service and develop a roadmap for implementation

- The CIG is committed to achieving fiscal sustainability and as part of this commitment sought a review of:
 - The feasibility of previous recommendations provided by internal and external advisors to improve the performance and efficiency of the public service
 - Input on additional opportunities to pursue to rationalise CIG
 - Prioritization of these opportunities and a roadmap for implementation
- The CIG has become increasingly diverse and currently has 13 ministries and portfolios, over 70 departments and sections, 25 statutory authorities and Government companies and numerous boards, committees and commissions.
- The Government is aware that the large number and size of Government bodies and employees is leading to a strain on the budget that is not fiscally sustainable.
- The result has been to initiate a review of the entire public sector, including portfolios, ministries, departments, sections and units of core Government and all Statutory Authorities and Government Companies. The purpose of the review is to improve the efficiency, effectiveness and performance of the public service and where appropriate reduce costs.
- There is a focus on optimizing the utilization of available human, financial, material and other resources allocated to the public sector to reduce the costs of doing business.
- At present, the Government has achieved a budget surplus. However, in recent history, spending has exceeded revenue. The CIG is unable to borrow and has large unfunded liabilities (specifically the defined-benefit retirement costs and healthcare plan).
- As a result, the CIG requested that both internal and external advisors carry out reviews to analyze the Government's current fiscal sustainability and seek recommendations to improve fiscal sustainability through transformation of the public service. Including options to merge departments or entities, drive increased efficiencies, outsource services, or privatize assets.
- The CIG selected EY as their strategic partner to undertake this Phase V Review. A key difference for this phase will be the creation a robust implementation roadmap which will form the basis for guiding the organisational transformation of the Government into an integrated and efficient organisation.

Background to this Report

- The Phase I Report, completed in 2010, was known as the Miller Shaw Report, and considered a fairly broad consideration of structural changes across Government.
- Phase II of the public service review, completed in 2010, focused on reviewing individual Government departments, providing suggestions for improvement and potential savings. Departments reviewed included:
 - Police Services
 - Education Services
 - Children & Family Services
 - Airport Authority
 - Computer Services
 - Port Authority
 - Fire Service
 - Customs Department
- Phase III of the public service review, completed in 2011, focused on reviewing individual Government departments, providing suggestions for improvement and potential savings. Departments reviewed included:
 - Health Services Authority
 - Immigration Department
 - Lands and Surveys Department
 - National Roads Authority
 - Planning Department
 - Department of Vehicle and Equipment Services
- The Phase IV Report, completed in 2013, reviewed the overall Government structure and potential synergies that could be achieved by optimizing efficiency in the use of resources and services that could be better and more effectively performed by the private sector.
- This Phase V Report is intended to maximise options for rationalization and commercialization with a focus on optimising the utilization of available human, financial, material and other resources allocated to the public sector to reduce the costs of doing business.

Scope of work

EY was appointed to assist CIG with a defined scope of work focused on assessing previous recommendations, identifying Government functions and businesses that could be transitioned to the private sector and providing a considered roadmap for implementation

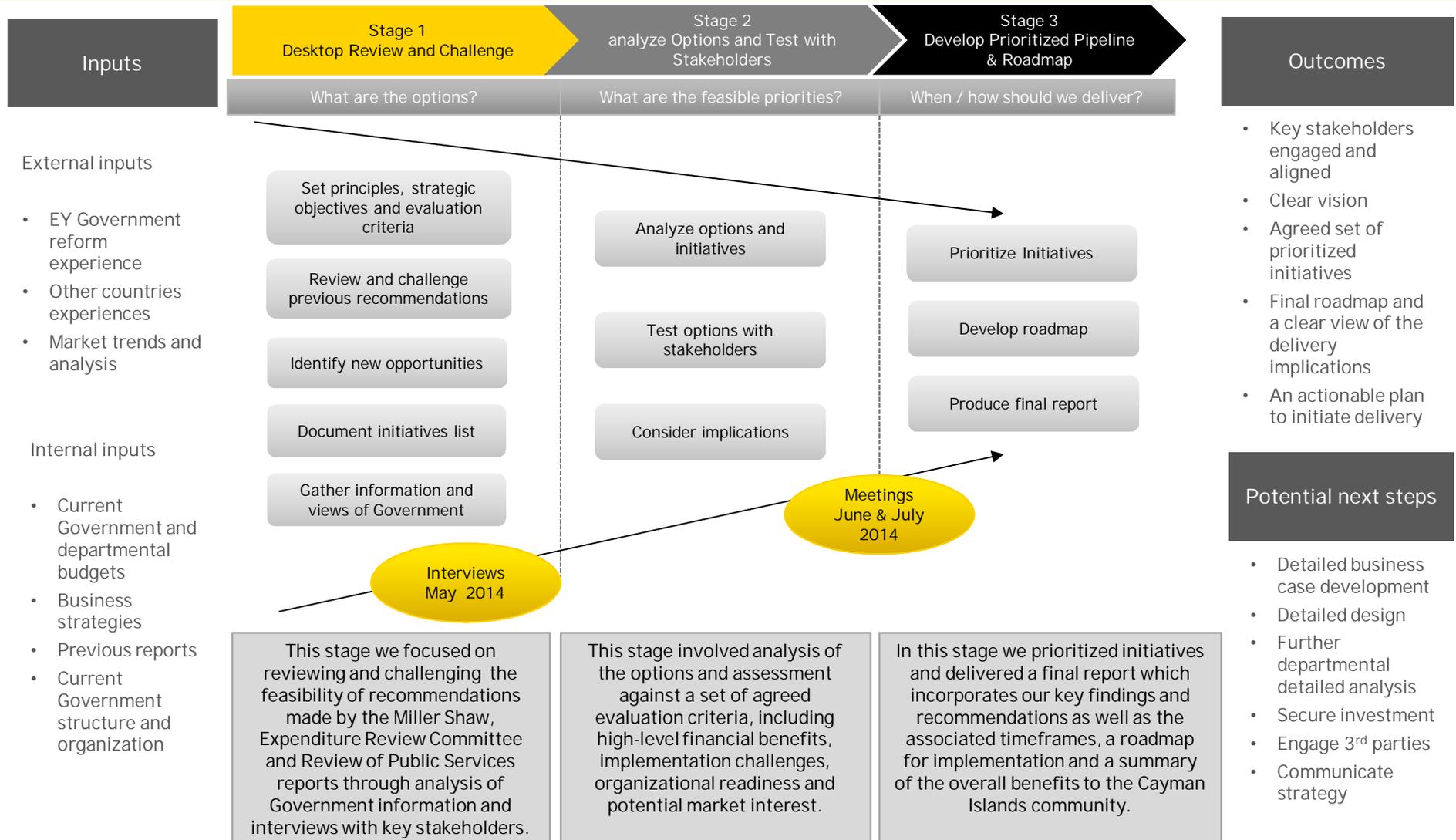
- Our work has been captured in this final report, which incorporates our key findings and recommendations for potential asset sales, outsourcing opportunities, Government mergers/rationalisation or efficiency initiatives, as well as the associate timeframe/priorities and overall benefits to the Cayman Islands community.
- This Report is structured into six main sections:
 - Section 1: Case for Change
 - Section 2 Recommendations Overview and Proposed Benefits
 - Section 3: Priority 1 Recommendations
 - Section 4: Priority 2 Recommendations
 - Section 5: Other Recommendations
 - Section 6: Implementation Roadmap
- Our approach was structured into three stages, outlined in more detail on the next page:
 - Stage 1: Desktop Review and Challenge
 - Stage 2: Analyze Options and Test with Stakeholders
 - Stage 3: Develop a Prioritised Pipeline and Implementation Roadmap
- Stage 1 focused on recommendations made by the Miller Shaw, Expenditure Review Committee and Review of Public Services reports to conduct an initial review and challenge their feasibility.
- Stage 2 analysed and prioritized the shortlisted initiatives to determine those most likely to achieve CIG objectives. This stage involved desktop market research and a review by EY Global Strategic Advisory Panel. Key to this stage was analysing each initiative against a set of agreed evaluation criteria, including high-level financial benefits, implementation challenges, organizational readiness, potential market interest, and the time and effort required to execute.
- Stage 3 compiled the findings of stage 2 into a robust and implementable roadmap. This includes the development of both a high-level roadmap and a detailed implementation plan for priority initiatives, outlining the key steps necessary to undertake the work.
- We note that the FFR places constraints on the Cayman Islands in terms of decisions related to major financial commitments or transactions. We have assumed that the value of our recommendations will align to the requirements of the FFR or enable conversations to be had with the UK about the way forward to implement our recommendations.

Scope of work

- Our scope included:
 - Assessing the feasibility of implementing the recommendations previously provided in internal and external reports.
 - Identifying Government functions that would be better carried out by the private sector across the Government's portfolios of entities.
 - Reviewing the Government's businesses and assets and recommending those that could be sold or leased to the private sector, where a fair market exists.
 - Providing a considered and appropriate 'roadmap' for the rationalization of CIG's ministries and other entities.

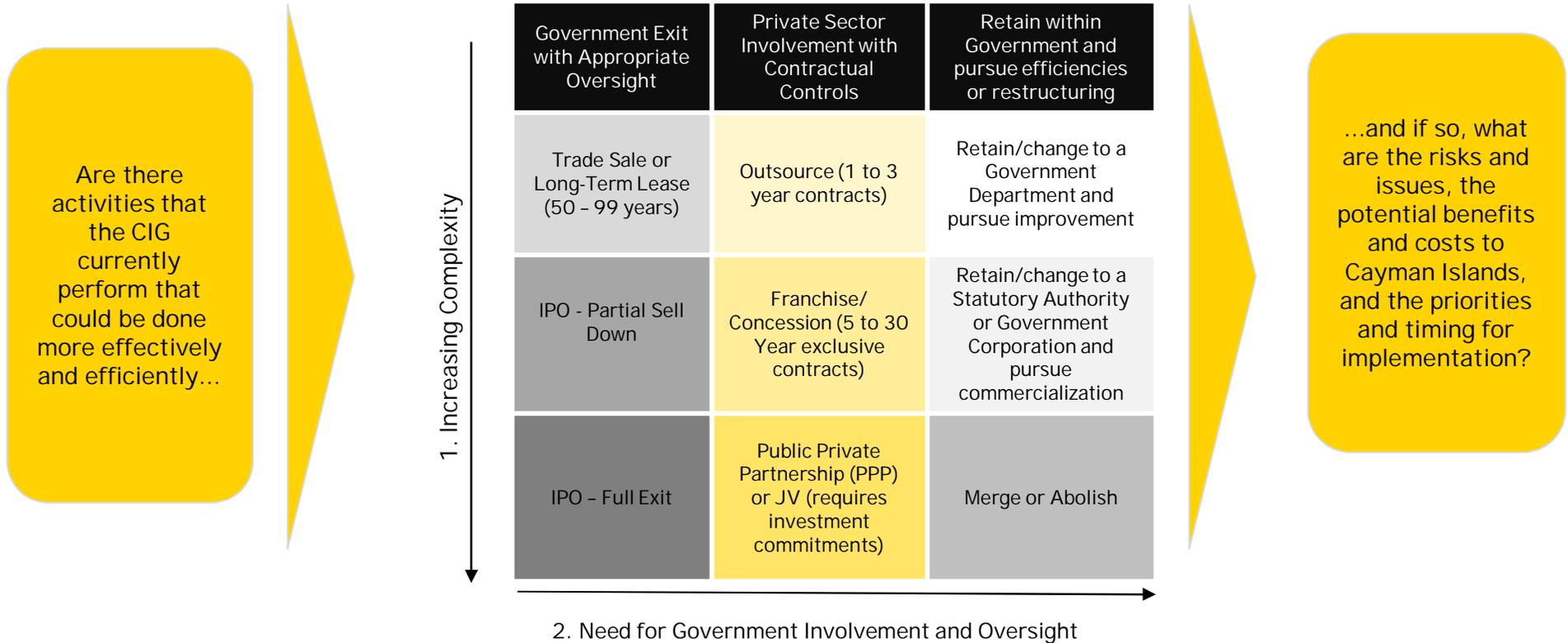
Approach: overall approach

We undertook a three-stage approach to review previous recommendations on the public service, analyze options and test with stakeholders, and develop a validated and prioritized pipeline of initiatives and a roadmap for implementation



Approach: options considered

A wide range of options were considered: Government exit, private sector involvement with contract or retain within Government and pursue efficiencies/restructuring



Approach: Government objectives and guiding principles

The Steering Committee, formed by the CIG to oversee the project, developed a number of objectives and guiding principles for the project, outlined below:

Objectives

- To preserve or enhance service levels and standards.
- To ensure fair and equitable treatment of existing employees.
- To attract local participation to provide public services and/or ownership of government assets where a fair market exists.
- To communicate with stakeholders throughout the process.
- To maximize employment for Caymanians.
- To promote fair competition in the market place.
- To consider the economic, financial and social implications of rationalization.

Guiding principles

- Undertake a strategic review of public service and current market conditions for the feasibility of implementing previous recommendations provided in internal and external reports.
- Review the number of bespoke government entities to identify opportunities to streamline Government's structure, reduce operational costs, and improve public service.
- Identify opportunities where there is a market appetite and capability for private sector engagement with public services.
- Review the government's assets and recommend those that could be sold to the private sector where a fair market exists.
- Review and report on financial, social and economic benefits, costs and risk to Government on recommendations.
- Minimize impact on Government employees, public services levels, private sector relations and any legislative requirements required for recommendations.
- Deliver a comprehensive and detailed roadmap of implementation and management for efficient and effective public service reform of the Cayman Islands Government's Ministries and other entities.

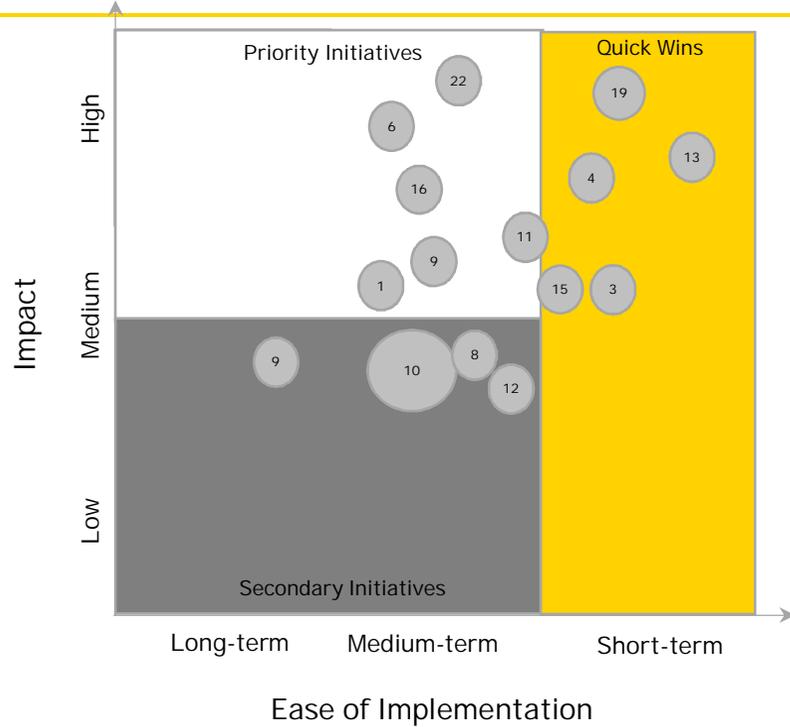
Approach: evaluation criteria

Each option was evaluated against a common set of criteria to determine whether it met agreed Government objectives against a 5-point scale

Criteria	Description		
Alignment to Government's Role	<ul style="list-style-type: none"> Does this option lead to the overall reduction in the size of entities or headcount Government? Does this option facilitate Government to focus on its core functions versus execution? 	Fully meets criteria to the greatest extent	5
Financial	<ul style="list-style-type: none"> Would the option provide sale proceeds or increased revenues to Government? Would option lead to reduction in Government expenditure, through synergies or efficiencies? Would the option lead to any loss of synergies or potential increased costs? What are the short and long term financial implications of this option (including potential liabilities which may result)? 	Meets criteria to a good extent	4
Ease of Implementation	<ul style="list-style-type: none"> How difficult would it be to implement this option? How complex or difficult would this option be to manage in a 'business as usual' manner? Is there any evidence that there may be significant resistance from key stakeholders? 	Meets criteria to a medium extent	3
Local Economy/ Sensitivity	<ul style="list-style-type: none"> Does the option enable existing employees to bid (if relevant)? Would the option lead to potential increases in prices for the local community? Does the option enable the continued employment of Cayman citizens? Does the option mean that local Cayman investors are likely to participate and be successful? Would the option be likely to have a positive impact on the overall Caymanian economy? Is the service perceived as an essential service by the community, and if so, can mitigations be put in place to ensure the service does not fail? 	Meets criteria to a lowest extent	2
Customer Service	<ul style="list-style-type: none"> Does the option negatively impact continuity of service levels and standards in any way? And if so how? 	Does not meet criteria (worst rating)	1
Workforce Impact and Capability	<ul style="list-style-type: none"> Does the option enable protection of employees rights, even if for a period of time? Does the option require significant increases in Government capability? Does the option require significant increases in employee-capability? Will there be any redundancies as a result of this option? 		
Legislative and Regulatory	<ul style="list-style-type: none"> Would the option have any regulatory or legislative barriers? Would the option require additional/amendments to legislation or regulation to be put in place? 		
Market (only relevant for some options)	<ul style="list-style-type: none"> Is there any demand for this asset/outsourcing opportunity in the private sector? Is there current capability in the market to take on this responsibility? Are there other examples of this being successfully done by other Governments? Are there other examples of this option being pursued in jurisdictions of a similar size to Cayman? Does the commercial framework allow enough room for the private sector to create value? Would the option create a private monopoly and, if yes, could associated risks be appropriately mitigated through legislation, regulation or price monitoring regimes? 		

Approach: analysis of options

Once evaluated, each recommended option was mapped against potential value and ease of implementation to identify the 'quick wins' and priority initiatives. Each option also has an option profile outlining the aspects of each option from a number of perspectives



Potential Impact	High	Medium	Low
Financial / Economic Value	>\$10m	\$1-10m	<\$1m
Non-Financial Value	<ul style="list-style-type: none"> Improved service to customers Positive social impact Ability to develop the economy Promotes competition Improvement in facilities and infrastructure 		
Implementation	Low	Medium	High
Implementation difficulty	Minimal barriers and challenges to implementation	Some barriers and challenges to implementation	Significant barriers and challenges to implementation
Implementation	Short -Term	Medium-Term	Long-Term
Timing	Can be pursued in the next 12 months	Should be pursued in the next 12 mths to 2 years	Should be pursued in the next 2 yrs +

Option Profile

Estimated Value \$\$ ←

Potential financial or non-financial value of the option

Estimated Headcount Impact XX ←

Potential headcount impact



Estimated difficulty and complexity to implement (as per above)

Short Term Medium Term Long Term



Estimate of potential timing to implement (as per above)

Limitations and constraints

Readers of the report should bear in the mind the following list of limitations and constraints with relation to this engagement

Limitations and constraints experienced in the production of this report are as follows:

- The engagement letter was signed on 15 April 2014, with our field work commencing on 12 May 2014 and report being completed in draft form on 28 July 2014. Therefore our Report does not take account of events or circumstances arising after that date. In the period following the delivery of the draft report to the date of this final report the Deputy Governor was given the opportunity to ensure the factual accuracy of the document, however no material new information was received
- Given the short time frame in which the work has been undertaken relative to the scope of the exercise, it has not been possible to analyse all of the information in depth.
- In addition, due to the time limitations and the information available to us, further work may be required to develop more detailed business cases for approved recommendations.
- Given the time scale involved we have not been able to consult with all stakeholders as part of the this process.
- We note that the financial statements of many CIG ministries and entities have been qualified by the Auditor General. As such, there may be limitations in the accuracy of our estimate of financial impact of recommendations.
- In relation to the CIGPFI, references to EY in the Report relate to our advice, recommendations and analysis and do not indicate that we take any responsibility for the information concerned or are assembling or associating ourselves with it. We did not assist in the preparation of the CIGPFI or in the development of any assumptions therein.
- Our Report includes tables showing a range of approximate benefits in order to illustrate indicative financial impacts. Those tables should not be regarded as a restatement of CIGPFI or preparation of revised CIGPFI; they are provided as a means of summarising our findings and recommendations to assist you in considering their implications for a recommendation. It is your responsibility to consider our findings and make your own decision based on the information available to you, including such findings and recommendations.
- We have reached factual conclusions and made recommendations about specific assumptions and components of the CIGPFI herein, where we had sufficient evidence to provide a reasonable basis for them. We have not provided any opinion, conclusion or any type of assurance about specific assumptions or components of the CIGPFI or on the CIGPFI as a whole.
- There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We take no responsibility for the achievement of projected results.
- Cost benefit – various areas of business or operations are very small (and practically couldn't be smaller).
- All the information we have received is the responsibility of the Cayman Islands Government. We have not sought to establish the reliability of information given to us except as specifically stated in the Report. Consequently, we give no assurance on such financial information. If we have made adjustments to financial information provided to us they have been based on analytical procedures carried out on information supplied to us and should be regarded as illustrative. Such analysis is necessarily subjective.

The case for change

The case for change

The CIG is committed to achieving fiscal sustainability and, as part of this commitment has sought a review of the feasibility of options to improve the performance and efficiency of the public service as well as opportunities to rationalize Government. This is sought in light of a backdrop of ongoing PMFL borrowing restrictions given continuing debt levels and building pressure to urgently progress critical infrastructure replacement and development projects.

The case for change

- The CIG has become increasingly diverse and currently has 13 ministries and portfolios, over 70 departments and sections, 25 statutory authorities and Government companies and numerous boards, committees and commissions.
- The Government is aware that the large number and size of Government bodies and employees is leading to a strain on the budget that is not fiscally sustainable.
- At present, the Government has achieved a budget surplus. However, in recent history, spending has exceeded revenue. The CIG is unable to borrow and has large unfunded liabilities (specifically the defined-benefit retirement costs and healthcare plan).
- In June the Government handed down its Annual Plan and Budget Estimates for the year ending 30 June 2015 together with details of the expected 30 June 2014 year end public sector financial statements.
- A summary of the revenue statement and the balance sheet with some key financial metrics appears on the next page.
- Particularly relative to island economies in the Caribbean and Atlantic region, but also relative to many large diverse economies, the budget outlines a sound current financial position for Cayman and up trending economic indicators.
- However, Cayman cannot afford to rest easy at this juncture. Total public sector debt at 30 June 2014 is budgeted to amount to \$874.5 million including unfunded pension liabilities and total public sector liabilities amount to \$1.115 billion at FY14 and are projected to land at \$1.047 billion in FY15. These liabilities amount to 43.4% of the public sector's gross assets in FY14 and a projected proportion close to 40% in FY15.
- As solid as the financial metrics may be, the Government remains unable to borrow to invest under the terms of the PMFL.
- Critically, Government is also not in a position to significantly invest in infrastructure upgrades and developments vital to the country's development and future.
- In the course of undertaking our project, we have identified calls from almost every area of Government operations for additional funding to invest in and replace essential infrastructure. Whilst many investment decisions can and have been delayed (particularly in the wake of the 2008 global financial crisis), many decisions cannot be delayed for much longer without beginning to create negative economic and social impacts.
- The final table in this section illustrates many of the infrastructure projects that in most cases need to be addressed, at least to some degree in the short term. This highlights the infrastructure needs of the country which at present the Cayman Islands has no ability to raise solely by way of Government debt, and which could not be dealt with without significant and meaningful interaction with the private sector.
- These infrastructure needs present a compelling requirement for Government to actively pursue a program of commercialization and rationalization.
- Finally, it is believed that the historic approach of CIG to continue to increase fees and other forms of coercive revenue to accommodate Government budgetary shortfalls is unsustainable, and is potentially at breaking point in relation to some industries. Further increases to fees and costs to increase Government revenues is likely to lead to the jurisdiction being considered uncompetitive.
- It should be noted that on a per capita basis, the Cayman Government raises revenue at a level equivalent to most larger diversified economies. Whilst it is noted that the sources of revenue in Cayman differ from many jurisdictions with direct forms of taxes, particularly income tax, if you simply examine the total Government revenue raised per head in Cayman it is within 5% of the revenue raised per head of population in other locations such as Australia, NZ or the UK.

CIG financial overview

Summary of the Statement of Financial Position (balance sheet) and Summary of the Financial Performance (income and expenditure statement) for the CIG

Statement of Financial Position

Y/E 30 June (\$'000)	FY14B	FY13A
Current Assets	451,204	341,622
Non Current Assets	2,055,103	2,117,112
Total Assets	2,506,307	2,458,734
Current Liabilities	(247,911)	(202,682)
Non Current Liabilities	(892,767)	(975,954)
Total Liabilities	(1,140,678)	(1,178,636)
Net Assets	1,365,629	1,280,098

Source : Annual Plan & Estimates 2014

Statement of Financial Performance

Y/E 30 June (\$'000)	FY13A	FY12A
<u>Revenue</u>		
Coercive Revenue	612,060	560,036
Sale of Goods & Services	225,618	240,176
Other	7,380	4,338
Total Revenue	845,058	804,550
<u>Expenses</u>		
Personnel	351,316	345,494
Supplies & Consumables	228,458	220,369
Depreciation	46,788	46,000
Financing Costs	36,960	39,216
Outputs from non Governmental Suppliers	25,167	26,000
Transfer Payments	33,183	31,728
Other	22,850	32,423
Total Expenses	744,722	741,230
Net Surplus	100,366	63,320

Source : Annual Plan & Estimates 2014

Financial Comments

For the year end 30 June 2014 and for the FY15 budget the Government projects:

- A debt to GDP % of approximately 25.6%, declining to 23.4% in FY15.
- An operating account net surplus for the entire public sector estimated at \$108 million and an FY15 forecast at \$128 million.
- Stable whole of public sector operating revenues at approximately \$852m (projected to increase to \$873 million in FY15) and equivalent operating expenses at \$708 million for FY14 and \$711 million for FY15.
- Closing FY14 Cash reserves of \$162 million.
- Real GDP growth of 1.6% and a forecast FY15 growth rate of 2%.
- Inflation rates in line with GDP growth.
- Stable to declining rates of unemployment at 6.2%.

CIG financial overview

A key driver in the case for change is the need to replace upgrade and development country infrastructure. A snapshot of potential infrastructure projects is listed below. These projects alone could cost over \$1 billion.

Capital requirement

Port : New Cruise Port – Potential movement of commercial operations outside of George Town

Airport : New Airport – Potential new site location

Roads : Road upgrades and completion of East End corridor

Hospital : Upgrade of George Town hospital

Police : New police building

Prison : Upgrade to prison site and infrastructure

Court : New courthouse

Waste Management : New location and infrastructure for landfill and waste collection

School : Completion of John Grey High School

IT : Upgrades to IT infrastructure

Waste & Energy : Waste to energy plant

Sewerage : Upgrade and extension to existing sewerage infrastructure

Other small capital expenditure : Postal service, UCCI etc.

The above projects could cost in excess of \$1 billion. Additionally the following areas of potential capital cost are also looming:

- Salary: Civil service pay increases
- Pension: Unfunded health and pension liabilities
- New Business/CIDB: promotion and capital investment for new business

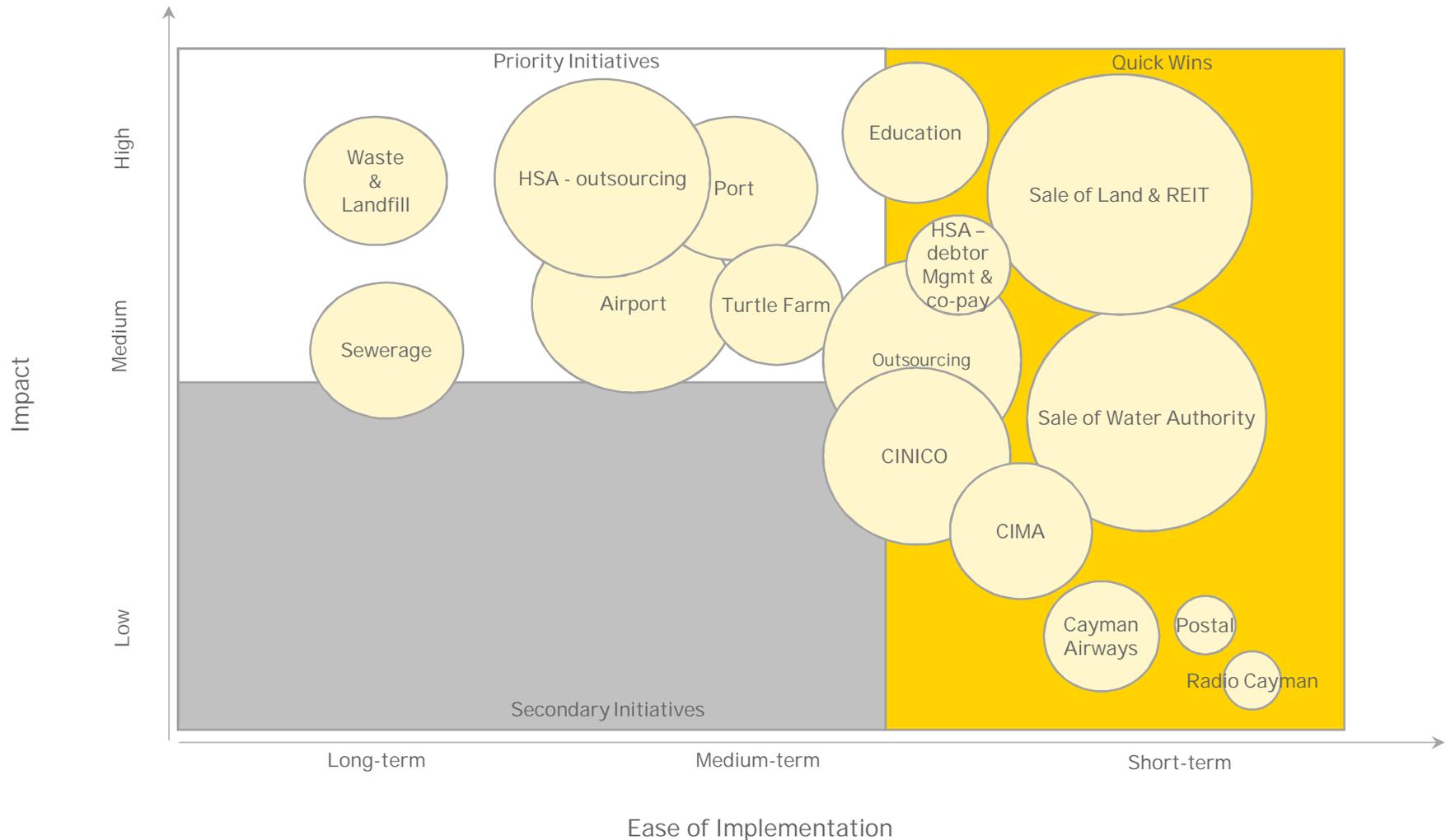
Priority 1 recommendations

Priority 1 recommendations

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Mapping of Options: Priority 1

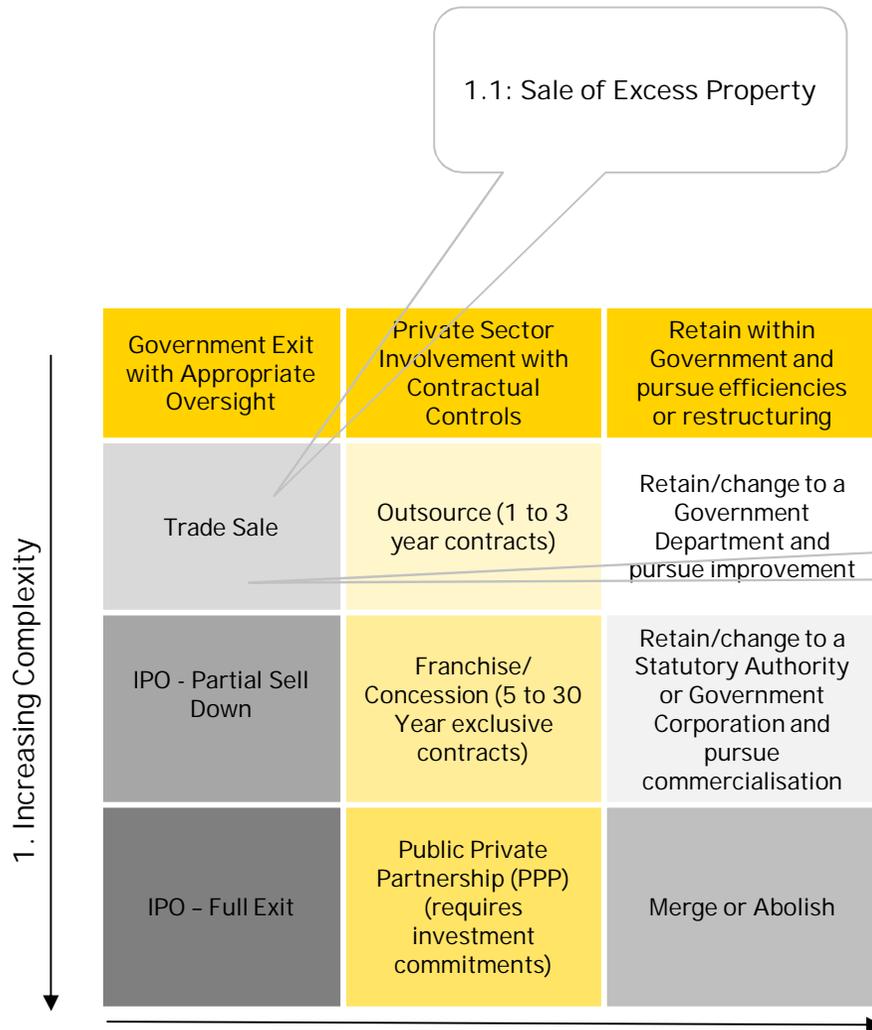
Each recommendation has been mapped against potential value and ease of implementation to identify quick wins as well as the priority initiatives that should be pursued. The representation of Options is subjective however we believe that by taking into account factors such as the option's potential financial contribution, the potential for reducing the size of government and the ease of implementation that this provides a fair illustration of the potential positive attributes of each option.



The size of the circle aims to illustrate the \$ value of the option in terms of cash saving/ability to generate capital or existing CIG financial support. It does not illustrate the potential \$ benefit as a result of capital injection, restructuring or implementation of an option. This chart is illustrative only and can be subject to many timing variables.

1. Sale of Surplus Property and Establishment of REIT

The CIG holds significant undeveloped land & unused property. It also owns a valuable portfolio of occupied properties. This provides significant opportunity for releasing capital which can be put to use for debt retirement and/or new capital works.



1.1: Sale of Excess Property

- Government currently holds in the order of 580 + parcels of land comprising everything from small vacant residential blocks of land through to large undeveloped sites, public spaces and large Government buildings. This number includes heritage sites but excludes highway assets.
- Not all holdings carry current values and some sites are inherently difficult to value but as a guide the Annual Accounts for 30 June 2014 place a value of approximately \$425 million on these assets.
- Of these properties the Department of Lands has identified parcels of properties to a value of approximately \$65 million which are surplus to requirements.
- We recommend that all properties identified as surplus to requirements be sold and that the property portfolio be further reviewed to ascertain the justification for other property holdings. Any other properties for which there is not an earmarked purpose should also be considered for sale.

1.2: Establishment of REIT

1.2 : Creation of REIT

- Government presently holds some 170 operational buildings the majority of which are described as specialized and of which 16 are described as non specialized.
- The ascribed value of these properties is \$285 million. We recommend that a Real Estate Investment Trust (REIT) be formed to acquire selected properties from this portfolio utilizing money raised from the private sector.
- The properties transferred into the REIT would be transferred on the basis of long term leases back to Government for a term of the buildings conservatively estimated life at a conservative commercial rate indexed to inflation at pre determined intervals.
- In this manner the Government would have the benefit of the use of the buildings for their useful lives and visibility of ongoing rental obligations.
- Government would immediately receive the benefit of substantial freed up capital to retire debt and/ or invest in other capital works.
- Cayman pension funds and private Cayman investors could invest in the REIT to maintain a majority of Caymanian ownership.

2. Need for Government Involvement and Oversight

1. Sale of surplus property and establishment of REIT

The CIG holds significant undeveloped land & unused property. It also owns a valuable portfolio of occupied properties. This provides significant opportunity for releasing capital which can be put to use for debt retirement and/or new capital works.

Summary of property assets

- The table to the right provides a summary of the various property interests currently held by the CIG including both freehold lands and buildings owned outright and operating leases for premises used by various arms of Government.
- Items not ascribed a value include 'Heritage assets' which covers cemeteries, boat ramps and other such public use lands. Additionally 'Infrastructure assets' and highway assets comprise highways and road verges which are also not valued.
- The sale of land currently leased, such as that on Seven Mile Beach, should also be considered.

Property Description	No. of sites	Area (Acres or Sq Ft)	Value (CIS\$)
Specialised Operational Bldg	154	N/A	147,544,357
Under Construction	4	N/A	59,816,398
Operational Non Spec Bldg	16		138,267,379
Operational Lands	21	155 acres	9,858,751
Non Operational Lands	294	5,415 acres	66,908,370
Non operational Bldg	20	2,8597 Sq Ft	2,936,956
Heritage assets	61	180 acres	N/A
Infrastructure Assets	11	1 acres	N/A
Highways assets	N/A	N/A	N/A
Operating Leases	60	177,751 Sq Ft	5,203,101 Rent pa

Property asset details

- Specialized assets comprise all specific purpose Government buildings including schools, police stations, community centers, public works buildings, the legislative assembly, the public library, airport buildings, the prisons and various sporting facilities.
- The 'Under Construction category includes primarily the John Grey High School which is as yet not complete and the new MRCU aircraft hangar, the new hurricane shelter on Major Donald Drive and the CI Youth facility in Fern Circle.
- Operational non specialized Buildings includes those properties which could, if required, more easily be adapted for other uses such as the GOAB and other general office and commercial buildings used by Government as offices and storage and the Governors residence.
- Operational Lands include operating Landfills and operating parks.
- Non operational lands include numerous undeveloped land parcels, mangroves, swamps, ponds and coastline across Grand Cayman and the sister islands.
- Non operational Buildings include smaller vacant commercial and residential properties.
- It is our understanding that the Department of Lands & Survey recommendation for the sale of surplus properties covers various properties sitting within the non operational lands and non operational buildings categories.

REIT investment vehicles

- It is recommended that consideration be given to releasing capital through the sale of various public buildings into a Real Estate Investment Trust.
- A REIT would be established as an independent commercial vehicle which would seek investment capital from Cayman pension funds, the Cayman public and foreign investors to acquire Government buildings which could be leased back to the Government on secure long term leases.
- There could be no limit as to how many properties could be sold into a REIT but practically investors would demand properties which are relatively new and in good condition and which retain a reasonable term of useful life, say > 10 to 15 years.
- To be attractive to investors through the REIT investment vehicle these properties would need to come with long term leases provided by Government. The focus of the investment would be that of consistent long term rental returns with the opportunity of capital gains on exit.
- The REIT structure also requires an asset management capability which would release Government from the need to manage assets sold into the structure
- Given the current value of operational properties held by Government there is significant potential for the release of capital value although not all buildings would be of qualifying quality.

1. Sale of surplus property and establishment of REIT

We recommend that two options be progressed in that surplus property should be sold and that a Real Estate Investment Trust be established to acquire selected Government buildings.

Potential Benefits

- Both of the recommended options would provide a significant financial benefit in the release of substantial capital for debt reduction and/or investment in fresh capital works. The department of lands estimates that approximately \$65 million could be realised from surplus lands and after further review this value could increase. In relation to the establishment of a REIT the GOAB alone is valued at \$90 million so between just currently identified surplus lands and a cornerstone REIT asset some \$150 million could be realised.
- Whilst many services in relation to management of the GOAB are already outsourced many building management aspects are still performed by Government and the creation of a REIT would see property management functions move to a REIT manager. Headcount would depend on the number of properties sold into a REIT.

Risks and Issues

- There are public perception concerns around the sale of land by Government. The perception that Government must be a substantial land holder being often driven by concerns that as a small land area the CIG must control substantial land to maintain sovereignty and hold a land bank for future development. Whilst lands needed for future infrastructure development should be identified and held beyond that surplus lands represent an underutilized resource. Communications around the benefits of releasing capital should be focused on including debt reduction and capital works that stimulate the economy and provide immediate utility to the community. There would be timing issues around a sales process.
- The concept of the sale of Government buildings into a REIT may also carry negative concerns around the potential for foreign investment. The REIT can, however, be established requiring a majority of Cayman ownership via investments from pension funds and Caymanian residents. It is expected that some foreign investment would be required but this would be a positive as it would effectively bring substantial fresh capital into the country.
- Historically one of the reasons the GOAB was built was to save on rent costs which were seen negatively as they were higher than interest costs. Selling an asset such as the GOAB into a REIT on the basis of a long term lease would deliver a lease cost lower than a short term commercial lease and would be attractive to a different class of investors seeking longer term stable returns.
- Further examination of accounting treatment of the REIT would be necessary when considering its structuring.

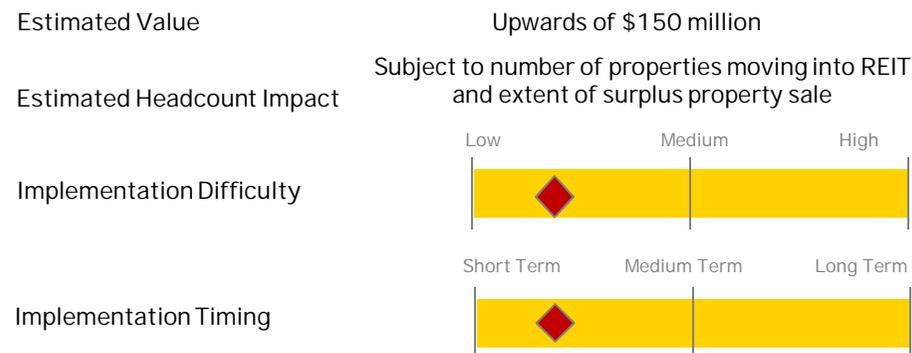
Costs

- Surplus lands - The primary cost around the sale of surplus lands would be agents commissions but these would be paid from proceeds of sale. Some costs would also be incurred in obtaining independent advice around strategy and potentially some further valuation work but this would likely be less than 2% of asset value.
- REIT - Financial Advisors costs and legal fees would be incurred but these could be defrayed through an initial establishment fee charged to investors.

Implications and Implementation Considerations

- In order to enable the REIT to maintain greater than 50% Cayman ownership some legislative change is required to enable Cayman Pension funds to invest in such an asset.
- A well prepared communications plan identifying the direct benefits stemming from both options would be required to obtain public support and address concerns around the sale of CIG property and lands. It is recommended that as part of this CIG determine which infrastructure projects would directly benefit from the proceeds and that the interest savings from the portion applied to debt reduction be calculated and included in communications.
- Advice should be sought on the sales approach and the timing of release for sale of the constituent elements of the surplus property. It will also be necessary to consider, review and understand any security the surplus property and property forming part of a REIT has attached to it.

Initiative Profile



1. Sale of surplus property and establishment of REIT

Improving the commercial viability of the operation may improve prospects for sale and marginally improve price but there is no certainty that improvements could be obtained particularly given pre existing market competition

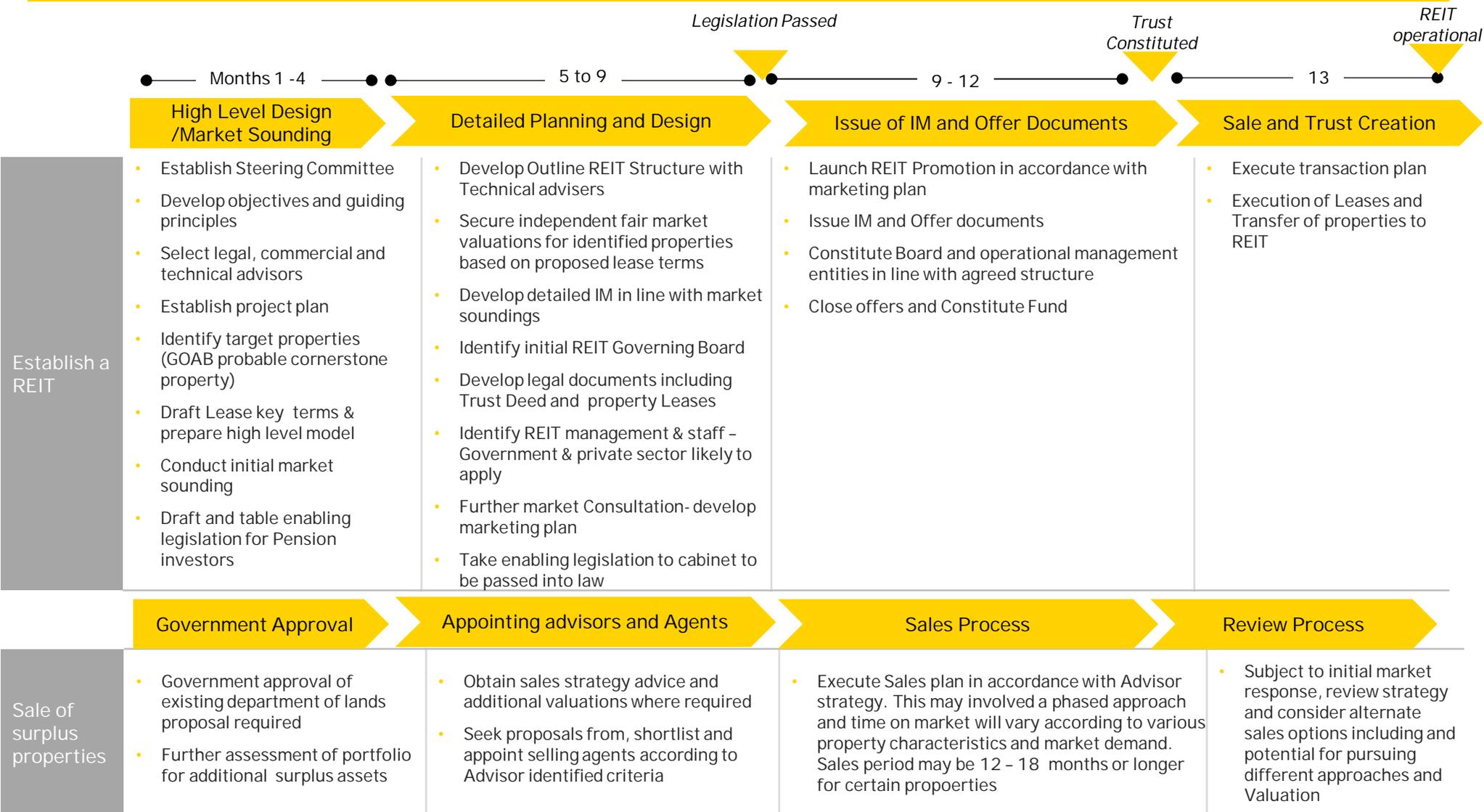
Criteria	1.1: Disposal of Surplus Real Estate		1.2: Establishment of a REIT	
	Comments	Rating (1-5)	Comments	Rating (1-5)
Alignment to Government's Role	<ul style="list-style-type: none"> Reduces CIG's focus on 'non-core' services - being the maintenance & holding of real estate. 	5	<ul style="list-style-type: none"> Reduces CIG's "non-core" involvement in holding and managing buildings. 	5
Financial	<ul style="list-style-type: none"> Provides an estimated \$65 million in freed up capital for the retirement of debt and/or investment in other infrastructure works. 	5	<ul style="list-style-type: none"> Subject to the number of buildings included in the REIT substantial capital could be freed up. For example the Government building could yield \$90 million being the current carrying value. 	5
Ease of Implementation	<ul style="list-style-type: none"> The surplus properties identified could very quickly be put to market. Advice should be sought on sale approach and the possible staging of release. 	4	<ul style="list-style-type: none"> This could be implemented quickly but would require property selection, the preparation of leases, a book build process and identification of underwriters etc. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> Minimal impact on the local economy through a sale albeit some staging of the sale process may be beneficial. 	4	<ul style="list-style-type: none"> This would stimulate local investment activity and would provide foreign investors with a new avenue of investment. 	4
Customer Service	<ul style="list-style-type: none"> There are no Customer service impacts although unlikely to be impacted through a sale now. 	4	<ul style="list-style-type: none"> No impact as Government has the ability to prepare lease terms to suit operational needs. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> No impact other than potential savings in the reduction of oversight and management time currently required. 	3	<ul style="list-style-type: none"> No impact other than potential savings in the reduction of oversight and management time currently required. 	5
Legislative and Regulatory	<ul style="list-style-type: none"> Approval of Department sale recommendation required. 	4	<ul style="list-style-type: none"> Legislative change required to allow Cayman pension funds to invest in REIT. 	4
Market	<ul style="list-style-type: none"> The Cayman real estate market is beginning to move forward again after several years of stagnant conditions post the global financial crisis. Local real estate agents report improvements in inquiries & sales this year but time on the market for properties identified in the surplus portfolio will vary. 	3	<ul style="list-style-type: none"> There is an active global market for secure investment options and a Cayman REIT backed by long term Government leases should be attractive to local private and pension investors as well as foreign investors. 	4

Recommendation

We recommend that both options, being the sale of surplus lands and properties and the establishment of a REIT be pursued. According to analysis undertaken by the department of lands the sale of surplus lands could raise \$65 million in freed up capital for the retirement of debt and other essential infrastructure. The establishment of a REIT could raise substantial freed up capital from both external and Caymanian sources.

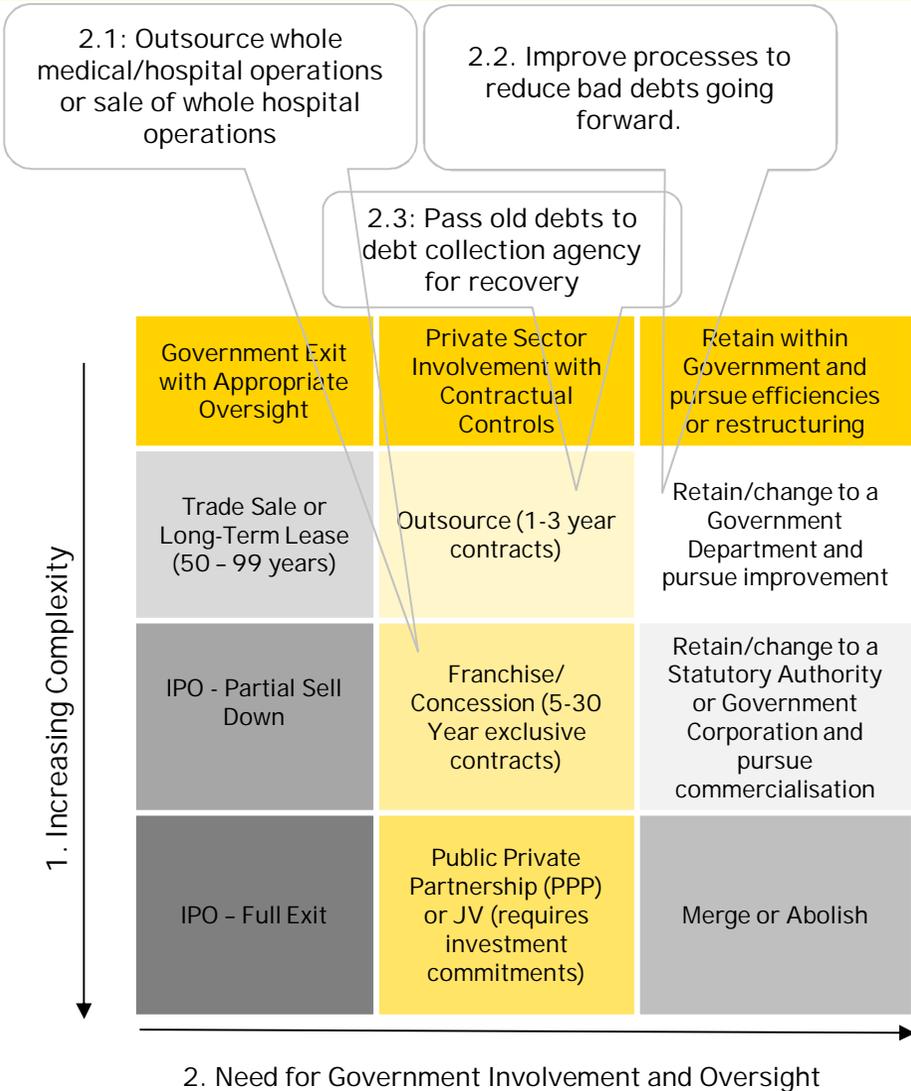
1. Sale of surplus property & establishment of REIT : Implementation Roadmap

An implementation plan is outlined below for releasing capital from Government real estate and property assets. For convenience we present a combined implementation road map but would recommend that separate project teams be established for each option as there are a number of differences in the degree of complexity.



2. Health Services Authority: Overview

The following options have been analysed relating to the Health Service. Due to the inter-relationships this section should be read in conjunction with the CINICO section of the report.



2.1: Outsource whole Hospital Operations

- The outsourcing of the full suite of clinical services and non-clinical operations, potentially all facilities including: George Town, District Clinics, Faith Hospital, and Dental Clinic to a specialist third party private operator experienced in Medical/Hospital operations.
- There are a number of regional and international 'brand' name medical/hospital operators that would be attracted to the prospect of taking on the operations. The key difference between an outsourcing and a sale option would relate to the retention by the HSA of the ownership of the existing infrastructure and assets. At this point we believe that the outsourcing option is more likely so we are reviewing that option here.
- Under this option, Government would assume a more regulatory/oversight function responsible for managing the service contract with the owner/operator and ensuring service standards and deliverables are achieved.

2.2: Improve processes to reduce bad debts going forward

- There are a variety of inputs required to improve this situation which are all based around performance improvement so will be considered under this one option.
- The key measures to address are listed below:
 - Improve billing procedures, controls and recording of data.
 - Education of the public of the impact of not paying your dues and to try and change behaviours.
 - Have better definitions around who is eligible for free care, which can be fed into procedures on admitting patients.
 - Have more detailed eligibility checks when receiving patients to be able to appropriately identify who has the means to pay.
 - Ensure the credit collection department is sufficiently resourced to be able to chase debt appropriately and have ability to receive timely data on receivables balances and aging.
- NB See the key challenges section for more background on the bad debt problem.

2.3: Pass very old debts onto debt collection agency for recovery

- The bad debt provision as at 30 June 2013 stood at \$45.5 million. There should be a detailed review carried out of this balance to see what proportion of this could be recoverable. The culture for a small percentage of the population has been to not pay, as they believe that there will be no consequence for non payment. Therefore, it is highly likely that some of this could be recoverable with some extra focus. As the HSA is already resource constrained, the function of working on the collection of these extra debts could be passed onto a private debt collection agency on a no win, no fee basis. Obviously safeguards would need to be built into contract on the methods to be employed by the debt collection agency.

2. Health Services Authority: Overview continued

The HSA faces significant challenges and has a significant impact on the budget

Health Services Authority Overview

Overview

- The HSA is mandated through legislation to provide primary and secondary healthcare and public health functions to the 55,000 resident population of the Cayman islands.
- The HSA provides secondary care through 124 beds in the George Town hospital and 18 beds at the Faith hospital in Cayman Brac.
- Primary health care is delivered through 5 district health centres in Grand Cayman, the Faith hospital in Cayman Brac and the health centre in Little Cayman.

Functions

- The authorities' vision is to *'partner with patients and employees to provide the highest quality of care to patients and for employees to provide the highest quality of care, patient safety, satisfaction and healthcare economics'*.
- The HSA is the only provider of emergency medical services ('EMS') on island.
- As the Islands' principal health care facility the George Town hospital provides a range of inpatient and outpatient medical and specialist services, dental and ophthalmic services, EMS and diagnostics.
- The HSA also provides a number of other programmes including: school health services, nutrition and diet counselling, disease screening and prevention and vaccinations.
- The relatively isolated geographic location of the Cayman Islands means that the HSA provides a far broader range of services that would be commonly be expected of an authority serving a similar population.

People and Governance

- The HSA is a Statutory Authority and the primary piece of legislation governing the HSA is the Health Services Authority Law as well as the Public Health Law.
- HSA employs over 700 fulltime employees together with a further 50 part time and temporary staff.
- There is a Board of Directors to oversee operations. The CEO reports to the board and has a total of 10 Directors/Senior Managers reporting into her. These include the Medical Director, Director of Sister Islands Health Services, Chief Nursing Officer, Director of HR, Director of Primary Healthcare/Medical Officer of Health, Director of Corporate Services, Chief Financial Officer, Director of Support Services, Chief Information Officer and Chief Dental Officer.

Key financials (KY\$)

Y/E 30 June FY13 (KY\$'000) Stat Accounts	FY13A	FY12A
Revenue	94,082	85,697
Operating Expenses	(95,764)	(90,307)
<i>Net Deficit</i>	<i>(1,682)</i>	<i>(4,609)</i>
Depreciation Charge	(3,138)	(3,101)
EBITDA	1,456	(1,508)
Bad Debt Expense	15,411	12,297
Indigent cost/revenue	15,003	12,370

Source: FY13 HSA draft Financial Statements and audited FY12

Financials Overview

Financial Overview

- The HSA represents a significant cost to the Government, be that through CINICO, or Government programmes (Schools Health, Faith Hospital, District clinics, Ambulance and Mental health) totalling \$68,063 in FY13 (FY12: \$60,307) or 72% in FY13 (FY12: 70%) of the HSA's total revenue.
- The HSA incurs a significant annual bad debt expense, this amounted to \$15 million or 16% of revenue in FY13. This has risen significantly between FY13 and FY12.
- In addition to the above the Indigent population is an increasing burden on the HSA, costing FY13: \$15,003 (FY12: \$12,370). The indigent and Seafarers population and cost to the HSA continues to grow year on year. Provisions to curtail the number or growth of the Seafarers' program and range of services it provides as well as initiatives to address the indigent populations health cost is a key area. The current exposure and costs can not be sustained.

2. Health Service Authority: Overview continued

There some significant challenges that the Health Services Authority is facing

Key Challenges

- **Financial Performance:** The HSA has historically reported annual losses (\$1.7 million in FY13 and \$4.6 million in FY12). The Government through CINICO and other 'Programmes' is the primary consumer/customer responsible for most of the HSA revenue. The total amount of Revenue generated from the CINICO Health Plan and other Government related entities amounts to \$68 million in FY13, (\$60.3 million: FY12) which accounts for 72% (FY12: 70%) of the total revenue.
- **Infrastructure:** Infrastructure is currently at full capacity. Continuing to provide the existing service levels or expanding services is not achievable without capital investment. Modernisation and expansion of facilities is required to improve efficiencies and patient care.
- **Operational Risks:** The major consumers of HSA services are civil servants, veterans, seamen and the indigent population. Civil Servants, veterans and seamen are funded by CINICO and indigents are funded through by Government. The current fee structure for services via CINICO, with no contribution from the customer and a full suite of treatments to choose from, is not sustainable in the long term and encourages excessive use of services.
- **Growing uninsured population:** There is a growing uninsured population that increases the burden on the HSA's finite resources. This creates a difficulty in maintaining a balance between a healthy population and sustainable funding.
- **Control over the bad debt provision:** The level of bad debts is a significant problem for the HSA. For the period to 30 June FY13 HSA revenue was \$84.2 million. The accounts receivable balance as at 30 June 2013 was \$59.7 million. The high proportion shows that receivables are only being collected slowly if at all. Of the receivables balance of \$59.7 million, \$45.5 million has been provided for in the bad debt provision. The expense in the financial year relating to bad debts was \$15 million. The biggest contributory factor to this is the fact that HSA have to treat everybody regardless of whether they have insurance coverage or not. There have also been a number of internal organisational issues which have contributed to the problem which are discussed in more detail in the next paragraph.

Key Challenges (cont'd)

- **Operational challenges relating to bad debt provisions:** An Internal Audit report was completed earlier this year which highlighted a number of issues around the billing processes which have contributed to an increase in bad debts. A number of issues were highlighted including the fact that some billings to insurers were so late they missed the time limit and had to be written off.
- **To summarise the key contributory factors to the bad debt problem:**
 - HSA treat everyone regardless of ability to pay.
 - Operational billing issues.
 - A lack of a robust, fully resourced, credit control unit. Their power to be truly effective is diminished by the fact that there is no real appetite to pursue non payers.
 - A culture within the wider community that there will be no consequence of not paying even if you could afford to. There is also a view that everybody should be entitled to free healthcare.
 - Inaccurate and untimely data on receivables. There are delays in coding and inaccuracies with information input into the systems. To compound this, the controls around reconciliations are not strong.

Market Overview and Jurisdictional Comparison

- The provision of Government-provided healthcare is one area where there are a number of models in use which vary greatly. In the US, the use of the private sector to run hospitals is widespread. Healthcare facilities are largely owned and operated by private sector businesses. Most hospitals are run as non-profit operations. Among the private sector companies to run hospitals are Johns Hopkins, Jackson Memorial and Mercy. There are a number of different models in place globally, but given the proximity of Cayman to the US, US operators should be considered. In Australia, there is a mix of private hospitals and public hospitals. Individuals who earn over a certain threshold must have private health insurance or pay a tax penalty, and are serviced by private hospitals, which avoids wealthy people relying on public health.

2.1. Health Service Authority: Medical Services Outsourcing

Outsourcing of the management of medical services, particularly the hospital operations in George Town has some significant benefits, along with risks, issues and implications

Potential Benefits

- The engagement of a large brand name third party operator should result in a reduction in the cost of the provision of that service through experience, commercial awareness, efficiency, economies of scale and improved business focus.
- Consequently the lower cost provision, yet improved quality, of services by a private owner/operator will result in a lower cost to the Government - the primary consumer/purchaser of health services via CINICO and Government programs.
- The introduction of a large brand name healthcare provider with an international footprint should lead to a marked improvement in the quality and range of the services provided. A provider such as Johns Hopkins, Cleveland Clinic or the Mayo Clinic with multiple successful operations in the US will help to attract high quality employees, specialist knowledge, technology, advancements, cutting edge training and equipment. All of this will ultimately benefit patient care.
- Scope exists to leverage and benefit from the skills and expertise of the potential new operator/owner in terms of specialist care. The scale and limited size of the population and, by association, the hospital, limits it from having specialists and experts in all areas. A large owner will be able to provide access to these specialists through their other operations and networks.
- Quality of patient care, standards and public perception will be improved as a result of this and more procedures will be performed on Island with an associated

Risks and Issues

- The relatively small population of Cayman and as such the relatively small scale of the George Town hospital operation may limit the number of third party private sector suppliers that may be interested in providing such services. However, we still believe that the operations will be attractive to a number of operators and owners capable of delivering services.
- In agreeing contracts with third party suppliers it would be necessary to ensure that the HSA is not left exposed in the case of exit or financial failure by the operator. The provision of health care is a key social welfare role of the Government and as such, ensuring that agreements are structured such that

Risks and Issues (cont'd)

- exposure to non-performance or default is minimised and key performance objectives are outlined should mitigate this risk.
- It will be necessary for the HSA to develop or obtain contracts management capability to ensure service levels by third party suppliers are achieved.
- Potential for service failure, if the selected vendor becomes insolvent or does not perform as expected then there may be a need for Government to step in and take the service over.

Implications and Implementation Considerations

- Work required to define the service requirements and service levels. Detailed wording will be required in the service level agreement to explicitly agree terms and conditions which detail the responsibilities of each party. Provision is also needed around recourse for the Government should the outsource provider not meet expectations.
- During the implementation stage consideration would need to be given to whether the outsource provider would just take over the management of core hospital operations or whether they would also take over other services.

Initiative Profile

Estimated Value

Improvements in client service and reputation of the hospital

Estimated Headcount Impact

Estimated 300 transition to private sector at George Town Hospital + other areas

Implementation Difficulty



Implementation Timing



2.1. Health Service Authority: Medical Services Outsourcing

Evaluation of the option to outsource going forward shows that it meets a number of the Government's objectives

Criteria	2.1: Comments	Rating (1-5)
Alignment to Government's Role	<ul style="list-style-type: none"> By outsourcing the provision of a core social welfare function to the private sector, it could be argued that the Government is passing over its responsibilities. However the Government will still retain the key oversight responsibility for providing good quality healthcare to the citizens of the Cayman Islands. 	4
Financial	<ul style="list-style-type: none"> CIG would be receiving better value for this provision as improved services would be provided for a similar cost and in the long term, costs will come down as more and better services are provided on Island. Initially the Government would incur some costs on legal and commercial advice in terms of agreeing the framework and legal contracts but over time the aim would be to get improved services at a lower cost by taking advantages of the economies of scale available to large private sector operator. Examples would include purchasing power and back office functions. 	4
Ease of Implementation	<ul style="list-style-type: none"> The outsourcing of this service will require a dedicated team to facilitate it at all stages, from agreeing the overall framework and objectives to identifying suitable providers, drafting legal contracts and transitioning the business. The changes will impact upon CIG employees. There could be some resistance from employees to working for the private sector who may have a different culture and different work practices. They will need to be engaged throughout the process to manage this. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> The health service has the potential to improve its reputation on the island and we believe that the public would welcome the change and see the benefit of using an outsource provider with scale and a strong positive reputation in the sector. 	4
Customer Service	<ul style="list-style-type: none"> The hospital would benefit from the involvement of a key outsource provider through improved services which stem from their ability to attract high quality employees, specialists, technology, advancements, cutting edge training and equipment. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> There is a need to develop or obtain contracts management skills to ensure service levels by third party suppliers are achieved. The work force would need to be transferred to the outsourced operator and would need to be able to adapt to the different management style and culture. 	3
Legislative and Regulatory	<ul style="list-style-type: none"> Development of regulatory and oversight framework and policy would be required. 	4
Market	<ul style="list-style-type: none"> The HSA already partners with private institutions and we believe that there would be a significant level of interest by the private sector for this opportunity. 	4

Recommendation

EY believes that work on this the planning for this option should begin immediately and that sufficient time is spent at the planning phase to ensure risks associated with this option are appropriately managed.

2.2. Health Service Authority: Bad Debt Process Improvement

Improving processes to reduce bad debts going forward could have a positive financial effect but would involve some effort to communicate with the public, implement process changes and train staff.

Potential Benefits

- The most direct benefit of this will be to reduce the level of bad debt expense being suffered by the HSA. When the policy is to treat people regardless of their ability to pay, there will always be some level of bad debt expense, but we believe that the current level is higher than it needs to be and could be reduced.
- The overall level of service would improve and be more efficient if the procedural problems are solved. For example if coding is done more quickly and efficiently then it will enable bills to be sent out more quickly.
- By improving the administrative procedures more time will be available for staff to manage admissions and carry out more detailed eligibility checks. This will allow them to get a better understanding of which clients will ultimately be able to pay. This information can then be passed to the credit collection team who will be able to carry out credit control procedures more effectively.
- Staff morale will improve if backlogs can be cleared and operations can run more smoothly.
- By improving the timeliness and accuracy of data input, management will be able to manage the business more effectively, as decisions will be made based on better information.
- CINICO will require better quality information on the patients and the treatments that they are having which will allow them to profile risk in a more effective way.

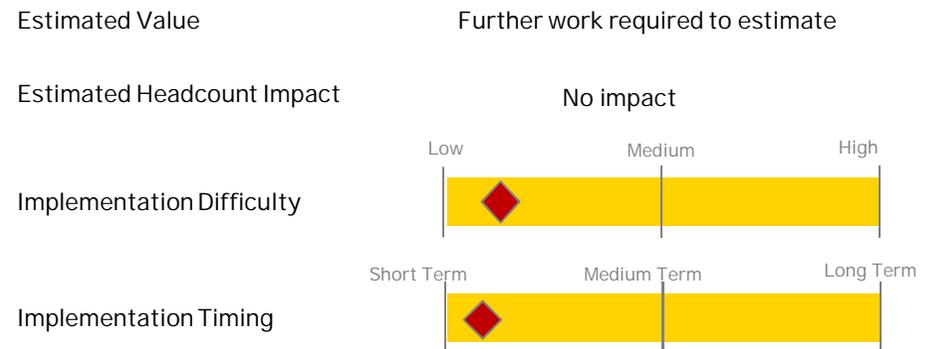
Risks and Issues

- A great deal of time and effort could be spent without any tangible benefit on bad debts.
- There could be reputational risk to the Government if they are perceived to be pursuing vulnerable members of society for healthcare costs, when much of the population believe they are entitled to it.
- The public may not respond positively to a campaign which tells them they have to pay for their healthcare cover if it is not pitched correctly.
- The information systems may not be suitably robust to capture the information required. We believe that this is low risk as the systems in place should be able to cope with the type of information required to be captured for credit purposes.
- Staff may not be responsive to changes required to make the process changes required.

Implications and Implementation Considerations

- Detailed planning and mapping of the processes in place and the related issues should be carried performed at the outset to ensure the feasibility of making the required changes.
- Staff who will be affected by the changes should be involved at an early stage of the process.
- A decision should be made early in the planning phase on how the credit control process should be organised and positioned. It may be that this function is better served by a central credit control team.
- As part of the planning phase the reporting requirements should be assessed and examined in conjunction with the systems to ensure that they are appropriate and can easily capture the required information.
- The tone of any publicity campaign to persuade the public as to why they should be paying for health services as a positive and necessary aspect to the maintenance and improvement of health services in the Cayman Islands should be carefully considered.

Initiative Profile



2.2. Health Service Authority: Process Improvement

Evaluation of the option to improve processes to reduce bad debts going forward shows that it meets a number of the Government's objectives

Criteria	2.2: Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Process improvement would increase Government effectiveness and would provide a platform for more efficiency and cost effective operations. This would have no adverse impact on the ability of Government to carry out its core functions. 	4
Financial	<ul style="list-style-type: none"> This would reduce the level of bad debt expense going forward which brings benefits to Government in the very short term relating to claims not billed within time limits. For example in the FY13 audit report there was a line item of nearly \$1 million relating to write offs due to failure to bill insurers within the necessary timeframe. There will also be longer term benefits as people are billed in a more timely fashion and pursued for recovery. Additionally the level of collections will increase and reduce the number of bad debts. 	4
Ease of Implementation	<ul style="list-style-type: none"> Most of the measures required to achieve this are not complex to introduce. However, some time will need to be invested up front to properly review processes in the current state to identify where improvements can be made to make the most impact. 	4
Local Economy /Sensitivity	<ul style="list-style-type: none"> There will be some impact on the local economy as people are being chased for amounts owed but this can be managed and should be proactively addressed through community communications and advertising programmes that illustrate the problem and benefits of co-operation. 	4
Customer Service	<ul style="list-style-type: none"> If processes are appropriately reviewed, streamlined and operating effectively it will improve customer services to stakeholders such as insurers and patients. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> No significant impact on workforce although they will have to adapt to more stringent processes. 	4
Legislative and Regulatory	<ul style="list-style-type: none"> No significant issues. We do understand that concerns raised regarding both court and political reluctance to enforce non payers has been addressed. 	5
Market	<ul style="list-style-type: none"> n/a 	5

Recommendation

EY believes that this option should be introduced in the very short term to address the expenses incurred through bad debts.

2.3. Health Service Authority: Collection Agency

Passing of old debts to a debt collection agency for recovery has a much greater chance of both recovering this revenue and changing the behaviors of non-payment

Potential Benefits

- The Government could recover some of the amounts which have been provided for which will provide a direct benefit to the bottom line. For example if only 25% of the overall provision is collected would bring over \$11 million back into HSA income. To fully analysis this and the value to Government you would need to strip out the intercompany elements of the provision.
- By using an outsource provider you take the time and effort away from Government staff who can concentrate of implementing the performance improvements in option 2.2.
- An outsource debt collection agent will likely to be more effective in recovering debts due to their level of expertise and experience.

Risks and Issues

- The Governments reputation could be harmed if the outsourced debt collection agent collected debts in an overly aggressive manner. The selection process and the contractual terms and requirements for dealing with debtors would need to be carefully managed.
- There would probably be expenses to be paid to the third party provider or the Government would have to give up a share of the recovered debt. However this would be preferable to not collecting the debt.
- There may be ambiguity on the terms and reference agreed between the Government and debt collection agency.
- Debts could be passed on which are not really recoverable.

Implications and Implementation Considerations

- An advertising program in line with an overall communication plan should be rolled out in the first instance to gain community support for the future need to ensure payment of services and the collection of historic debt.
- A detailed review of the outstanding debts should be carried out to ensure that only appropriate debts are passed to the company for pursuit.
- Ensure that the procedures to be followed are clearly defined in the Service Level Agreement to ensure appropriate and fair treatment of debtors.
- Collection agencies would need to be able to demonstrate processes and data base capabilities to illustrate appropriate management of the collections process.

Initiative Profile

Estimated Value

Not possible to calculate precisely but if 25% of the debts in the provision are collectible that would be a recovery of over \$11m

Estimated Headcount Impact

1 to 2 FTE reduction

Implementation Difficulty



Implementation Timing



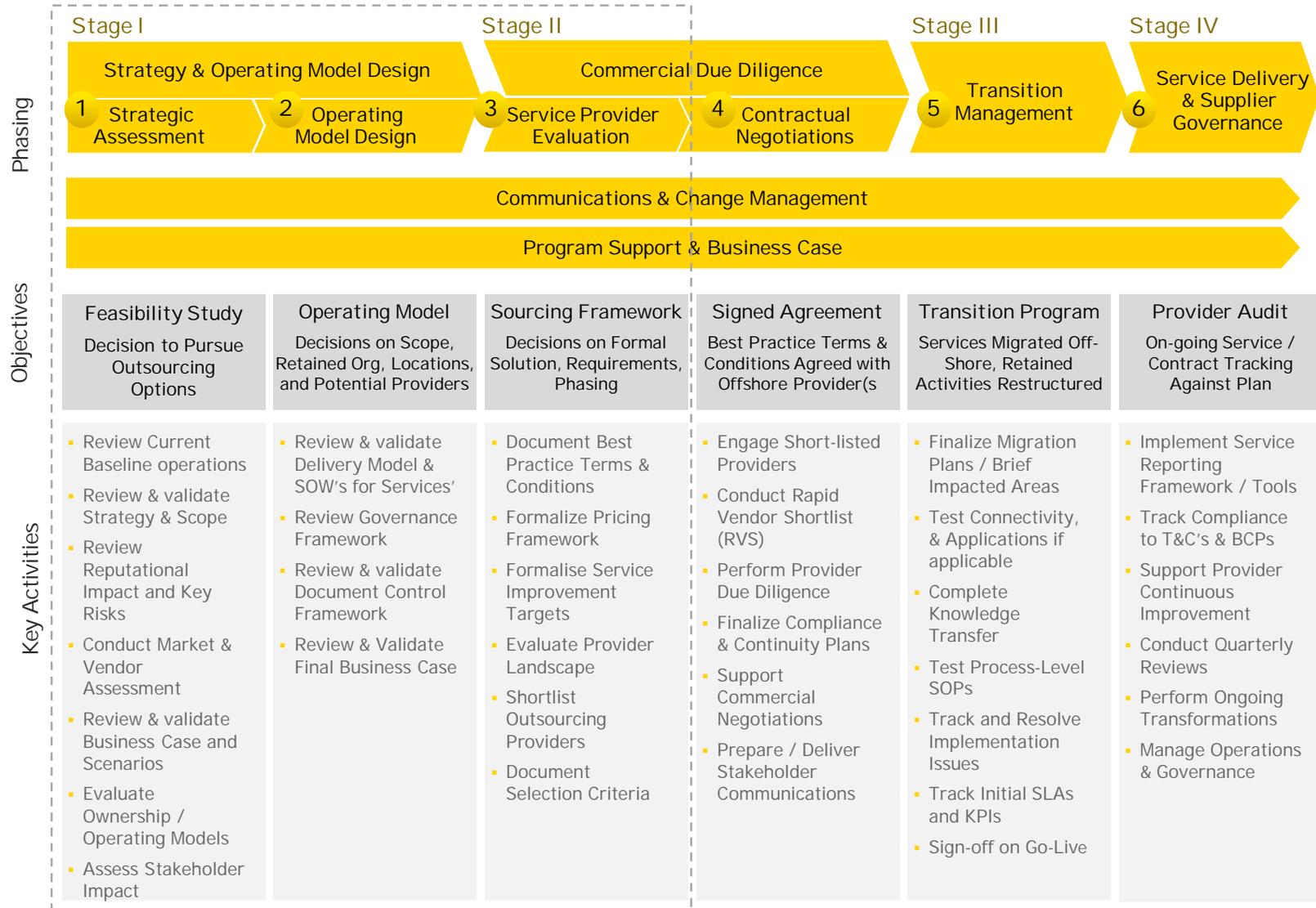
2.3. Health Service Authority: Collection Agency

Passing old debts to debt collection agency for recovery is also recommended based on the evaluation conducted below

Criteria	2.3: Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> This initiative would free up Government time which could be spent in other key areas. 	4
Financial	<ul style="list-style-type: none"> This would have a direct material impact by reducing the bad debt expense. Some of the recovery would be reduced by the debt collection fee or retained share from recovered amount. 	4
Ease of Implementation	<ul style="list-style-type: none"> This would be relatively straightforward to implement although clear terms and conditions would need to be drawn up and agreed and the contract would need to be effectively managed. 	4
Local Economy /Sensitivity	<ul style="list-style-type: none"> There will be some impact on the local economy as people will be chased for amounts owed, but this can and should be managed through advertising as part of a communications strategy. 	4
Customer Service	<ul style="list-style-type: none"> If processes are appropriately reviewed, streamlined and operating effectively it will improve customer services to stakeholders such as insurers and patients. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> There may be a small reduction in the Government debt collection team through this option. 	4
Legislative and Regulatory	<ul style="list-style-type: none"> No significant issues, although a detailed contract would be agreed including clear outlines responsibilities and methods of debt collection. 	3
Market	<ul style="list-style-type: none"> There would be a number of private sector operators who would be interested in this opportunity, particularly within the law firms. 	4
Recommendation EY believes that this option should be introduced in the very short term to address the expenses incurred through bad debts.		

2. Outsourcing Medical Operations: Implementation Roadmap

Below is a “six-step process” for identifying, evaluating, selecting, and launching a successful outsourcing agreement with appropriate “go/no-go” decision points and stakeholder engagement throughout. Options 2.2 and 2.3 are less involved but this overall framework could be simplified and applied to those options also.



3. CINICO: Overview

The following options have been analysed for CINICO. Due to the inter-relationships this section should be read in conjunction with the HSA section of the report.

3.1: Enter into JV with private firm to allow CINICO to become more commercial with ultimate aim to move CINICO into the private sector

3.2: Pooling of risks across health insurance market

3.3: Introduce co-pay and deductibles

	Government Exit with Appropriate Oversight	Private Sector Involvement with Contractual Controls	Retain within Government and pursue efficiencies or restructuring
	Trade Sale or Long-Term Lease (50 - 99 years)	Outsource (1 to 3 year contracts)	Retain/change to a Government Department and pursue improvement
	IPO - Partial Sell Down	Franchise/ Concession (5 to 30 Year exclusive contracts)	Retain/change to a Statutory Authority or Government Corporation and pursue commercialisation
	IPO - Full Exit	Public Private Partnership (PPP) or JV (requires investment commitments)	Merge or Abolish

1. Increasing Complexity

2. Need for Government Involvement and Oversight

3.1: Enter in JV with a private firm to allow CINICO to become more commercial with the ultimate aim of moving CINICO into the private sector.

- CINICO to enter into a Joint Venture with the private sector to allow CINICO access to the skillsets and infrastructure to move into more complex lines and provide additional plans.
- By entering into additional lines and products. the objective would be to generate revenue which could be used to subsidise other parts of the business. Management have identified a number of ways this could be done:
 - An add-on to the Civil Service plan where members would pay additional premium and in return have choice in selecting their medical provider.
 - An add-on to the SHIC plan the effect of which would be similar to above.
 - Develop plans which provide wider outpatient and inpatient coverage.
 - Provide a plan providing only 'Major Medical' Coverage.
- CINICO could further develop this concept by moving into more profitable insurance lines. Examples could include Life Insurance, Auto Insurance, etc.
- The long-term aim of this option would be that CINICO would be eventually moved into the private sector and the employees would be moved into the private sector.

3.2: Pooling of risks across the health insurance market

- Currently the contributions to the Segregated Insurance Fund do not come close to covering the costs of providing medical care for indigents/the high risk pool.
- Steps need to be made to increase the contribution of private providers to this fund. There are various ways of achieving this which can be decided on during the implementation plan. The simple way would be to increase the contribution through the segregated insurance fund or tailoring the increase in contribution to the risk profile of the individual insurer.

3.3: Introduce concept of co-pay and deductibles

- Under this option Government employees will need to co-pay for their medical insurance. Currently everything is free for the employee and they make no contribution to their healthcare costs.
- This option also looks at including deductibles for healthcare reimbursement so the Government can recoup some costs and also encourage better practices in usage of healthcare. Currently, as there is no cost to the patient, there is nothing to stop them overusing their medical coverage even if something is not really necessary.

3. CINICO: Overview continued

An overview of CINICO and public health insurance in the Cayman Islands is provided below

CINICO Overview

- CINICO is wholly owned by CIG and operates under the corporate governance of a Board of Directors.
- CINICO is set up as a Class 'A' Health Insurance Company and provides health insurance for the following groups:
 - Employees and dependents of Civil Servants and Government Companies & Statutory Authorities (SAGs).
 - Pensioners, seafarers & veterans including their dependents (known as CIN 2 & CIN 1 respectively).
 - Third parties and their dependents under the Standard Health Insurance contract ('SHIC').
 - Residents of the Cayman Islands who have low income, health impaired status or who are elderly.
- CINICO also provides Administrative Services Only (ASO) on behalf of the Government for:
 - Local and overseas health benefits for Indigents (Ministry of Health).
 - Overseas health benefits for Seafarer & Veterans (Ministry of Finance).
 - Advanced medical loans for those with a catastrophic event (Ministry of Finance). The companies achieves a very low recoverability rate on these loans.
- CINICO has a range of other objectives/functions including the following:
 - To provide cost-effective coverage.
 - For SHIC plans, CINICO provides coverage of pre-existing conditions as long as they are disclosed during the original application.
 - 24/7 assistance in case of medical emergencies.
 - Comprehensive medical coverage utilizing an extensive provider network which includes over 400,000 providers in the United States including specializations of every nature and pre-negotiated discounts.
 - Co-ordination of overseas referrals, including airfare and hotel bookings.
 - Medical case management.
- Approximately 50% of CINICO's budget is spent on overseas care. Improvements in quality, efficiency etc. to the HSA will lead to a reduction in the overseas care spend as patients will be more willing to remain on island for treatment.

Regulatory and Cultural Background

- The law requires everyone in the Cayman to have medical insurance. There are a number of private health insurers on the island but they are not likely to take the following groups of people (or will offer rates so costly that it takes it out of the financial reach of applicants).
 - Retired people.
 - Applicants deemed higher risk.
 - Applicants who have already had serious illnesses.
- As a result of the above, CINICO has to insure all of the people not offered insurance by the private companies. CINICO covers 40% of the 'insured' population.
- Historically in the Cayman Islands the approach by Government has been that no person will be denied treatment irrespective of whether they can afford it. This is a basic human rights requirement of Governments to ensure vulnerable and disadvantaged people are not refused care
- Government Insurance plans are 100% free, with no cost sharing (via premium or co-pays/coinsurance). Currently 100% of treatments are covered with no deductibles.

Key Challenges

- Risk profile of clients: The most vulnerable individuals in society find it difficult to obtain cover from private insurance companies at an affordable rate hence they have to be insured by CINICO. This means that the risk profile of the CINICO clients is very high risk. Private suppliers tend to just take on low risks.
- A percentage of the population representing a disproportionate share of the claims cost pays no premium.
- Community expectations: In most jurisdictions there is a requirement for insured's to meet some level of co-payments on claims. Community understanding of the need for cost sharing is vital.
- Restrictions on Commercialisation: There are certain key constraints placed on CINICO which have an adverse affect on its ability to be commercial and cross-subsidise the loss-making coverage of high risk cases with profits from another area of the business. The key constraints placed on CINICO are as follows:
 - CINICO is not able to offer multiple product plans or enter into the market for other lines of business

3. CINICO: Overview continued

An overview of CINICO and public health insurance in the Cayman Islands is provided below

Key Challenges

- Insurance premiums: In line with global trends, there have been increases in the cost of medical cover which has led to increased insurance premiums. Health insurance premiums are driven by several factors: medical inflation in the USA, new and costlier technologies and pharmaceutical drugs, physician practice patterns (defensive medicine – more tests) etc.
- 100% Free Government Insurance plans – Government employees don't make any contributions towards their health plan so Government fund these costs in the form of premiums paid to CINICO.
- Indigent coverage – The coverage for this group of people involves high costs due to chronic illness of membership and lax eligibility rules. Approximately 46% of costs are incurred by 20% of the population (transient indigents). Under the Health Insurance Law (FY13) all approved insurers are required to make a contribution to the Government, through the Health Commission, to cover medical costs for indigent persons. For each standard health contract a contribution of \$10 is required for a single person with increases for dependents etc. However the total contribution does not cover indigent medical costs.
- Reliance on HSA procedures – CINICO's ability to control its costs is restricted by the reliance it has on the processes in place within the HSA. For example for CINICO to pursue subrogation potential data needs to be captured at source through a more rigorous admissions process.
- Poor information systems – CINICO's ability to run their business efficiently is negatively impacted by poor IT systems across HSA and CINICO. Systems tend to rely on a significant level of manual intervention, information is not always updated on a timely basis and there is a lack of integration between the two bodies.

Key financials (KY\$)

Y/E 30 June 2013 (KY\$'000) Stat Accounts	FY13A	FY14B
Gross Written Premium (GWP)	64,634	
Ceded Premium and other income	(1,034)	
Revenue	63,600	65,912
Total Expenses	60,291	65,886
<i>Net Income</i>	3,309	46
Net Worth	10,136	13,001

Source: FY 2013 unaudited statements and FY13-14 Ownership Agreement (no split of GWP and Ceded premium available)

Financial Highlights

- Approximately 97% of CINICO's revenues comes from Cabinet, ministries, portfolios, statutory and Government companies.
- CINICO's total costs (excluding claims incurred) are approximately 15.5% of GWP. The costs include costs of third party administrators, contributions to the segregated insurance fees pool and general administrative costs. EY recently carried out a Retail Insurance Cost Benchmarking Survey in which the average benchmark for total costs to GWP for life and health insurers in Bermuda, Bahamas and the Cayman Islands was 16.3%
- The overall cost of healthcare to the Government including all components, as well as the CINICO costs, is reviewed in the HSA section.

3.1. CINICO

The benefits, risks, issues and implications of entering into a Joint Venture with the private sector, with the ultimate aim of fully moving CINICO out of Government ownership, is analysed below

Potential Benefits

- Through partnership with the private sector CINICO would obtain access to a greater range of skills and expertise. This will help CINICO further diversify into different lines of business and products.
- The injection of private capital could provide the funds required to complete CINICO's strategic goals to grow the business and compete on a level-playing field with private health insurers who currently enjoy the advantage of being able to turn away high risk clients in order to maintain a pool of low risk clients who rarely need any medical cover.
- Diversifying into different lines and products would allow CINICO to diversify and dilute some of the costs associated with managing a high risk portfolio of clients who require more medical frequent and costly care.
- If successful, the overall health costs for Government will reduce significantly.
- The feedback we have been getting from CINICO staff is that they are frustrated with private medical insurers cherry picking low risk clients whilst they have to take on all of the high risk clients. Morale and performance could be significantly increased if they could enter into new lines and compete in other areas.
- The structure of Joint Ventures can be flexible so safeguards can be built in to exit the arrangement if the anticipated benefits are not being realised.
- This could be a big step to facilitating the move of CINICO into the private sector which would ultimately reduce the size of Government and related liabilities around payroll costs such as healthcare and pension costs. The vast majority of JV's end with the sale by one partner to the other.
- This method allows for a gradual transition into the private sector which could be beneficial bringing in additional expertise, work practices and technology at no upfront cost.

Risks and Issues

- If insufficient due diligence is carried out, then a private sector partner may be chosen who is not a good cultural or strategic fit with CINICO. This could result in poor integration and co-operation and lead to a failure of the JV to achieve its goals.
- If there is ambiguity in the objectives of the JV and they have not been communicated to both parties then this will lead to dysfunctional behaviour with different parts of the JV pulling in different directions.
- If there is insufficient leadership shown at planning stage and throughout the execution phase of the project this reduces the chance of success and increases the risk that CINICO would need to be pulled back into Government.
- The private partner would have access to private Government information during the course of this project. If safeguards are not in place then this information could be compromised.
- Government employees could be made redundant when transferred into the private sector as the new JV seeks to take advantage of synergies. However this is a fairly low risk given that CINICO currently has 16 staff and any partnership would be looking to grow the operation.
- The costs involved with set up relating to consulting and legal advice could be underestimate when considering the business case for the life of the project.
- It may be difficult to attract the right partner if they are put off by Government constraints on pricing and there could be pressure to increase the costs of premiums which would increase the Government's healthcare costs. This could be mitigated by co pay arrangements.
- There could be some push back from the private sector companies if the Government is seen to be competing with them more strongly. Many see competition with the Government as being unfair due to the significant level of funding that Government can provide to support CINICO.
- If insufficient planning is carried out when moving into new areas of business this could increase CINICO losses and hence increase overall health costs.
- Due to the complete inter-relationship between CINICO and the HSA timelines of any relationships would need to be carefully managed.

3.1. CINICO

Enter into Joint Venture with the private sector with the ultimate aim of fully moving CINICO into the private sector continued

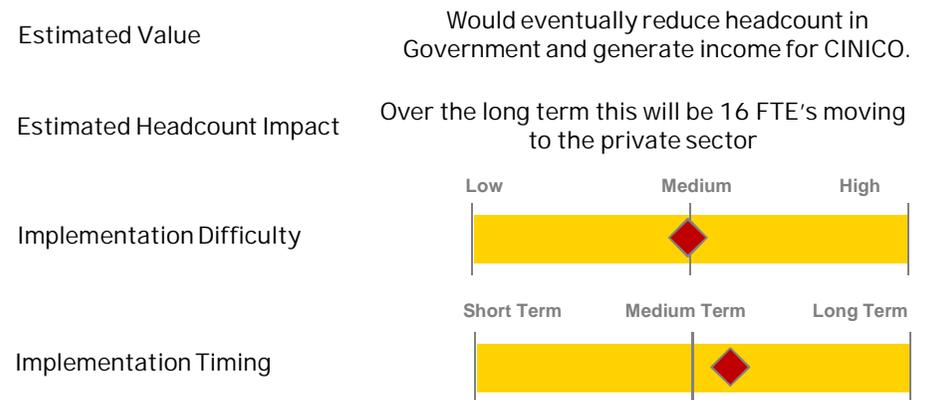
Implications and Implementation Considerations

- A detailed planning phase would need to be completed to develop the required target operating model and document what the key objectives of the project would be. Part of this phase will be to list out the required evaluation criteria for the potential partnership and recruitment of a project management resource to take responsibility for the successful delivery of this project.
- The required target operating model and related objectives would need to be clearly communicated to potential partners before the execution of any contract.
- Detailed advice from consultants and legal representatives will be required to negotiate and draw up the legal agreements. There must also be provisions built in to revert back to the status quo should the partner not meet expectations.
- There should be a detailed strategy built up around the protection of Government information which the private partner has access to which should involve confidentiality agreements, just give access to information which is required, how data is going to be managed during the project and what happens to the data when the project comes to an end.
- Contractual arrangements would need to be established to provide protection for employees in the event that they are transferred to the private sector.
- Regulation would need to be put into place to provide protection against significant future price rises.
- Market soundings would need to be carried out to identify potential partners although we would anticipate that there would be a reasonable level of interest
- When entering into new areas of business, detailed planning and research would need to be carried out into which areas of opportunity could be successful.

Costs

- There are likely to be implementation costs for legal and commercial advice to ensure that the contracts assign risk and liability in line with Government policy requirements.
- Moving into new areas of business may also necessitate the recruitment of some new staff with expertise in those areas.

Initiative Profile



3.1. CINICO

Enter into Joint Venture with the private sector could facilitate the move into the private sector and enable access to skills and markets that CINICO would find difficult to address

Criteria	3.1: Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> This option would ultimately lead to CINICO moving into the private sector which will allow Government to focus more on their core role and lead to a reduction in headcount and stimulus to local businesses. This would be a shift in Governments historic role in the short term but CINICO are already running the insurance company so this would not divert significant Government effort away from their core requirement. 	4
Financial	<ul style="list-style-type: none"> Potential increase in revenue could be generated through partnership with the private sector due to access to new markets and new capabilities. This would help subsidise loss making parts of the business in the short term and ease the transition for indigent and other high cost areas to be covered under the high risk pool. There could be a cost to implement the required changes, including assistance with the tender process and potential restructuring costs (e.g. IT). 	4
Ease of Implementation	<ul style="list-style-type: none"> Forming the JV will require a dedicated team to facilitate with the appropriate skillsets and experience to be able to execute . The changes will impact upon CIG employees. There could be some resistance from employees to working with the private sector and there could be transition problems during the integration phase. 	4
Local Economy /Sensitivity	<ul style="list-style-type: none"> This option could enable the transition of employees to the outsourced provider. The public will be concerned that prices may increase through the involvement of the private sector but this can be mitigated through regulatory price controls for industry and implementation of a whole industry high risk pool solution. Some local private firms will be unhappy about competing with a Government company as they move into new areas. 	3
Customer Service	<ul style="list-style-type: none"> There is potential for this initiative to improve services provided to the public. However, careful contract preparation and management, as well as monitoring and oversight of services, is required to ensure that high standards are maintained. 	4
Workforce Impact and Capability	<ul style="list-style-type: none"> There is the potential for redundancies over the medium term albeit these would be very small in number but long term benefits for all staff will include greater opportunities through working with a larger insurance company. Initially staff will have to also have to adapt to working with the private sector company which will require a change management and integration strategy. 	4
Legislative and Regulatory	<ul style="list-style-type: none"> Legislation changes required to broaden CINICO mandate and change ownership structure. 	4
Market	<ul style="list-style-type: none"> Based on initial market soundings, there would be a market for partnering with CINICO from both Cayman based and US based insurance companies. There is an active private sector market for health insurance in the Cayman Islands, including BAF Insurance, Cayman First, BritCay and others. Initial soundings have indicated that current civil service customers would purchase additional cover outside health from CINICO to enable dealing with a one-stop shop for insurance needs 	5

Recommendation

This option should be pursued in the short term. This would allow CINICO to become more commercial and ultimately become ready for a move into the private sector in the medium/long term

3.2. CINICO

Pooling of risks across the health insurance market by implementation of a high risk pool levy to be paid by all insured persons would significantly resolve the challenges of dealing with the high risk claimants

Potential Benefits

- This would allow the Government to cover more of the costs of providing medical care for indigents and other high risk uninsured claimants thus reducing overall healthcare costs.
- This allow the medical costs of the indigents and high risk persons to be more fairly spread across the market. Currently the Segregated Insurance Fund contributes a fairly small amount to the indigent medical costs and it is the Government who make up the entire shortfall whilst private companies who focus solely on low risk clients make significant income.
- This would be a relatively straightforward measure to put into place although it could be made a bit more complex if it is desired to base the pooling on a more actuarial basis based on the individual risk profiles of certain insurers.

Risks and Issues

- There would be push back from the private sector who would be concerned about margin erosion as not all costs can be passed onto insured's. Insured's will obviously push back on rate increases and if this is portrayed as Government driven then a communications strategy will be required to highlight benefits.
- If increases are not planned appropriately then the costs may not be suitably covered.
- Some changes to the Health Insurance Act 2013 will be required to apply this.
- If a more complicated approach is used the costs may outweigh the benefits. If you wish to assemble the risk profiles of all of the health insurers in order to prepare a detailed calculation as to which insurers should pay what amounts then there could be many challenges. However if there is some logic or actuarial basis to the calculation that may help with the communication to insurers.

Risk and Issues (cont'd)

- In order for this to be received stakeholders will require better data, tracking of data and means testing for access to cover as indigents/seafarers. Currently good, reliable data doesn't exist and this is essential to both track and monitor the costs and to commutate this to those contributing to the high risk pool.

Costs

- No significant costs to Government . Operation of the pool would be tendered to the private sector or offered as part of a package for a JV partner with CINICO.

Implications and Implementation Considerations

- To reduce the risk of push back from individual agencies, the CIG communication team need to strongly communicate why this step is being taken.
- Appropriate planning will need to take place to evaluate the best way of receiving contributions from Government. We would recommend that the simple step is taken of increasing the contributions from the Segregated Insurance Fund.

Initiative Profile

Estimated Value

\$ Included as part of HSA review

Estimated Headcount Impact

n/a

Implementation Difficulty



Implementation Timing



3.2. CINICO

Pooling of risks across the health insurance market continued

Criteria	3.2: Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> This would enable Government to reduce healthcare costs and some of this budget can be diverted away to other key areas of Government. 	4
Financial	<ul style="list-style-type: none"> This would directly lead to an increase in contributions from the private sector which would help reduce overall health costs. 	5
Ease of Implementation	<ul style="list-style-type: none"> There may be some resistance from companies in the private sector and from residents but this could be mitigated through a communication strategy explaining why this needs to be done and that is for the greater good in Cayman. 	2
Local Economy /Sensitivity	<ul style="list-style-type: none"> Other than the reaction from the private companies directly affected, there wouldn't be any direct adverse effects for the local community. However, if the rise is so significant that the private sector pass this on to customers by increasing their premiums this could impact on prices for local citizens. Give the amounts involved, we would not expect this would be a significant increase in premiums as a direct result of this measure. 	2
Customer Service	<ul style="list-style-type: none"> This should not significantly impact the levels of customer service. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> No significant impact. 	5
Legislative and Regulatory	<ul style="list-style-type: none"> Some amendments will need to be made to the Health Insurance Act but this should not be a significant impediment to implementation. 	4 /3
Market	<ul style="list-style-type: none"> N/A 	5

Recommendation

This option should be pursued in the short term to allow CINICO to maximise revenue and contribute to medical costs. Key to achieving this will be data collection and tracking and proper assessment procedures for qualification.

3.3. CINICO

Introducing a concept of co-pay and deductibles for CINICO customers would require communication, careful policy and process design and a potential change to legislation

Potential Benefits

- This would require CINICO customers to make some contributions towards their healthcare costs, thus reducing the burden for Government.
- This would be a relatively straightforward measure although some policy changes and updates to legislation would be required.
- By introducing deductibles it would encourage better behaviours in the use of medical care. Currently it doesn't cost patients anything to make claims for medical procedures so there would likely be a level of over-servicing occurring. In addition, there is no ability to charge more to those who use more services.

Risks and Issues

- There could be push back from the civil service with regard to having to increase their contributions and also to pay deductibles when they make claims. Attempts have been made to do this in the past but there has been resistance. It would potentially need to come alongside a pay increase that has been held back for a number of years.
- If not done properly then the co-pay rates and deductibles may not be set to the optimal amounts.

Costs

- No significant costs but a project team will need to invest some time in preparing a business case and model for choosing the level of co-pay and the level of deductions.

Implications and Implementation Considerations

- To reduce the risk of push back from the civil service and other CINICO customers, the Government needs to communicate with a clear rationale as to why this step is being taken.
- Appropriate planning will need to take place to evaluate the best way of receiving co-pay and deductibles from civil service employees. We would recommend that the simple step is taken of increasing the contributions from the Segregated Insurance Fund. We also recommend that each visit to HSA has a specified deductible payment which needs to be made at the time of services or is billed afterwards.
- For insured parties to agree to this proposal it will be necessary for them to be offered choice in terms of health providers.

Initiative Profile

Estimated Value

\$ Calc as part of HSA review

Estimated Headcount Impact

n/a

Implementation Difficulty



Implementation Timing



3.3 CINICO

Introducing the concept of co-pay and deductibles for CINICO customers creates a user pays environment and one in which usage of medical services is moderated, leading to a reduction in overall Government health costs

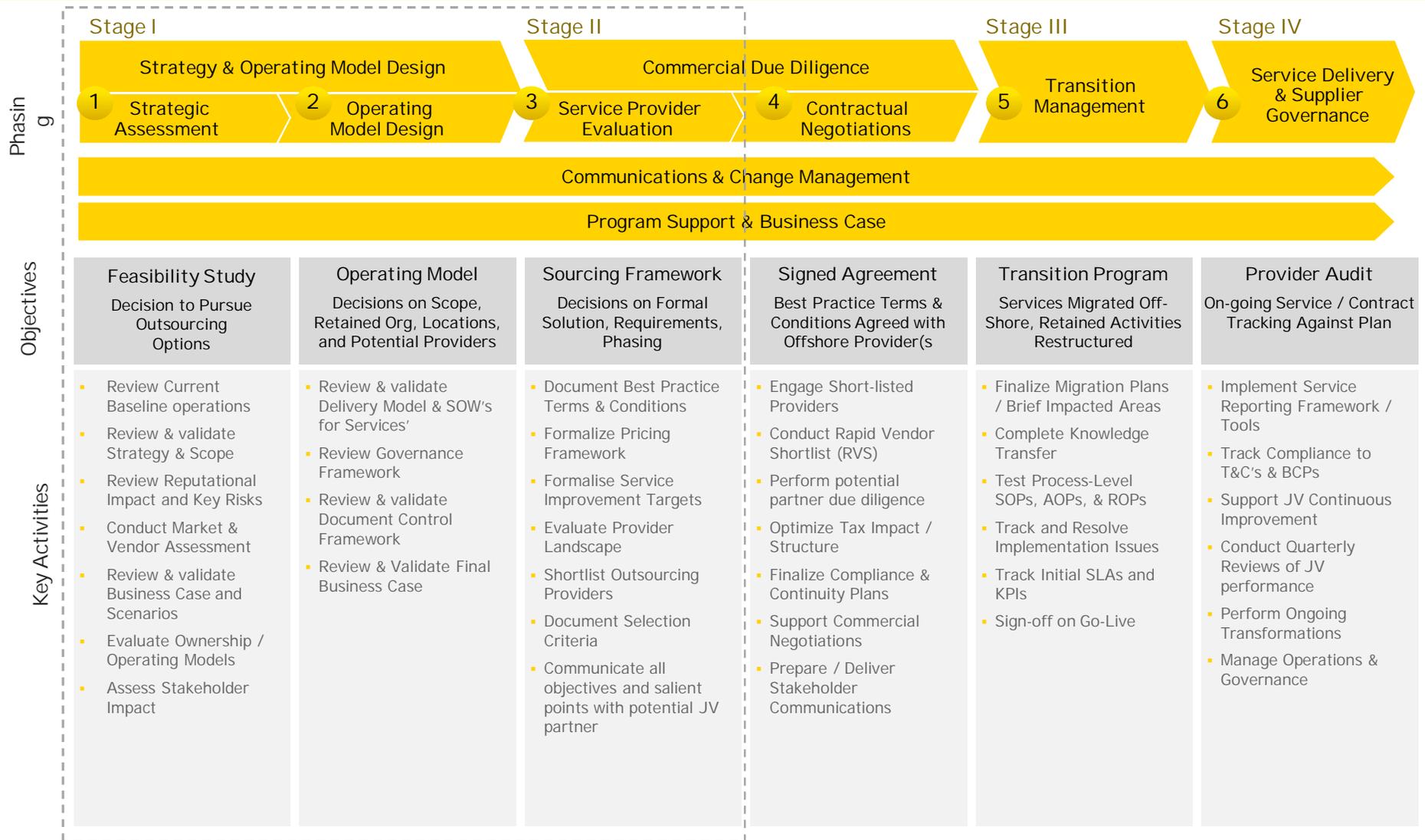
Criteria	Option 3.3: Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> This would enable Government to reduce overall healthcare costs and some of this budget can be diverted away to other key areas of Government. 	5
Financial	<ul style="list-style-type: none"> This would directly lead to an increase in contribution from insured's which would help reduce COG's overall health costs. 	5
Ease of Implementation	<ul style="list-style-type: none"> There would be a project required to design and implement the co-pay and deductible processes and systems. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> There may be some resistance from civil service employees, but this could be mitigated through a communication strategy explaining why this needs to be done and accompanied by concessions in delayed pay increases. The offer of choice of health providers should help to mitigate any sensitivity. 	3
Customer Service	<ul style="list-style-type: none"> This should not significantly impact the levels of customer service. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> No significant impact. 	5
Legislative and Regulatory	<ul style="list-style-type: none"> Some amendments will need to be made to the Health Insurance Act but this should not be a significant impediment to implementation. 	4
Market	<ul style="list-style-type: none"> N/A 	5

Recommendation

This option should be pursued in the short term to allow CINICO to maximise revenue and contribute to the medical costs. It will likely be essential to offer choice in health care providers in order to gain support for this initiative.

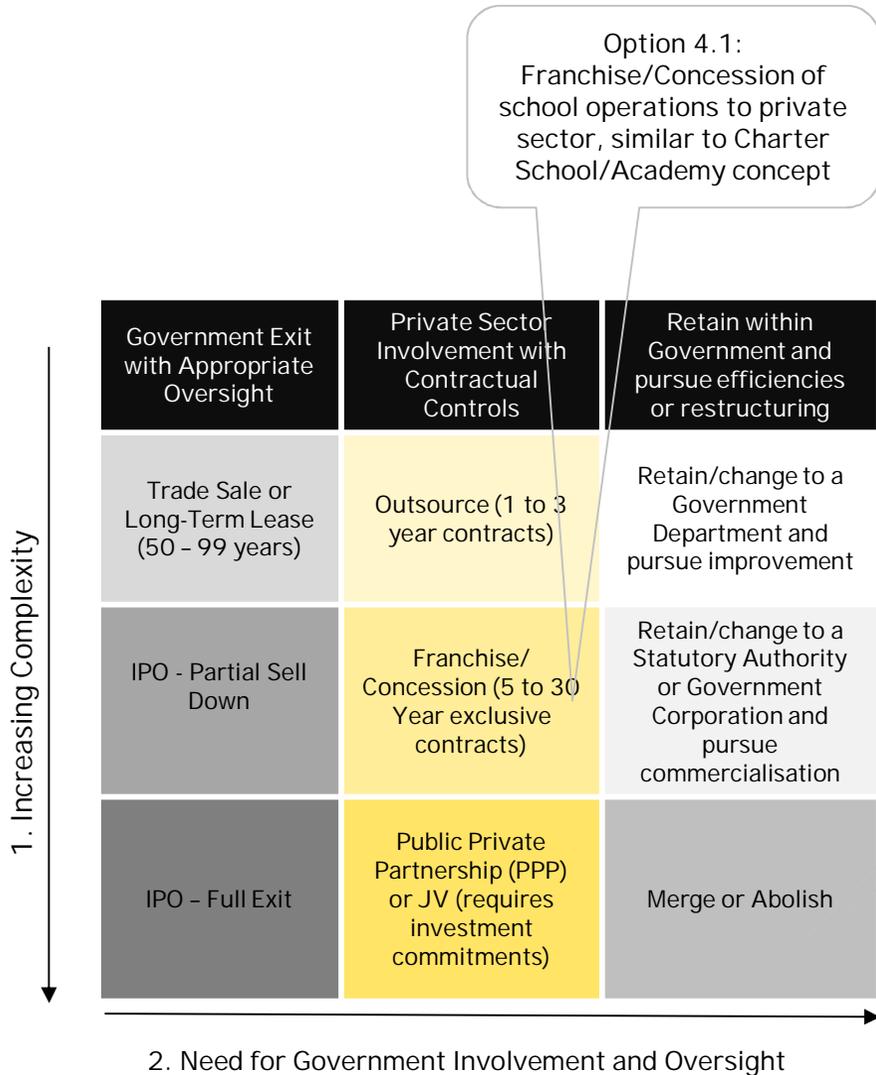
3. Preparing for Joint Venture: Implementation Roadmap

Below is a “six-step process” for identifying, evaluating, selecting, and launching a JV agreement with appropriate “go/no-go” decision points and stakeholder engagement throughout



4. Education: Option Overview

The following options have been analysed for the Department of Education Services; franchising some schools and merging of schools in Cayman Brac



4.1: Charter School Approach

- This option would involve increasing private sector involvement by providing existing funding to an accredited and capable private sector or NGO entity to take over and run one or more selected schools.
- This option assumes that the existing staff are transitioned to the private sector, but that underlying assets are leased for the term of the concession.
- This option assumes a 5 year contract, but this is flexible.
- Oversight must be provided by DES.

4.2: Merger of Schools in the Brac

Option 4.2: Merging of schools on Cayman Brac

- To amalgamate the existing three primary schools to create two schools on two sites:
 - Creek Infant school
 - West End Junior school
- There may also be further opportunities for school mergers in Grand Cayman.

4. Education: Overview

The DES has been working towards improving education standards in the Cayman Islands for the last 5 years, with some good results. DES has one of the largest budgets in CIG, of around \$61 million

Department of Education Services Overview

- The Department of Education Services' ('DES') mission is to develop safe and caring centres of excellence for the academic, personal, moral, social, cultural and spiritual development of the children and young people under their care, where they are prepared for life, learning and work, and where parents and the community are welcomed and valued as partners.
- The DES operates;
 - 10 primary schools
 - 3 secondary schools
 - 1 further education centre (Cayman Islands Further Education Centre)
 - 1 special school (Lighthouse School)
 - The education service provision in Little Cayman
- The operation of schools involves not only the direct teaching and learning services provided in schools but also the range of support and business services which enables schools to operate.
- As a public school system, the DES service is inclusive and comprehensive, providing services for the entire range of the population, from the most seriously challenged students at Lighthouse School to very gifted students, including students with a wide range of different learning challenges.
- In addition to educating students, the DES is also responsible for:
 - Administering a wide range of student support services which help address a wide variety of challenges faced by students, including but not limited to Occupational Therapy Services, Speech and Language Therapy Services, Educational Psychology Services, support for the Visually Impaired, Support for the Hearing Impaired.
 - Administering the Special Needs Code of Practice which supports students with learning challenges.
 - Operating the Early Intervention Programme to provide support for children with developmental difficulties.
 - Supporting a comprehensive inclusion programme which supports children with emotional and behavioural challenges in accessing mainstream or alternative education services.
 - Transporting nearly 4,000 students on a daily basis.
 - Maintaining facilities which are occupied on a daily basis by more than 5,500 people.

- Purchasing approximately \$1 million of specialist supplies every year, including providing a wide range of specifically selected educational resources for 15 schools .
- Monitoring and approving applications for home-schooling.
- Processing and managing teachers' licenses for approval by Education Council.
- Provision of testing services to support schools and the wider community through internal and external examination and assessment processes.
- Extensive data management and analysis services to support schools, inform DES and Ministry decision making, and enable the Cayman Islands to comply with national and international reporting requirements.
- Education has 719 employees and nearly 5000 students.
- There are two primary schools on Cayman Brac. Creek and Spot Bay Primary and West End Primary schools are within 10 miles of each other, holding 81 and 57 pupils respectively. The cost per student of education in Cayman Brac is between 10 and 15k, with the cost per student on Grand Cayman of between 5 and 10k².

Key Achievements

- Since a push to improve education results in 2006, the department now has a National Strategic Plan for education, with additional policy priorities identified by the current Minister; its implementation is a continuing priority.
- The schooling model was modified in 2010 from a separated 3 year middle and 3 year high school model to a 5 year 'all through' high school + 1 year compulsory Year 12. In Year 12 students have opportunities to follow Government funded Associate degree, A level, Technical and Vocational programmes not previously available, and 'O' level retake programmes on island, or to pursue self funded programmes overseas.
- There has been an increase in pass rate for the entire student population at Year 12, from 29% to 69% over the past 5 years (from 2008 to 2013). This compares well from a regional perspective, and is approaching internationally acceptable levels, with the 2013 student success rate matching that of England in 2009.

¹ National Educational Data Report FY13

² Updated briefing on the proposals for amalgamation of schools on Cayman Brac.doc

4. Education: Overview continued

There are still some challenges that Education is facing, and the Department is looking at innovative mechanisms to drive a step change in educational results; any changes will need to be carefully considered

Key Achievements (continued)

- Over the past six years (from 2007 – 2013), DES has improved the performance of students completing their compulsory education system by more than 160% (from 29% reaching the international benchmark result of 5 Level 2 ('O' Level standard) passes at grades equivalent to A* - C, to 69% reaching that standard). This represents a level of performance far above historical norms, which averaged 23% – 25% over a number of years prior to 2007.
- The Ministry has given a policy direction to explore alternative governance models that allow private sector involvement in the management of schools, including but not limited to the introduction of governing bodies.

Key Challenges

- There are however concerns at a community level that a large portion of students are not achieving the literacy and numeracy standards necessary to support the needs of employers.
- There are not enough education professionals available locally, particularly at secondary and specialist levels, to meet staffing needs, so DES continues to need to recruit staff from overseas.
- Education standards are improving but are not yet at required standards; performance in maths is a particular concern.
- A new up to date legislative framework for education is needed. Work has commenced to amend and implement the Education Modernisation Law by September 2015.
- Recruitment has become increasingly challenging, with the inability to attract candidates and the internal civil service-wide HR procedures with hiring moratoriums and requiring sign offs. (A salary review for teachers is planned in FY14/15)
- High capital needs requiring physical facilities to deliver services and for these facilities to be safe and conducive to learning.
- Completion of the new John Gray High School remains a challenge, which remains half constructed. The Ministry aims to restart construction, to be completed using a phased approach, in order to ensure adequate resources for that school's staff and students, and to provide enhanced facilities for community use.
- Any involvement of private sector in delivering core Government schooling would need careful consideration, due to potential inequities in education services, governance and controls frameworks required and the implications of poor contract management.

Key financials (KY\$)

Y/E 30 June 2013 (KY\$'000) Stat Accounts	FY13A	FY12A
Revenue	61,180	56,585
Operating Expenses	54,650	52,105
<i>EBITDA</i>	6,530	4,480
Depreciation Charge	5,589	4,501
Surplus/Loss	941	(21)
Gain/loss on foreign exchange	(9)	-

Source: FY13 Audited Financial Statements

Market Overview and Jurisdictional Comparison

- The Department of Education is the only provider of Government education on the Cayman Islands.
- There are also a number of private schools which have some funding from Government and which are inspected by the Ministry. These are full fee paying schools, whereas education at Government schools is not fee paying. Examples include CI International School, St. Ignatius and Cayman Prep.
- The State of Minnesota wrote the first charter school law in the United States in 1992. As of 2011, Minnesota had 149 registered charter schools, with over 35,000 students attending. Since then, 41 states and the District of Columbia have approved the formation of charter schools.
- In the UK, Charter schools, or Academy's, have been in place for 15 years. Academies are self-governing and all are constituted as non-profit charitable trusts. They may receive additional support from personal or corporate sponsors. They must meet the same National Curriculum core subject requirements as other state schools and are subject to inspection by Ofsted².
- In the Cayman Islands, there have been approaches by private groups to take over the operation of some schools within the jurisdiction. It is our understanding that the proposals would overlay an existing schools staff with a new management structure seeking to obtain better results than what is currently being achieved.

¹ http://en.wikipedia.org/wiki/Charter_school ² [http://en.wikipedia.org/wiki/Academy_\(English_school\)](http://en.wikipedia.org/wiki/Academy_(English_school))

4.1. Education: Detailed Analysis of Schools Concession

The concession of some schools to private sector or NGO entities reduces the size of Government and may provide educational benefits. It will require careful design, contract management and monitoring by DES.

Potential Benefits

- There has been some evidence in the UK and the US of some increases in educational performance through charter schools. However, this data is disputed by some educators due to a practice of exiting some lower performing students, thus raising the overall average performance. Some research has shown that charter schools, on average, don't have an academic advantage over traditional public schools (Gill et al., 2007; Gleason, Clark, Tuttle, & Dwoyer, 2010).
- Reduces the size of the Government civil service by an average of 22 teachers per school concessioned (based on average number of teachers at Cayman schools), reducing the ongoing health and pension obligations of Government. Based on a longer term vision of 4 to 5 schools being concessioned, this leads to 100 FTE headcount reduction for Government.
- Allows for private sector participation in Government service delivery, focusing Government on educational policy, regulation and evaluation of outcomes.
- There is evidence of a commitment from the private sector to charter schools and high levels of interest in participating in educational service provision.

Risks and Issues

- There is a risk that the private sector does not bring sufficient educational capabilities to the running of schools. This is critical to adequate educational principles and strategies being utilised in charter schools.
- There is also a risk that the private sector will have a more commercial business minded approach. This approach may lead to lower performing students with higher care needs being pushed into Government run schools. The controls around how lower performing students are moved around between schools will need to be monitored.
- There is a risk that insufficient inspections and monitoring regimes are either negotiated with the private sector or undertaken by Ministry of Education, leading to lack of clarity on standards.
- It is difficult to evaluate the outcomes of charter schools, as many factors contribute to educational outcomes.
- There is a risk that DES experiences some dissynergies from concessioning of schools e.g. procurement, facilities management and other shared services are no longer spread over as large an entity.

Costs

- There are likely to be implementation costs for legal and commercial advice to ensure that the contracts assign risk and liability in line with Government policy requirements.
- There should be tendering costs to ensure that the best proponents are chosen from the private sector for provision of these services.
- There could be one off transfer costs to facilitate the transition of staff to the private sector.

Implications and Implementation Considerations

- We believe that a formal and defensible tender process needs to be run, with clear evaluation objectives and robust due diligence on the providers.
- Legislation will be required, both to the Education Law to allow for charter schools to exist and also to provide legislation to support the transfer of civil service teachers to the private sector.
- We consider that a pilot of 3 or 4 schools within the 2 years would be prudent to ensure that the commercial, financial, operational and governance models were working as intended and that capability of the private sector is proven before proceeding farther down a concession path.
- Any change in the governance model will require changes in the roles of the Ministry and the DES in relation to piloted schools.

Initiative Profile

Estimated Value

Funding unchanged, reduction in health and pension obligations un-estimated
49 to 115 FTE reduction

Estimated Headcount Impact

Low Medium High

Implementation Difficulty



Implementation Timing



4.2. Education: Detailed Analysis of School Mergers in Cayman Brac

The merging of three schools has been considered by DES in a previous submission to Government; the analysis below draws from and builds on this work to provide a strong case for merging of schools in Cayman Brac.

Potential Benefits

- There will be 5 classes at Creek and 4 classes at West End. This means there is only a need for 9 class teachers, rather than the 14 needed at present. Loss of five teaching posts and one principal's post. The headcount savings could be put towards a Speech and Language Therapist based on Cayman Brac.
- The proposed model will lead to better services for individual students and for classes. For example, by reducing the total number of classes to be served, there is opportunity for more time per student for PE, Music and Art. In addition, class sizes will better support ensemble music and team sports. Somewhat larger class sizes (though still within a very manageable range) would potentially benefit student learning (Research indicates that the optimum class size for student achievement is between 15 – 25 students).
- Potential to utilize existing Spot Bay Campus for the relocation of Cayman Brac UCCI campus and services.
- There may also exist other opportunities in Grand Cayman to explore possible school mergers.

Risks and Issues

- Loss of professional jobs in Cayman Brac may meet with resistance.
- Additional transportation time for some parents, particularly those in the Spot Bay area and West End, although provision of transportation services is already available to some parents and could be easily extended to these households.
- Increased class sizes might well be perceived by parents as detrimental to students' learning, particularly those with special needs. However, as stated above larger class sizes are considered optimal and the creation of a specialised speech and language role on the island would mitigate this concern.
- The loss of certain teachers who are highly regarded by the community may be controversial. This might be mitigated, and additional professional development offered, by providing support for some of the younger Caymanian teachers to transfer to Grand Cayman schools to further develop their skills and experience, providing opportunities for the very best teachers to remain if this were to be a community priority.

Costs

- Costs to achieve this initiative are minimal, as some of the professional roles being reduced are contract roles.

Implications and Implementation Considerations

- This initiative should first be approved by the Ministry, to ensure full agreement before taking forward. The concept should be presented to a carefully selected focus group for stakeholder feedback. The third phase should be to take the proposal to the wider stakeholder audience, particularly on Cayman Brac.
- Further consideration could be given to amalgamation on one site, either at the West End Primary School site or at a new site on the Bluff. This would require some considerable capex to be spent and the cost benefit of this initiative has not been fully explored.

Initiative Profile

Estimated Value

\$600k p.a.

Estimated Headcount Impact

5 FTE net reduction

Implementation Difficulty



Implementation Timing



4. Education: Option Evaluation

The table below evaluates the two options against the Government's criteria – we recommend that both options 4.1 and 4.2 are pursued

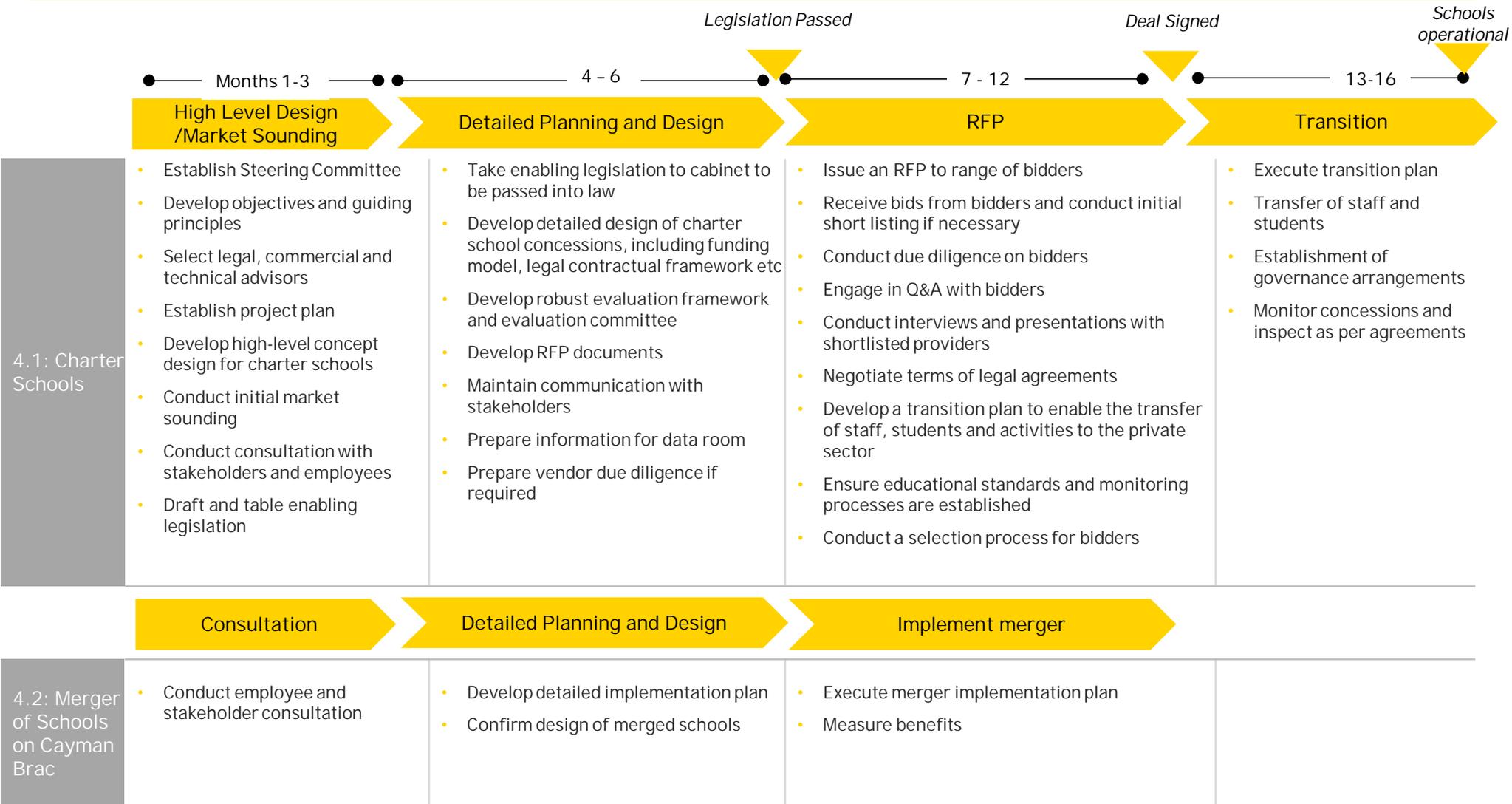
Criteria	4.1: Charter Schools		4.2: Merge Schools	
	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> This option reduces Government headcount and allows DES to focus on policy and regulation rather than service delivery. 	4	<ul style="list-style-type: none"> There are no issues with this initiative and it aligns to Government's role of delivering high quality education services. 	5
Financial	<ul style="list-style-type: none"> The option does not decrease overall funding, but should reduce ongoing costs of health and pension liabilities. 	3	<ul style="list-style-type: none"> There are ongoing savings to be achieved by amalgamation. 	4
Ease of Implementation	<ul style="list-style-type: none"> This initiative is complex and requires carefully considered approach. 	2	<ul style="list-style-type: none"> Should be easy to implement with appropriate planning. 	5
Local Economy /Sensitivity	<ul style="list-style-type: none"> Can involve potential local Caymanian investors Service is considered sensitive, essential and critical – mitigations will be required Some parents may not like Charter School concept. 	3	<ul style="list-style-type: none"> There is likely to be resistance to any change from Cayman Brac parents and stakeholders. 	3
Customer Service	<ul style="list-style-type: none"> There is no evidence that this option will necessarily reduce service levels and the driver is to improve outcomes, but there is a risk that lower performing students may not be serviced. 	4	<ul style="list-style-type: none"> Results in some inconvenience for parents in transportation. However, educational services are likely to improve with slightly larger class sizes. 	4
Workforce Impact and Capability	<ul style="list-style-type: none"> This would represent a significant change for the around 40 to 100 teachers and other staff at selected schools. 	2	<ul style="list-style-type: none"> Small number of roles impacted. 	4
Legislative and Regulatory	<ul style="list-style-type: none"> Significant legislative change is required to facilitate this option, but this is possible. 	3	<ul style="list-style-type: none"> No legislative change required. 	5
Market	<ul style="list-style-type: none"> There are private sector education facilities on island, however there are none delivering services to Government. 	3	n/a	n/a

Recommendation

We recommend that DES pursue both Option 4.1 and 4.2. We recommend that the charter schools approach be pursued in a phased manner, with 3 or 4 schools piloted for 12 to 24 months, and with appropriate due diligence and assessment of private sector capability

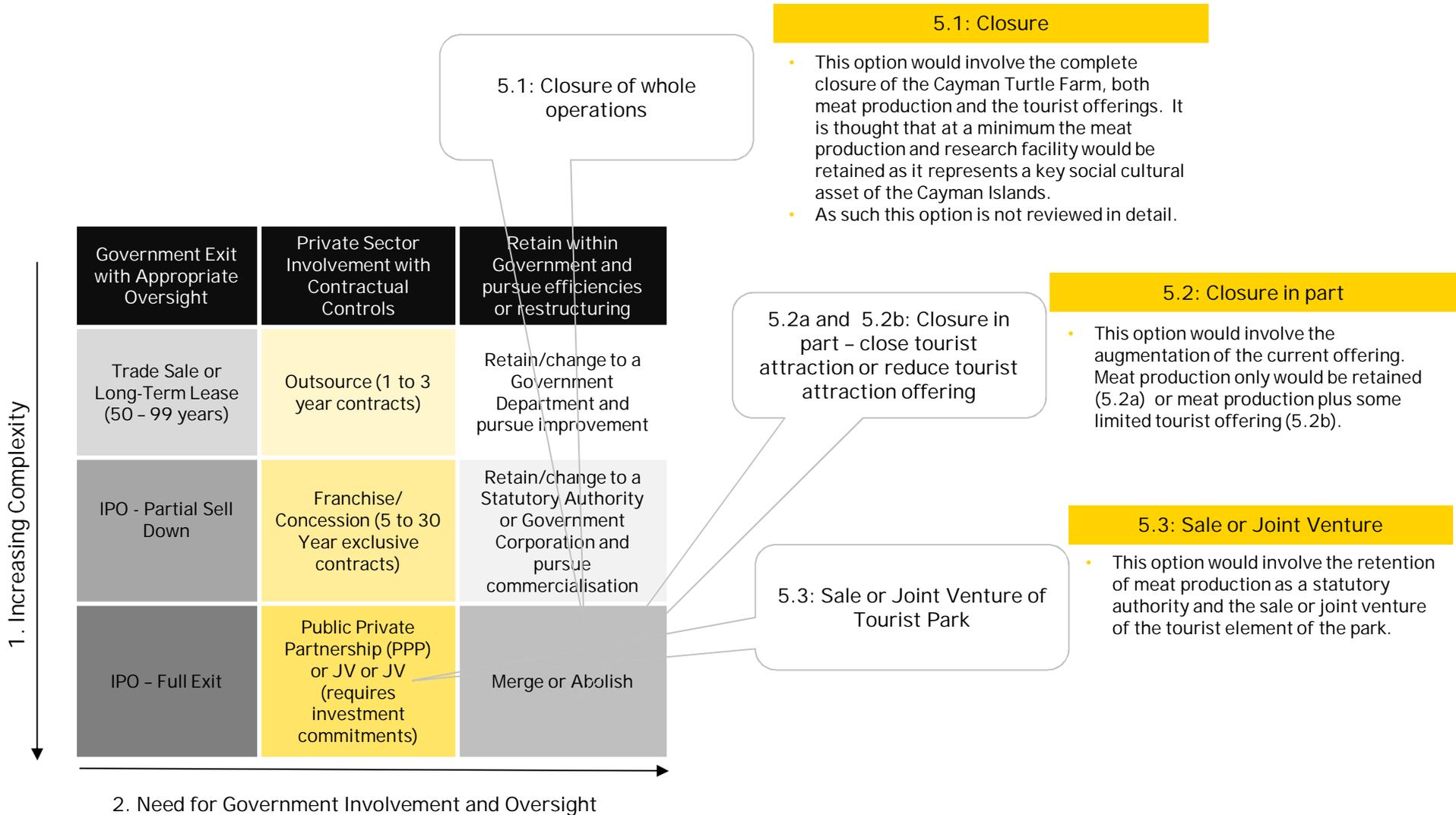
4. Education: Implementation Roadmap

An implementation plan is outlined below for both options – the merger of Cayman Brac schools can occur within 6 months and the first charter school concept could be operational within 18 months from approval



5. Cayman Turtle Farm

The following options have been analysed for the Cayman Island Turtle Farm



5. Cayman Turtle Farm

Fact Sheet highlighting key aspects of the operations of the Cayman Turtle Farm ('CTF') are outlined below

Overview

- CTF was established in 1968, principally as a sea turtle commercial farming and conservation facility.
- As the Cayman Islands' tourism sector grew, CTF evolved into a major tourism attraction while still retaining the conservation and farming role
- In FY12, CTF received 229,393 visitors, of which 71%, were cruise passengers. CTF is heavily reliant on cruise passenger volumes.

Functions

- CTF's mission statement is *'to be the Cayman Islands' premier tourism attraction where visitors and residents enjoy a world class experience, showcasing Caymanian wildlife and heritage while hosting an internationally renowned research and conservation center for sea turtles'*.
- The reality is that CTF has two distinct operational areas; 1) as a commercial turtle meat farm and research center and; 2) as a tourist attraction for visitors to, and residents of, Cayman.
- The people of the Cayman Islands have a history tied to the turtle. The appearance of the turtle on the Cayman Islands' flag, seal and currency reflects the close association the people have to the turtle. There is also an active domestic market for turtle meat. One key objective of CTF is to meet this demand and therefore prevent poaching.
- Cayman receives over 1.5 million cruise ship visitors each year. Cruise ship operators have sought to apply pressure on various island locations to offer a range of tourist attractions for visitors. As such CTF has invested heavily in the development of improved tourist amenities, particularly the beach section of its park. This includes the addition of 2 large lagoons, the first saltwater and containing turtles, fish and predators and the second freshwater swimming lagoon with water slides, aviary and nature trail.

People and Governance

- CTF is a wholly owned Government company.
- CTF has nine board members comprising a combination of civil servants from various Ministries and individuals from the private sector.
- CTF is governed under the Public Management & Finance Law.
- CTF currently employs 84 staff, of which approximately 90% are Caymanian.

Key Issues and Risks

- Financing: Debt and debt servicing are a major issue for CTF.
- Financial Performance: CTF continues to make significant losses year on year (the CTF is forecast to have one of the largest deficits amongst all of the Governments statutory authorities in the FY14/FY15 budget. Neither meat production nor the tourist attraction are able to support themselves.
- Core function: As indicated, CTF has two distinct and potentially divergent operational areas. Consideration is needed as to what is the primary purpose/focus of the farm. Farming and meat production is not attractive to tourists
- Domestic infrastructure: CTF's location limits its attraction to time sensitive cruise passengers and has an associated transportation cost which reduces revenue.
- Wildlife Concerns & Negative Publicity: In FY12, the World Society for the Protection of Animals raised a number of concerns regarding CTF; specifically on areas such as water quality and overcrowding and the commercial farming of animals.

Key Financials

Y/E 30 June (\$'000) Stat Accounts	FY13A	FY12A
Revenue	5,993	5,529
Operating Expenses	(13,407)	(13,410)
Net Deficit (Loss)	(7,484)	(8,134)
Depreciation Charge	2,814	2,917
Cash Loss	(4,670)	(5,217)
Loan Interest	1,556	1,748
EBITDA	(3,114)	(3,469)
Debt (Notes, Bank Loan & Overdraft)	30,781	35,621
Government equity injection	10,679	9,669

Source: FY13 Audited Financial Statements

Financial Comments

- Operational results subsequent to the FY13 audited accounts presented above indicate that the CTF continues to generate significant losses from operations and experience cash flow difficulties.
- The loss in FY13 amounted to \$7.5 million. On a cash basis this amounts to \$4.7 million of which \$1.6 million was debt servicing.
- CTF holds a significant amount of debt (FY13 figures):

Bank Debt:	\$5,409,462
Senior Notes:	\$21,755,160
Overdraft:	\$3,616,742
- CTF commissioned an economic impact study in May 2013 that suggested that despite the above losses CTF provides a positive and significant economic value on a Gross Value Added basis.

5. Cayman Turtle Farm

Fact Sheet continued and explanation of the two distinct CTF operations; Meat production and Tourist Attraction

Background to the two different CTF operations

Farm - Meat Production:

- Turtle meat is part of Cayman culture and there is an active domestic demand for it. One key objective of CTF is to meet this demand and by doing so prevent the poaching of wild turtles.
- Approximately 900 turtles are farmed each year producing in excess of 34,000 pounds of turtle meat. Turtles are typically 4 to 5 years old when farmed, so there is a relatively significant lag in supply.
- The Farm comprises a breeding pool, incubation unit, a range of holding pools, an abattoir and laboratory.
- Turtle meat is currently sold at \$9 per pound. Following various price studies, this figure represents the optimal price that maximises revenues. In order to breakeven, turtle meat would have to be sold at \$16 per pound (as a comparison beef is \$12 per pound).
- CTF is also considered an important and unique research and conservation facility globally for turtles.

Tourist Attraction – Retail shop, Restaurant and Tourist Park:

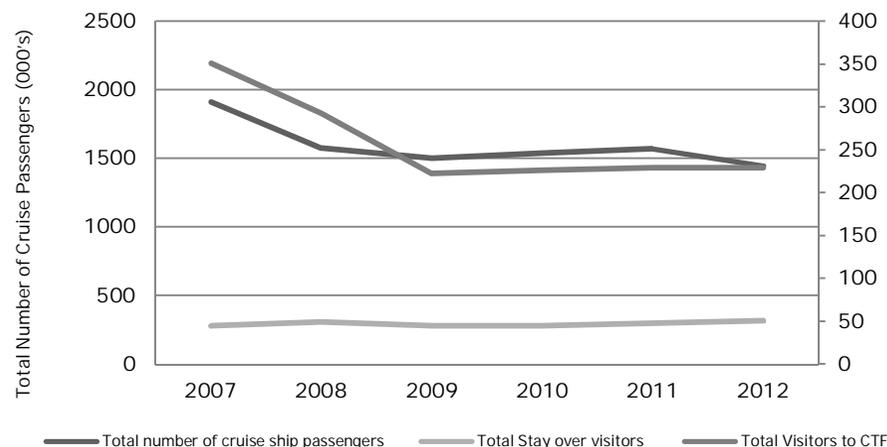
- In response to pressure by the major customer group, the cruise ship industry, to widen the CTF offering a significant redevelopment of the site and increased focus on tourism was made post 2006. CTF's \$30 million of debt largely relates to this tourism based development.
- In FY12 there were over 220,000 visitors to the CTF of which 71% were cruise ship passengers. CTF is heavily dependent on cruise ship passengers and the graph opposite highlights the positive correlation. It is worth noting, however, that the CTF only attracts approximately 11% of cruise ship passengers - only 1 in 10 cruise ship passengers attend the CTF. So whilst cruise ship passengers are the main source of customers, the capture is still relatively low.
- CTF offers a 'Full Access' tour and a 'Turtle only' tour; the former includes additional interactive activities such as swimming in a sea life lagoon.
- Tickets are sold through a variety of channels; wholesale to cruise ships, wholesale via independent tour operators, walk up sales at the gate and resident rates.
- Visitor demographics indicate that the core market comprises price conscious young family groups.
- In FY12 the average ticket price for the CTF was \$12.38 up from \$12.14 in FY11. This represents the wholesale price CTF receives, visitors to the site are typically charged double this amount by retailers.
- It is estimated that revenues would be required to increase by 100% in order for the tourist attraction to break even. Neither a doubling of the price or number of visitors, or combination thereof, is thought to be achievable.
- CTF commissioned consultants to perform an economic impact study in May 2013 that suggested that CTF provides a positive and significant economic value on a Gross Value Added basis. We have not sought to critique or challenge this analysis.

Financial Analysis and Indicative Impact

Y/E 30 June 13 (KY\$'000) Management Account - Operational Split:	Farm Only [no tourist element]	Tourist	Total
Revenue	423	5,348	5,771
Operating Expenses	(1,643)	(7,600)	(9,243)
EBITDA	(1,220)	(2,253)	(3,472)
Loan Interest	(155)	(1,454)	(1,609)
Depreciation Charge	(321)	(2,336)	(2,657)
Loss	(1,695)	(6,042)	(7,737)
Percentage of Loss	22%	78%	100%

Note: The source and basis of the above figures are the FY13 CTF Management Accounts and as such the figures differ slightly from those presented on slide Fact sheet slide. CTF Management have used the Management accounts to allocate costs to the different cost centres for illustrative purposes. This allocation is not performed when producing statutory accounts.

Total cruise ship and stay over tourists compared to visitors to CTF



5.2a and 5.2b. Cayman Turtle Farm: Option Analysis

Options analysis: Closure in part – close tourist attraction or reduce tourist attraction offering

Overview of the Opportunity/Option

- The closure of the Tourist park, leaving only the Farm - meat production and associated research facility. This would be a re-focussing on the original core function of the Farm.

Potential Benefits

- A closure of the Tourist park has the potential to reduce the operational losses by approximately 78% or \$6 million per annum based on FY13 figures. Consequently annual losses would be approximately \$1.7 million as opposed to \$7.7 million.
- It is worth noting that for the purposes of our analysis CTF's debt burden is primarily allocated to the Tourist park as this is what it relates to. The closure of any element of the business would not extinguish this debt and ongoing debt servicing. Consequently, when factoring in this continuing debt serving losses will increase by \$1.4 million to \$3.1 million.
- This option will allow the Government to release a non core service; a tourist attraction, whilst preserving a potentially key socio cultural asset in turtle meat production for domestic demand and associated research and conservation facilities/activities. If the socio cultural value of CTF is to be retained then this can be funded through a subsidy at a significantly lower level than the current Government equity injection of circa \$10 million per annum.
- If closed the site could be sold and proceeds used to pay down the debt at least in part.

Risks and Issues :

- The risks and issues associated with this option are those identified on the previous slide namely: the loss of the primary land based tourist attraction that currently caters for over 230,000 visitors, the loss of jobs and potentially relatively significant decommissioning costs associated with closure.
- In order to mitigate some of the risks above a hybrid approach where the retention of the Farm and a limited tourist offering is explored below.

Overview of the Opportunity/Option

- The retention of the Farm and the front area of the tourists attraction as well as the retail shop and restaurant – a limited tourist offering.

Potential Benefits

- By preserving the Farm - meat production and a limited tourist offering, the front of the park, the CTF is able to continue the socio cultural functions of the Farm whilst also retaining a tourist attraction as desired by the cruise ship market
- Continued overleaf...

Financial Analysis and Indicative Impact

Y/E 30 June 13 (KY\$'000) Management Account - Operational Split:	Farm Only	Tourist Park	Total
Revenue	423	5,348	5,771
Operating Expenses	(1,643)	(7,600)	(9,243)
EBITDA	(1,220)	(2,252)	(3,472)
Loan Interest	(155)	(1,454)	(1,609)
Depreciation Charge	(321)	(2,336)	(2,657)
Loss	(1,696)	(6,042)	(7,737)
Percentage of Loss	22%	78%	100%

Y/E 30 June 13 (KY\$'000) Management Account - Operational Split:	Farm, Retail & Front Park	Back Park	Total
Revenue	3,640	2,131	5,771
Operating Expenses	(5,137)	(4,106)	(9,243)
EBITDA	(1,497)	(1,975)	(3,472)
Loan Interest	(821)	(787)	(1,608)
Depreciation Charge	(1,382)	(1,275)	(2,657)
Loss	(3,700)	(4,037)	(7,737)
Percentage of Loss	48%	52%	100%

Note: The source and basis of the above figures are the FY13 CTF Management Accounts and as such the figures differ slightly from those presented on slide Fact sheet slide. CTF Management have used the Management accounts to allocate costs to the different cost centres for illustrative purposes. This allocation is not performed when producing statutory accounts.

5.2. Cayman Turtle Farm: Option Analysis

Options analysis : Closure in part – close tourist attraction or reduce tourist attraction offering continued

Potential Benefits continued

- This hybrid arrangement has the potential to reduce operational losses by 52% or \$4 million per annum. Annual losses under this arrangement would be in the region of \$3.7 million per annum. Again as previously described, closing any element of the park would not eliminate the debt holding. As such, with the ongoing debt servicing related to the closed element factored in an additional \$0.8 million would be required bringing the estimated loss to \$4.5 million per annum. This is significantly better than the current \$7.7 million annual loss and c.\$10 million Government equity injection.
- The number of individuals both directly and indirectly at risk of unemployment would also be reduced with this option.

Risks and Issues :

- The CTF will continue under this option to make an annual loss of an estimated \$4.5 million that Government is required to fund through an annual equity injection.
- The result is that the Government will maintain a subsidy to domestic turtle meat consumption and cruise ship passenger experiences in Cayman.
- Closure of the back park will lead to a number of redundancies.
- There may be some decommissioning costs associated with the closure of the back park. Additionally, CTF's debt burden primarily relates to the development of the back park so public perception in relation to a closure may be adverse.

Financial Analysis and Indicative Impact

Y/E 30 June 13 (KY\$'000) Management Account - Operational Split:	Farm, Retail & Front Park	Back Park	Total
Revenue	3,640	2,131	5,771
Operating Expenses	(5,137)	(4,106)	(9,243)
EBITDA	(1,497)	(1,975)	(3,472)
Loan Interest	(821)	(787)	(1,608)
Depreciation Charge	(1,382)	(1,275)	(2,657)
Loss	(3,700)	(4,037)	(7,737)
Percentage of Loss	48%	52%	100%

Note: The source and basis of the above figures are the FY13 CTF Management Accounts and as such the figures differ slightly from those presented on slide []. CTF Management have used the Management accounts to allocate costs to the different cost centres for illustrative purposes. This allocation is not performed when producing statutory accounts.

Option 5.2a: Closure in part – Retain Farm – Meat Production only :

Option 5.2b: Closure in part – Retain Farm – Meat Production and Front Park :

Option 5.2a: Closure in part – Retain Farm – Meat Production only :		Option 5.2b: Closure in part – Retain Farm – Meat Production and Front Park :	
Key Benefits	Key Risks:	Key Benefits	Key Risks
<ul style="list-style-type: none"> • Reduction of annual losses to \$1.7 million (\$3.1 million if Tourist park debt included). Saving to the Government of circa \$7 million per annum on existing equity spend. • Preservation of a potentially key socio cultural asset in turtle meat production and associated research and conservation facility/activity. • Allow Government to release a non core service; a tourist attraction. 	<ul style="list-style-type: none"> • Loss of the primary land based tourist attraction that currently caters for over 230,000 visitors. • The loss of a number of jobs almost all of which will be Caymanian. • Potentially for decommissioning costs associated with closure of Tourist park. 	<ul style="list-style-type: none"> • Reduction of annual losses to \$3.7 million (\$4.5 million if Tourist park debt included). Saving to the Government of circa \$5 million per annum on existing equity spend. • Preservation of a potentially key socio cultural asset in turtle meat production and associated research and conservation facility/activity. • Retention of tourist attraction as desired by the cruise ship market. 	<ul style="list-style-type: none"> • The Government continues to subsidise domestic turtle meat consumption and cruise ship passenger experiences in Cayman by an estimated \$4.5 million per annum. • The loss of a number of jobs almost all of which will be Caymanian, albeit less than with other closure options. • Potentially for decommissioning costs associated with closure of Tourist park.

5.3. Cayman Turtle Farm: Option Analysis

Options analysis : Sale or Joint Venture of Tourist Park

Overview of the Opportunity/Option

- We believe that there exists the potential to sell or engage in a joint venture, most likely with a cruise ship operator(s), in relation to the Tourist park element of CTF's operations.
- Due to the ongoing losses, limited market, scale and sensitive nature of the product we do not consider there to be any private sector appetite or market for the Farm operations. As such, we have only chosen to explore the Tourist element.
- In addition, we think that the product offering would be most attractive to the private sector if the whole Tourist element is available – as opposed to the back park only.

Potential Benefits:

- By way of example if a joint venture was able to be agreed wherein the private sector took over the operations of the Tourist element of CTF whilst CTF retained the Farm operations and was entitled to a 10% royalty on all Tourist related revenues (at FY13 levels) that would result in losses of \$2.6 million (of which \$1.6 million is debt servicing). This would be a significant reduction on the ongoing cost to Government via its equity injection.
- This joint venture would eliminate any closure and therefore ensure services and amenities as well as jobs are safeguarded.
- Any new owner or partner in a joint venture would have increased access to capital that could enable improvements to the site, amenities and overall offering to tourists. This may lead to increased demand and pricing capacity which will improve revenue and profitability.
- The increased horizontal integration through a tie in with a cruise ship operator should yield synergies, marketing and targeting opportunities as well as better cost controls. Currently CTF's margin is lost to cruise ships operators through whole sale ticket prices and independent operators, together with transportation companies. Closer access to retail customers and the elimination of intermediaries should enable a significant increase in margin.
- The tourist attraction and associated amenity would continue to exist.

Financial Analysis and Indicative Impact

Y/E 30 June 13 (KY\$'000) Management Account – Sale/JV and Royalty Scenario:	Farm Only: Existing	Farm Only plus Royalty (10%)
Revenue (Meat sales)	423	423
Royalty (10% of existing Tourist park sales)	-	535
Operating Expenses	(1,643)	(1,643)
<i>EBITDA</i>	(1,220)	(685)
Loan Interest (inc Tourist Park debt)	(1,609)	(1,609)
Depreciation Charge	(321)	(321)
<i>Loss</i>	(3,149)	(2,614)

Note: The source and basis of the above figures are the FY13 CTF Management Accounts and as such the figures differ slightly from those presented on slide Fact sheet slide. CTF Management have used the Management accounts to allocate costs to the different cost centres for illustrative purposes. This allocation is not performed when producing statutory accounts.

Risks and Issues:

- Locating a potential private sector partner willing to participate and engage. Targets are likely to be limited only to cruise ship operators.
- Structuring a deal that would be attractive to both parties. Given the ongoing and continuing losses of the CTF it is unlikely that any partner would be prepared to pay any sum upfront for the Tourist park, and a royalty or equity participation with access to profits would be more likely.

Key Benefits

- Significant reduction in Government's annual equity injection (from \$10 m to \$2.6 m), whilst;
- Maintaining services and amenities as well as retaining jobs
- Potential for private partner to provide capital to improve the facilities and service offering
- Potential for increased profitability and better margins through horizontal integration with cruise ship operators

Key Risks

- Narrow market of potential partners and limited attraction given historical losses
- Arriving at a deal that is attractive to CTF and any potential partner and aligning interests

5. Cayman Turtle Farm: Option Evaluation

Analysis of each of the four options is provided below against Government's evaluation criteria

Criteria	5.1 Closure – Whole operation		5.2a Closure – Retain Farm only	
	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Loss of a socio cultural asset. Eliminate non core Gov' function in Tourist park. 	2	<ul style="list-style-type: none"> Maintain socio cultural asset and eliminate non core Gov' function in Tourist park. 	4
Financial	<ul style="list-style-type: none"> Eliminate Govt's equity injection of \$9.5m (FY14/15 budget), less any closure related costs. Proceeds from sale of site. 	5	<ul style="list-style-type: none"> Reduce CTF's losses to \$1.7m. This will lead to a reduction in Gov's equity injection, less any closure related costs. Proceeds from sale of land. 	3
Ease of Implementation	<ul style="list-style-type: none"> Likely relatively large decommissioning costs particularly in relation to the farm. 	3	<ul style="list-style-type: none"> Some element of decommissioning required. 	3
Customer Service	<ul style="list-style-type: none"> Loss of service offering. 	1	<ul style="list-style-type: none"> Loss of service offering, but not a core Gov function. 	3
Workforce Impact and Capability	<ul style="list-style-type: none"> 84 direct jobs together with associated in direct job losses. 	1	<ul style="list-style-type: none"> Proportion of the 84 direct jobs together with associated in direct job losses. 	2
Legislative and Regulatory	<ul style="list-style-type: none"> n/a 	-	<ul style="list-style-type: none"> n/a 	-
Market	<ul style="list-style-type: none"> Removal of turtle meat from domestic market. Reduced number of tourist attractions. 	1	<ul style="list-style-type: none"> Reduced number of tourist attractions through the loss of CTF. 	3

5. Cayman Turtle Farm: Option Evaluation

Analysis of each of the four options is provided below against Government's evaluation criteria. Our recommendation is to pursue Option 5.3.

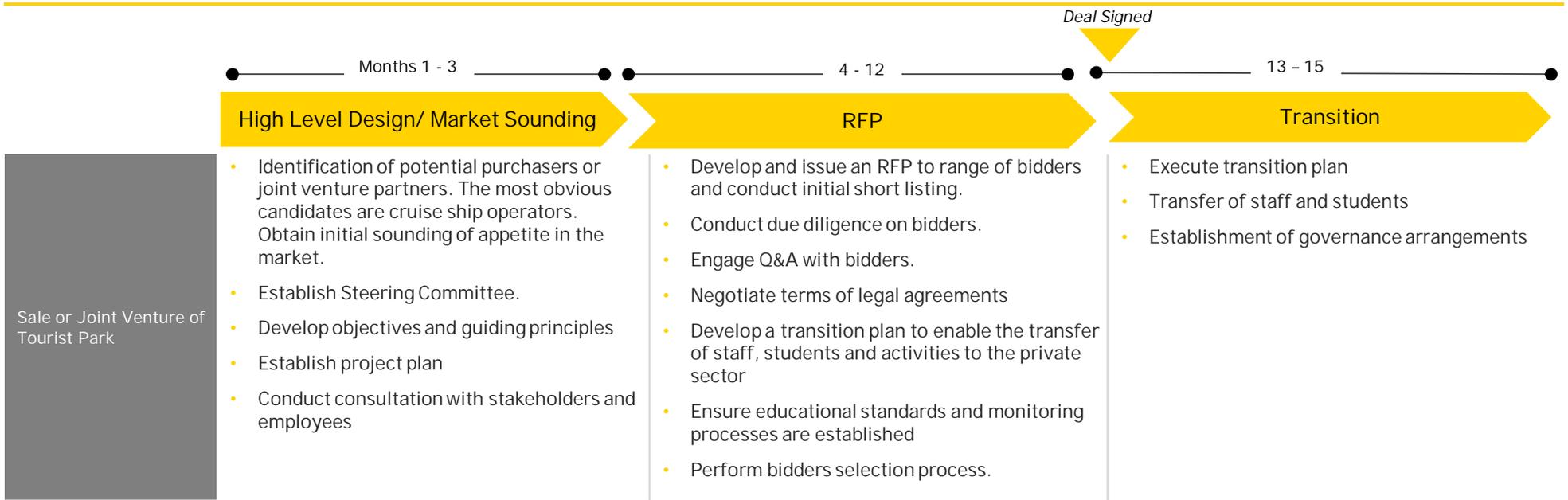
Criteria	5.2b Closure - Retain Farm & a limited Tourist park element		5.3 Sale / JV of Tourist Element whilst continuing to subsidise Farm	
	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Maintain socio cultural asset and eliminate non core Gov' function in Tourist park. 	3	<ul style="list-style-type: none"> Eliminate non core Gov' function in Tourist park. 	5
Financial	<ul style="list-style-type: none"> Reduce CTF's losses to \$3.7m. This will lead to a reduction in Gov's equity injection, less any closure related costs. 	2	<ul style="list-style-type: none"> Reduce CTF's losses to \$2.6m. This will lead to a reduction in Gov's equity injection, less any closure related costs. 	4
Ease of Implementation	<ul style="list-style-type: none"> Some element of decommissioning required. 	3	<ul style="list-style-type: none"> Discussions regarding ownership/JV may be complex and time-consuming but won't effect operations. 	2
Customer Service	<ul style="list-style-type: none"> Loss of element of service offering, but not a core Gov function. 	3	<ul style="list-style-type: none"> Should lead to improved customer experience and amenities. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> Smaller element of the 84 direct jobs together with some in direct job losses. 	2	<ul style="list-style-type: none"> Minimal job losses. 	5
Legislative and Regulatory	<ul style="list-style-type: none"> n/a 	-	<ul style="list-style-type: none"> Minimal restructuring joint venture or sale. 	4
Market	<ul style="list-style-type: none"> Minimal only reduction in CTF tourist offering. 	4	<ul style="list-style-type: none"> None. 	5

Recommendation:

EY considers the exploration of a sale/ joint venture of the tourist element (likely to a cruise ship operator) whilst continuing to subsidise the meat productions to be the preferred option to pursue as this has the potential to significantly reduce the equity injection burden the Government is required to provide each year whilst maintaining both elements of the service offering; Farm and Tourist attraction. EY note that locating a partner and arriving at commercial agreeable terms of engagement necessary with a purchaser or joint venture partner so as to achieve this option may take some time because of the unique nature of CTF.

5. Cayman Turtle Farm: Implementation plan

The implementation plan for the sale or joint venture of Tourist Park



Initiative Profile

Estimated Value: \$5 million reoccurring

Estimated Headcount Impact: 74



6. Water Authority: Options overview

Potential transaction options will need to consider the relative merits, trade offs and needs of Government in relation to control, asset ownership, future capital investment needs, service provision and risk

	Government Exit with Appropriate Oversight	Private Sector Involvement with Contractual Controls	Retain within Government and pursue efficiencies or restructuring
1. Increasing Complexity	Trade Sale or Long-Term Lease (50 - 99 years)	Outsource (1 to 3 year contracts)	Retain/change to a Government Department and pursue improvement
	IPO - Partial Sell Down	Franchise/ Concession (5 to 30 Year exclusive contracts)	Retain/change to a Statutory Authority or Government Corporation and pursue commercialisation
	IPO - Full Exit	Public Private Partnership (PPP) or JV or JV (requires investment commitments)	Merge or Abolish

Option 6.1: Sale or long term lease (either through trade sale or IPO) of existing water business

Option 6.2: Sale or long term lease of existing sewerage business(s)

6.1: Sale or Long term lease of Water Company

- This option would see the sale or long term lease (either through trade sale or IPO) of existing water business(s), excluding regulatory functions.
- Revenue stream for Government from royalty fees would be maintained, similar to Cayman Water.
- Includes development rights and responsibilities for future capital investment and the transfer of economic ownership to private sector – considered the most valid option to realise value in existing assets, and pay down debt or support future capital investment in other parts of the Cayman economy.

6.1: Sale or Long term lease Sewerage Business

- This option would result in the sale or long term lease (either through trade sale or IPO) of just the sewerage business.

2. Need for Government Involvement and Oversight

6. Water Authority: Overview

The Water Authority currently regulates water and sewerage on Cayman Islands as well as provide direct service delivery for part of the market – there is significant investment required in both existing and future assets

Overview

- The Water Authority–Cayman (WAC) was established in 1982 through the enactment of the Water Authority Law.
- WAC is a statutory body that falls under the Ministry of Planning, Lands, Agriculture, Housing and Infrastructure.
- It is charged with the protection of the water resources of the Cayman Islands, and with the implementation of water and sewerage infrastructure for the Islands.

Functions

- WAC provides water and sewerage services to over 16,000 customers in the Grand Cayman districts of George Town, Bodden Town, East End, North Side and the Sister Island of Cayman Brac. WAC provides water services to the entire island of Cayman Brac (both via pipeline and trucked water deliveries).
- Additionally, it engages in development control relating to water, wastewater and groundwater.
- WAC's activities include:
 - To ensure that the entire population of the Cayman Islands have access to a pure, wholesome and affordable supply of potable water; and to regulate other entities who are licensed by the Government to provide public water supplies.
 - To protect and develop groundwater resources for the benefit of present and future populations of these islands.
 - To provide for the collection, treatment and disposal of sewage within these islands in a manner that is safe, efficient and affordable.
 - To operate in such a manner as to be financially self-sufficient, while contributing to the economy of these islands and achieving a reasonable and acceptable return on capital investments.
 - To regulate private entities in the water and wastewater sector.
- All water on Grand Cayman is produced by reverse osmosis (installed capacity 23,000m³ per day) and stored in 7 reservoirs which have a storage capacity of 55,600m³. All water on Cayman Brac is produced by reverse osmosis (installed capacity 530m³ per day) and stored in 2 reservoirs which have a storage capacity of 2,800m³.

Functions - Sewerage

- The WAC's West Bay Beach Sewerage System provides public sewerage services to all residences and developments along the West Bay Road, between the Watler's Road area and up to Raleigh Quay, except those in the Canal Point, sections of Governor's Harbour, Camana Bay and Snug Harbour developments.
- The wastewater is treated in a Sequencing Batch Reactor treatment plant (a treatment capacity of 9,500 m³ per day).

Key Issues and Risks

- All water supplied by WAC on Grand Cayman is produced in 4 plants built (following competitive tendering procedures) by a private sector provider – Ocean Conversion (Cayman) Limited. 3 plants are currently operated, under a multi-year contract, by OCL. One plant is operated by WAC. The water plant in Cayman Brac has been operated by WAC since 1996.
- Nearly 50% of all water supplied on Grand Cayman is distributed by Cayman Water Company Limited ('CWC') in their licence area (both Ocean Conversion (Cayman) Limited and Cayman Water Company Limited are owned by Consolidated Water Company Limited).
- Whilst there are precedents for the water production by private entities in the region, there is little precedence in the region for wastewater treatment by private sector.
- The wastewater system was almost sold previously but the sale fell through.
- WAC is not permitted to borrow to fund infrastructure investments. There is no reason to suggest that WAC cannot keep up the high service levels from operating revenues. Limited funds for capital works could constrain the rate of expansion of existing infrastructure necessary to keep up with the development of the Islands.
- Lack of funding could result in the existing infrastructure not keeping up with the requirements of the three islands resulting in deteriorating service levels.
- There are approximately \$3 million worth of remediation costs required to resolve infiltration and salinity issues surrounding the existing sewer mains. Around 80% of wastewater is treated onsite rather than through the sewerage system which is not ideal – to achieve broader usage of centralised waste water treatment will require considerable cost and cultural change.

Key financials (KY\$)

Y/E 30 June (\$'000)	FY14B	FY13B
Revenue	30,685	28,253
Operating Expenses	(21,469)	(19,091)
Finance Costs	(509)	(561)
Other Income	1,225	1,119
Operating Profit	9,933	9,289
Admin Expenses	(7,605)	(6,783)
Net Income	2,327	2,506
Depreciation Charge	3,426	3,663
EBITDA	6,262	6,169

Financial Comments

- WAC, being a Government-owned entity, is currently not permitted to borrow and therefore must make investments into the infrastructure from operating cash flows.
- WAC will invest \$4.7 million in FY14 (invested \$0.5 million in FY13).
- WAC is profitable, however it provides only a modest return to Government (approximately \$100,000 FY14 and FY13) and significant amounts of the profit is required to be retained for ongoing capital projects to maintain and improve infrastructure.
- Sewerage generated \$4.16 million revenue in FY13 (sewerage fees and seepage disposal) and \$3.83 million revenue in FY12.

6. Water Authority: Market Overview

Market overview/precedent transactions/ jurisdictional comparison

Market overview

- Worldwide 2.5 billion people lack access to improved sanitation facilities and 1.2 billion people worldwide live without any sanitation facilities at all – meaning that their waste is disposed of without adequate treatment, affecting surface waters like rivers, ponds and seas as well as groundwater.
- Globally, there is a general shift towards greater private sector involvement in the sector. This involvement has been across the sector and includes providing services to ownership. The involvement of the private sector begins with provision of individual services, such as design services for specialist elements. Over time, involvement of the private sector expands to include provision of maintenance and construction activities.
- In the most mature water industries in the world, there has been a significant move to privatization of the water industry assets. For example, in the UK, the water and sewerage industry was privatised in 1989, which has resulted in 34 privately-owned companies providing water services to 50 million household and non-household consumers. This has led to over £108 billion of investment to be made in maintaining and improving assets and services.
- In other jurisdictions, there has been a growing trend to contract out the services to the private sector. In the USA the water industry is traditionally owned and operated by local Governments and is a highly fragmented industry with over 50,000 community systems and 16,000 wastewater systems.
- In the event of more private sector involvement, legislation is required to ensure prices and standards of service are regulated.
- Waste water treatment is considered by many Caribbean water utility managers and stakeholders as a low priority, which is reflected in the low number of households connected to an acceptable collection and treatment system (17%) leading to a high proportion of waste water (85%) entering the sea being untreated.

Precedent transactions

- The vast majority of privatisations in the water industry have combined water production and wastewater treatment services or large assets, such as desalination plants, for example the privatization of the Sydney Desalination Plant for AUD\$2.3b. The UK leads the world in the privatization of the water industry with the Government now controlling the industry through regulation and legislation. There are very few examples of privatization of only sewerage assets, with the majority of the examples that do exist being related to single plants.
- The Cayman Islands already has approximately 50% of its water production capacity in private ownership through Cayman Water Company Limited and Ocean Conversion (Cayman) Limited, which are owned by Consolidated Water Company Limited.

Jurisdictional comparison

- Consolidated Water Company Limited also owns water production facilities in Bahamas, Bermuda, the British Virgin Islands and Belize. The Consolidated Water Company Limited owns three desalination plants and operates four on behalf of WAC.

6.1. Water Authority: Sale of Whole Business

The analysis below looks at the divestment of the whole Water business, other than the regulatory functions which would be separated. Value to Government could be in the range of \$71.3 to \$92.6 million.

Overview of the Opportunity/Option

- Trade sale or IPO of the whole of the Water Authority's business to a private sector investor/operator and/or institutional / retail investors (Government to decide proportion of the business to include in the transaction - this would exclude all regulatory functions).
- The Government to determine if the transaction will be a sale or a long-term lease. A long-term lease (50 to 99 years) may more prudent, as the Government will retain the assets at the end of the lease and the private sector has time to recoup investments.
- Separate and establish independent and competent regulation of the water industry to control pricing and service standards – related to Utility Commission recommendation later in this report.
- Implement building block model of regulation with return on, return of and pass through of efficient operating costs to encourage investment, whilst charging the users of the service.
- Enables continuation of the water supply side of the business subsidising the waste water treatment side of the business.
- Enables the new owner to utilise the user fees and charges for services to fund the expansion of the services.
- Provides sustainable water and waste water services for all the islands on a cost reflective pricing basis to remove possibility of Government subsidy.

Potential Benefits

- Allows the Government to focus on core services and water regulation.
- Enables capital to be raised for the benefit of the Government, which could be used to fund other critical infrastructure or pay down debt.
- Reduces the headcount and operating expenditure of the Government.
- Provides access to private sector technology and processes.
- Transfers market demand risk to the private sector.
- By packaging water with sewerage it makes the potential investment to the private sector more attractive.

Risks and Issues

- Asset condition could impact value of the transaction. Asset condition surveys would be required to provide comfort to the market about the condition of the assets. In addition, data room with historical operating information would also need to be gathered.

Risks and Issues

- Previous privatization attempts have failed and could impact the market's willingness to participate.
- The water and waste water treatment assets form a natural monopoly on the Islands, which would need careful consideration when determining the regulation and controls Government may require. The assets should not be sold to Cayman Water Corporation due to competition issues.
- Pricing and service standards would need to be regulated to ensure no monopolistic pricing power was exerted. However, there is still a risk the regulator may still allow prices to increase as a result of necessary investments and to enable a fair return on investment. Selling or leasing with a longer term licence is likely to mitigate any short term recouping of investment through price increases by purchasers.
- Loss of a minimal dividend stream for Government of \$100,000 per annum (FY15F). This would likely be replaced however by a licence fee.
- It is a small system serving a small market, which presents risk to the operator/owner.

Financial Analysis and Indicative Impact

- Utility assets (including water assets) typically trade on a multiple of Regulated Asset Base (1.0x - 1.3x) or capacity (5.0x - 9.0x).
- Book Value could approximate Regulated Asset Base. Book Value of the business in FY12 was \$71.3 million, which would indicate a value range of \$71.3 million to \$92.6 million. Proceeds from any sale dependent on the proportion of the business included in the transaction.
- WAC received royalties from CWC at a rate of 7.5% of the gross water sales. For FY14 this amounted to \$1.1 million. Based on WAC's gross water sales in FY14, royalties of \$1.3 million would be due to CIG if WAC was operated by the private sector under a similar royalty arrangement.
- Maximum value is obtained from the bundling of the water treatment, water distribution, waste water treatment and waste water collection networks – the water assets can subsidise the investment required in the waste water business.
- Sale would enable a private sector entity to invest in the system, which the Water Authority is currently constrained from doing, above the operating surplus cash flows that it generates.
- Accounting treatment and tax implications require careful consideration to ensure that the assets are transferred to the private sector entity and the maximum value of the assets can be achieved for the Government.

6.1. Water Authority: Sale of Whole Business continued

The analysis below looks at the divestment of the whole Water business, other than the regulatory functions which would be retained. Value to Government could be in the range of \$71.3 to \$92.6 million.

Implications

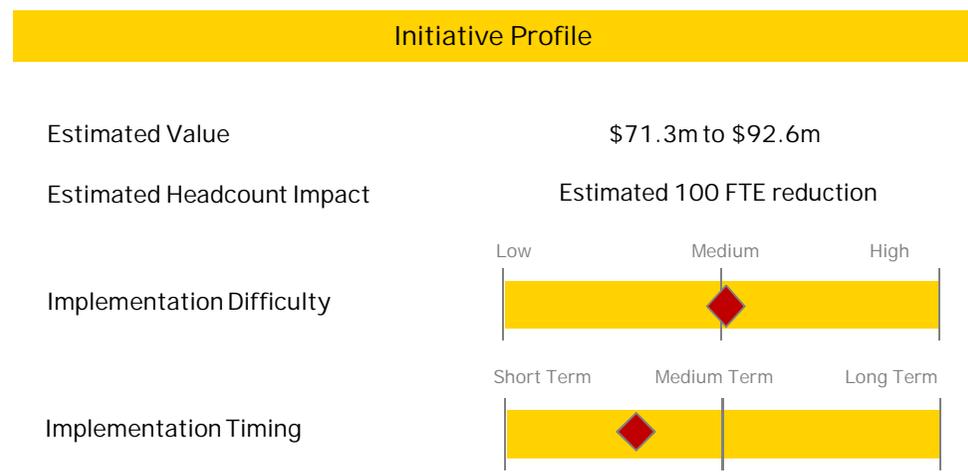
- Government to rely upon the independent regulation of the water sector to enforce standards, policy and determine pricing.
- Need to implement cost reflective pricing of the services.
- Public perception that safeguards for ownership and secure water supply and waste water treatment have been removed. Need robust communication campaign to address this issue.
- Government viewed by public as provider of last resort means residual risk exists for the Government and may require step-in rights in the event of service failure.
- Monopoly issues to be dealt with by access regime and pricing through the commercial arrangements.

Inter-jurisdictional Comparisons and Benchmarks

- UK has privatised its entire water and waste water treatment systems.
- USA water and waste water treatment industry is highly fragmented, responsibility for water and waste water treatment typically managed by local Governments.
- There has been private investment in the water treatment side of the industry by the Consolidated Water Company Limited, who has similar investments in the Caribbean region.

Implementation Considerations

- Engage with the public to raise awareness support for the revised charging mechanism (if necessary).
- Transition to the new entity will require appropriate separation program and due diligence.
- Transition management important to maintain service standards.
- Staff to be transferred to the purchaser to maintain service levels.
- Benefits and conditions may need to be transferred for a transitional period to address employee and IR concerns.
- Large existing contractual arrangements, e.g. agreements with Cayman Water Company Limited and Ocean Conversion (Cayman) Limited to be transferred to the new owner.
- Knowledge of and condition of assets important to maintain service standards and understand future capex requirements.



6.1. Water Authority: Options Evaluation

Trade sale or IPO the whole of the Water Authority is recommended due to the positive impacts on the Government balance sheet, economy and environment

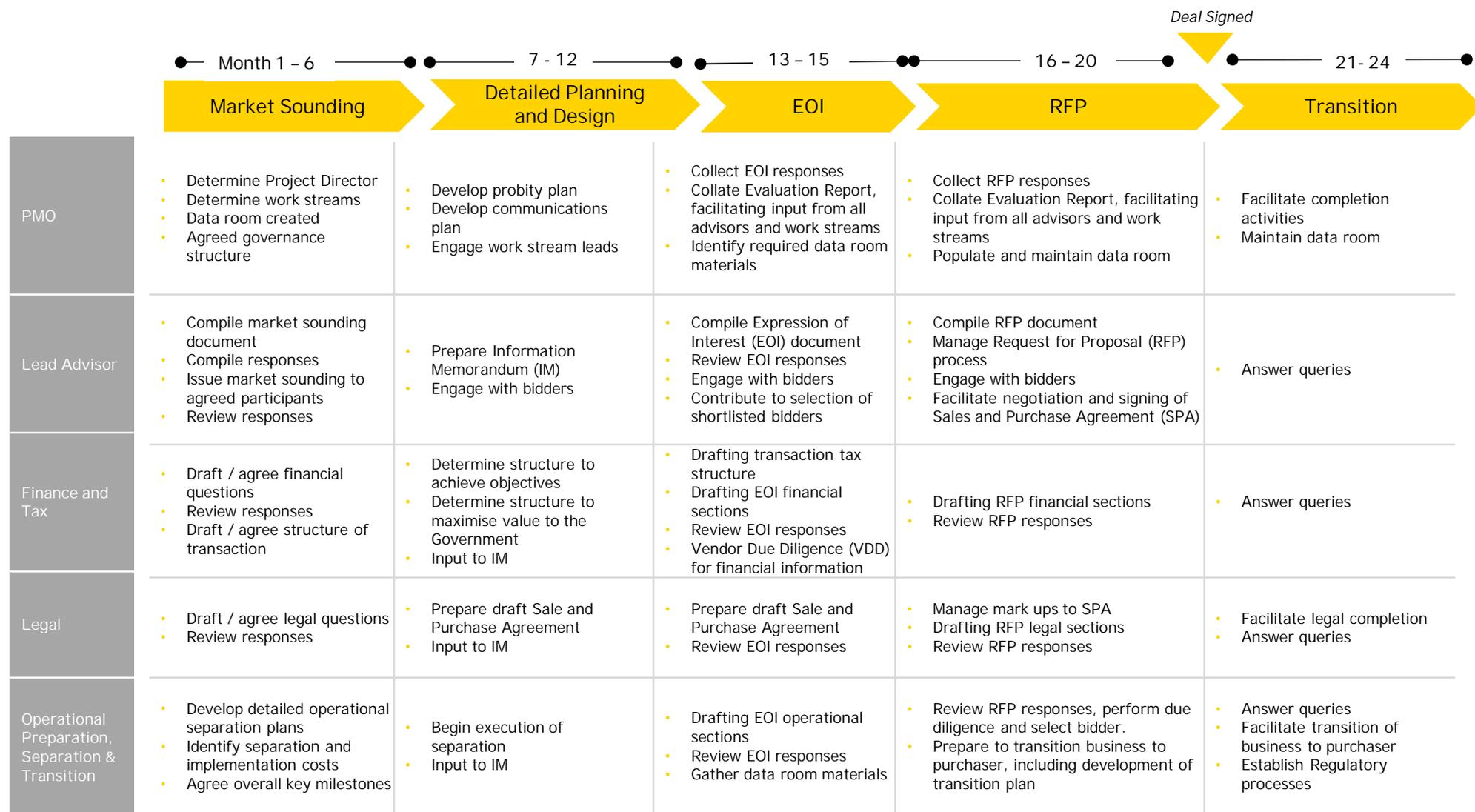
Criteria	6.1 Divestment of the whole business via IPO or trade sale		6.2 Divestment of the sewerage business alone	
	Comments	Rating (1-5)	Comments	Rating (1-5)
Alignment to Government's Role	<ul style="list-style-type: none"> Allows focus on core regulatory and policy activities and a reduction in Government headcount by over 100. 	5	<ul style="list-style-type: none"> Allows focus on core regulatory and policy activities and a reduction in Government headcount by over 10. 	3
Financial	<ul style="list-style-type: none"> Provides capital injection to Government and provides funding mechanism for the investment needed in water and waste water assets and expansion. Unable to use the assets as collateral against future borrowing, if this were to be enabled. 	5	<ul style="list-style-type: none"> Minimal proceeds from a sale due to the significant capital requirements for the sewerage business. Increases in sewerage prices expected without the water business to counterbalance, due to the capital investment needed. 	2
Ease of Implementation	<ul style="list-style-type: none"> Will require significant effort to implement and ensure the best value is received for the assets. 	3	<ul style="list-style-type: none"> Will require significant effort to implement and ensure the best value is received for the assets. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> 50% of water produced by private sector entity already, so population used to private sector involvement. Potential for price increases gradually to reflect costs of service Likely to result in additional investment from private entity leading to benefits for the economy and the environment. 	3	<ul style="list-style-type: none"> Increases in prices expected due to need to ensure cost reflective prices and also recoup capital expenditures in sewerage assets (both .repair of existing pipes and new infrastructure) Likely to result in additional investment from private entity leading to benefits for the economy and the environment. 	2
Customer Service	<ul style="list-style-type: none"> Likely to result in improvements in customer service and service levels due to ability to regulate private sector. 	4	<ul style="list-style-type: none"> Likely to result in improvements in customer service and service levels due to ability to regulate private sector. 	4
Workforce Impact and Capability	<ul style="list-style-type: none"> Workforce likely to be transferred to the new entity, requiring legislation. Retained regulatory capabilities already exist. 	3	<ul style="list-style-type: none"> Workforce likely to be transferred to the new entity, requiring legislation. 	3
Legislative and Regulatory	<ul style="list-style-type: none"> Legislation exists for the provision of water supply and waste water treatment by third parties. Legislation required to protect employees in a transitional manner. Requires implementation of independent and competent regulator and regulation of prices to protect customers. 	4	<ul style="list-style-type: none"> Legislation exists for the provision of water supply and waste water treatment by third parties. Legislation required to protect employees in a transitional manner. Requires implementation of independent and competent regulator and regulation of prices to protect customers. 	4
Market	<ul style="list-style-type: none"> Private sector involvement in the industry exists. A deep market may not exist in the Cayman Islands and international market interest in the assets would need to be tested. Private monopoly issues managed through regulation. 	4	<ul style="list-style-type: none"> No current private sector involvement in sewerage on island A deep market may not exist in the Cayman Islands and international market interest in the assets would need to be tested. Private monopoly issues managed through regulation. 	3

Recommendation

We recommend running a dual track process (trade sale and IPO) to identify the divestment process that provides maximum value to the Government coupled with the implementation of improvements to pricing to ensure a more cost reflective charge for the provision of water and waste water services across the Cayman Islands.

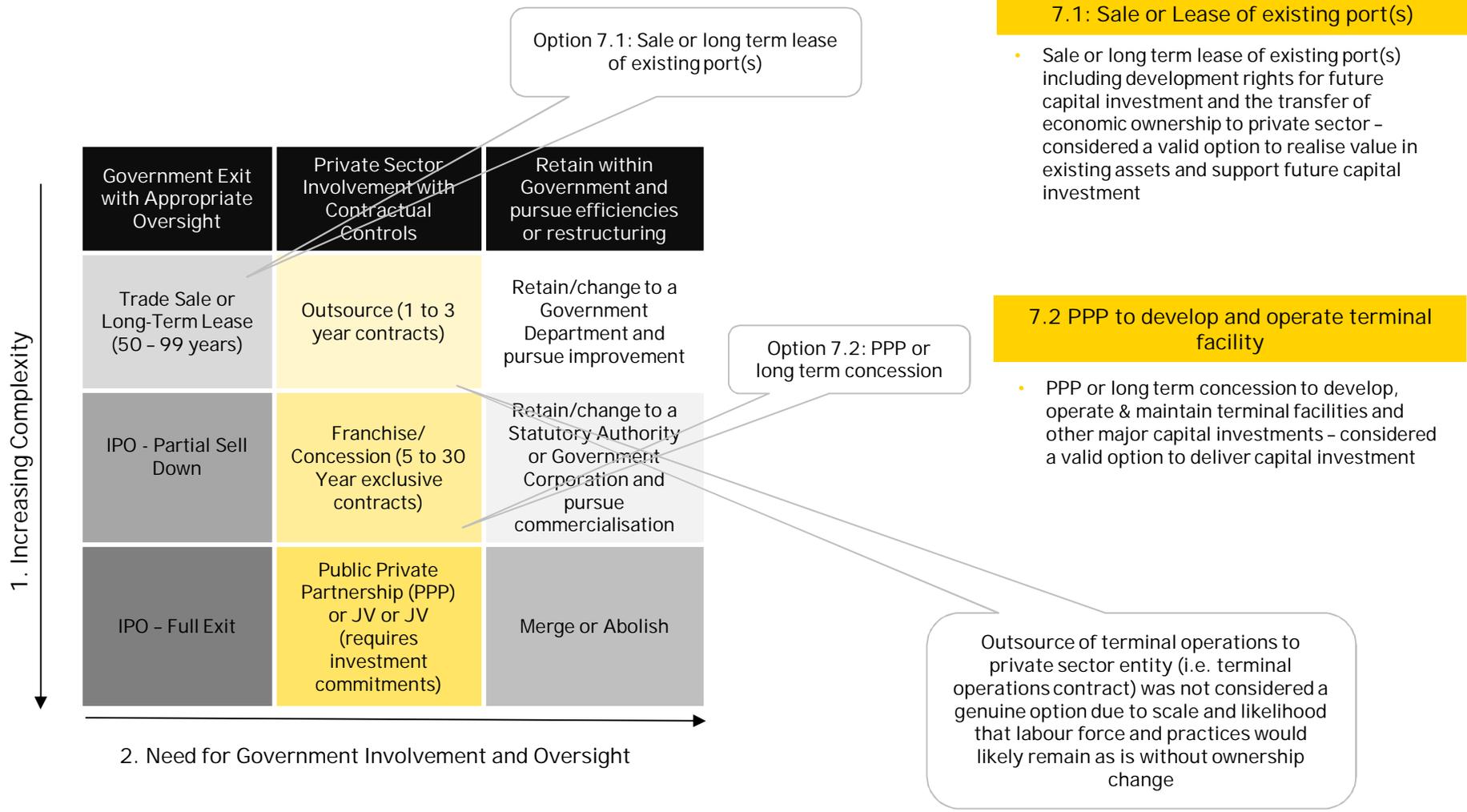
6. Water Authority: Implementation Roadmap

An implementation plan is outlined below for our recommendation with indicative timing



7. Port Authority: Options overview

Potential transaction options will need to consider the relative merits, trade offs and needs of Government in relation to control, asset ownership, future capital investment needs, service provision and risk



7. Port Authority: Overview

The Port Authority of the Cayman Islands is a statutory body established in 1976 and is principally engaged in the management of the maritime affairs of the Cayman Islands

Overview

- The Port Authority of the Cayman Islands (PACI) is a statutory body established in 1976. The Port Authority is principally engaged in the management of the maritime affairs of the Cayman Islands and has 160 employees.
- Port Authority has 3 ports – Grand Cayman, Little Cayman and Cayman Brac.
- Mainly cruise ship and container ports.
- Grand Cayman has only one berth. This operates for cruise ships during the day, and for container trade at night.
- PACI is headquartered on Grand Cayman with a branch on Cayman Brac
- The Cayman Islands competes with cruise ports across the Bahamas and the Caribbean.

PACI Functions

- Providing and maintaining facilities for the offloading of cargo imports into all islands.
- General management and control of all ports.
- Contributing to the growth of cruise tourism by providing and maintaining facilities to accommodate the cruise ship passengers.
- Providing and maintaining navigational markers in Cayman Islands waters.
- Providing a patrolling presence, using two fully equipped motor vessels, in the immediate harbour area of the Cayman Islands during cruise ship visits
- Providing a safe and enjoyable environment for the Port Authority's staff and customers.
- Carrying out the Port Authority Laws.

Regulations

- Port Authority Law (1999 Revision).
- Port Regulations (2011 Revision).
- The Port (Amendment) Regulations, 2013.

People and Governance

- The Port Authority operates under the United Kingdom Department of Transport. The UK Department of Transport sets directives and the Port Authority has to report back.
- The Cayman Islands Government Ministry of Tourism, Environment, Investment and Commerce holds responsibility for the Port Authority.
- The Port is a statutory authority owned by the Cayman Islands Government and is run by a Board of Directors appointed by the Cabinet of the Cayman Islands.

Key Issues and Risks

- Key risks include hurricane and storms and personal injury or fatality during operation.
- PACI does not charge the level of fees it needs to fully recover its costs. Crane and container fees should be raised and security fees introduced. Because of the level of fees, the PACI does not currently provide a commercial return to its sole shareholder.
- Grand Cayman subsidises Little Cayman and Cayman Brac by c\$650,000.
- Currently, the PACI requires a subsidy for insurance purposes from CIG. However, PACI is repaying this subsidy over time.
- The PACI CAPEX requirements include, but are not limited to: paving the CDC compound, rebuilding of a warehouse and offices for Cayman Brac and purchase of machinery and equipment. All CAPEX will have to be funded by CIG or other parties should the current level of fees remain in place.
- Future capital investment projects do not appear to be funded – there exists a desire for the private sector to fund.
- Domestic infrastructure. the transportation infrastructure for moving passengers in and out are significantly limited for port business.
- Significant capex is required to upgrade facilities to modern cruise ships and container standards.
- Questions over the long term suitability of the George Town site for both cruise and cargo operations.

Key financials (CI\$)

Y/E 31 Dec (\$'000)	2013A	2014B
Revenue	19,500	19,300
Operating Expenses	(16,300)	(16,100)
Net Surplus/Deficit/EBITDA	3,200	3,200
Depreciation Charge	(1,900)	(2,000)
Net Worth	40,370	41,590
Net cash flows from operating activities	2,700	2,800
Net cash flows from investing activities	(1,000)	(500)
Net cash flows from financing activities	(2,150)	(1,480)

Financial Comments

- Financial Performance: Faced major losses and serious fall in revenue with increase in cargo fees. Staff have been cut to minimal levels to improve financial performance.
- Loan payments of \$1.55 million p.a. scheduled for completion in FY17, with the balance of less than \$0.7 million paid in FY18.
- Cash reserves are expected to increase by over \$1.0m p.a. from FY17 due to debt retirement.
- CAPEX of \$250,000 for FY15 and \$1.2 million p.a. each year after.
- Staff costs expected to increase as a result of 5% increase in health insurance premiums.
- Operating expenses expected to increase due to Safe Haven operation and a 0.5% inflationary adjustment.
- Depreciation is expected to increase from the takeover of the Safe Haven property.
- Dividends when included will replace current debt reduction, so nil effect on the overall cash position.
- Payment for Environmental Impact Assessment study, when included, will not replace current debt reduction.

7. Port Authority: Overview continued

Underlying cruise passenger volumes are expected to increase significantly from FY14 onwards, as are aggregates and cargo - c.25% increase in cruise ship arrivals and c.7.5% increase in cargo from FY13 to 2019.

Port trade volumes										
	FY10A	FY11A	FY12A	FY13A	FY14B	FY15B	FY16B	FY17B	FY18B	FY19B
Cruise passenger arrivals	1.54m	1.57m	1.44m	1.41m	1.52m	1.79m	2.05m	1.95m	1.85m	1.76m
Ship calls	546	581	509	494	533	610	680	646	612	580
Cargo volumes (tons)	239,750	209,956	211,217	216,721	221,636	223,853	226,091	228,352	230,636	232,942
Aggregates (tons)	144,009	138,716	156,555	165,893	167,552	169,227	170,920	172,629	174,355	176,099
Container TEU (incoming)	23,283	21,232	22,440	23,841	24,079	24,320	24,563	24,809	25,057	25,308
Container TEU (outgoing)	23,098	21,362	22,316	23,646	23,882	24,121	24,362	24,606	24,852	25,101
Diesel (gallons)	36.02m	34.20m	30.39m	32.02m	32.25m	32.67m	33.0m	33.33m	33.66m	34.0m
Gasoline (gallons)	9.37m	10.90m	9.19m	10.98m	11.09m	11.20m	11.31m	11.42m	11.54m	11.65m
Av Jet (gallons)	3.46m	3.23m	2.85m	3.64m	3.67m	3.71m	3.75m	3.78m	3.82m	3.86m
Propane	0.98m	1.11m	1.72m	1.35m	1.37m	1.38	1.39m	1.41m	1.42m	1.43m

Operating revenue by trade											
(CIS\$m)	FY09A	FY10A	FY11A	FY12A	FY13A	FY14B	FY15B	FY16B	FY17B	FY18B	FY19B
Cargo Handling	13.45	11.48	11.97	12.39	12.67	12.42	12.54	12.67	12.79	12.92	13.05
Cruise Ship passenger Fees	2.46	2.53	2.64	2.42	2.39	2.44	2.71	3.02	2.87	2.73	2.59
Port Development Fees	1.04	0.97	1.38	1.22	1.10	1.22	1.36	1.51	1.44	1.36	1.30
Rental Income	1.18	1.22	1.21	1.14	1.22	1.16	1.12	1.06	1.01	0.96	0.91
Maritime Services	0.20	0.17	0.27	0.39	1.31	1.28	1.28	1.22	1.16	1.10	1.05
Other Income	1.29	1.07	1.01	1.07	0.44	0.44	0.44	0.44	0.44	0.44	0.44
Diesel Sales	0.21	0.15	0.13	0.33	0.35	0.35	0.35	0.25	0.25	0.25	0.25

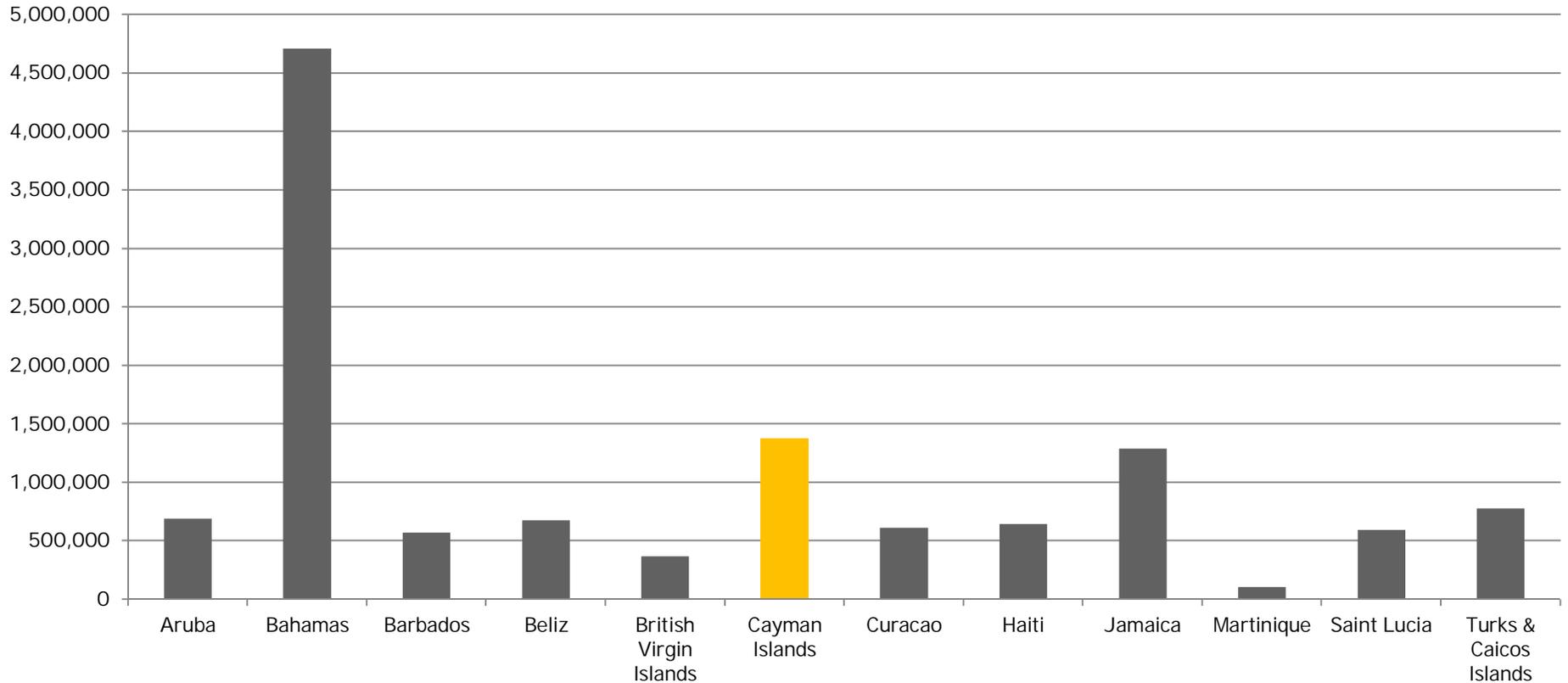
Source: RFI Response - "Final Excel Budget for 2015-2019.xlsx"

- The long term capacity and sustainability of the current George Town site must be questioned for both cruise and cargo operations.

7. Port Authority: Market overview

Cayman Islands is one of the more popular cruise passenger destinations in the region, with the Bahamas at a significantly higher number due to proximity to the US

FY13 cruise passenger visits by competing regions
Source: Caribbean Tourism Organisation



7. Port Authority: Market overview cont...

There have been many Port transactions in the region, many involving cruise ship operators

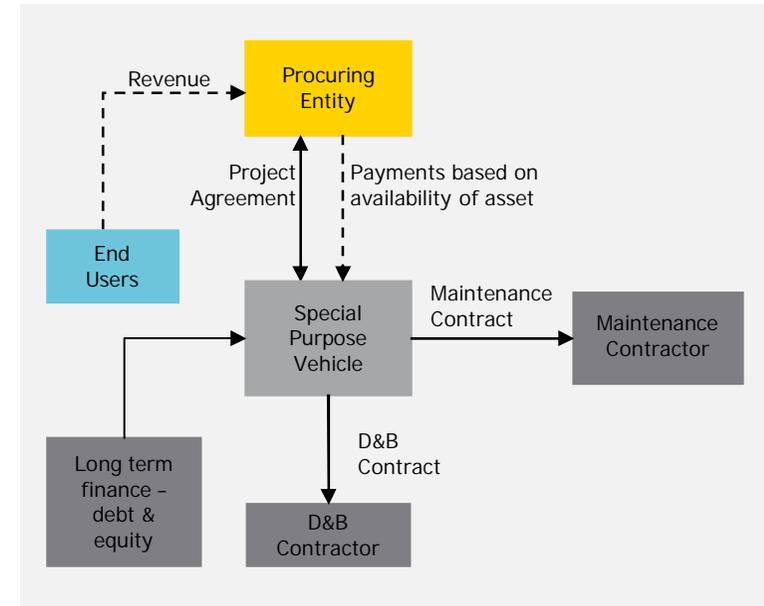
Port	Award date	Term	Description	Deal value
Container port, Barcadera, Aruba	2013		<ul style="list-style-type: none"> Aruba container port moves to Barcadera, generating new opportunities for the container port and also for Aruba's cruise port in Oranjestad which will undergo the necessary development to accommodate more cruise lines and visitors during the high season First tender: <ul style="list-style-type: none"> US\$62m PPP, landlord model. DBFMOT Agreement awarded to local stevedoring company Aruba Stevedoring Company (ASTEC) N.V. Concessionaire will be responsible for the investments in terminal infrastructure, labour, and operational activities. 	US\$62m (First tender)
Valparaiso Passenger Terminal, Chile	2002	30 years	<ul style="list-style-type: none"> Valparaiso Passenger Terminal (PLC) (VTP) is a corporation formed by AGUNSA (99%) and Tesco (1%) to build and operate a passenger terminal at the Port of Valparaiso, according to a public tender awarded for the next 30 years. Passenger terminal is located 2km from berths and consists of 4,200m² of space at the old warehouses site of the Port of Valparaiso. The terminal offers its facilities for fairs, corporate events, seminars and shows. 	
Valparaiso container terminal 2, Chile	2013	30 years	<ul style="list-style-type: none"> DBFMO - container terminal 2 in the port of Valparaiso. Project will double the capacity of the port cargo movement to 20m tons. Spanish firm OHL Concessions has been selected to assume control of the terminal with the facility scheduled for operation in FY17. Project involves design, construction and operation of a new sea wall with a new berth line for the port's second terminal. 	
Belize			<ul style="list-style-type: none"> Royal Caribbean invested \$18m for co-ownership of the Fort Street Tourism Village. Opened in November 2001 Tourism Village is where all the cruise passengers are tendered from cruise ships. The port charge is \$5 per passenger, 80% of which goes to Tourism Village. Receiving \$4 for ever cruise passenger landed, Royal Caribbean would recoup its investment in 6-7 years. 	\$18m
Belize	29 April 2004	20 years with automatic renewal for another 10 years	<ul style="list-style-type: none"> Agreement between Carnival Corporation and the Government of Belize for a US\$50m cruise terminal and option to build a 50-room hotel and casino. Except for the Carnival passenger fees (80% of which are rebated to Carnival), no fees of any kind shall be imposed) on the Belize Cruise Terminal, Carnival, or Belize Ports Limited; or ii) on any cruise ships of the Carnival Lines calling at any port located within Belize. There will be no limit, other than those already in place, on the number of cruise passengers arriving on Carnival lines Terminal accommodates two ships and includes a welcome centre with 200 spaces for gift shops, restaurants, and other stores and a transport hub for hundreds of buses and taxis. 	US\$50m
Turks and Caicos	2005		<ul style="list-style-type: none"> Carnival Corporation paved roads and constructed a pier for cruise ships, a smaller pier to launch excursion and a 13-acre cruise centre. builds first terminal on Turks and Caicos. Grand Turk Cruise Centre features a purpose-built, two berth cruise ship pier with no restrictions on length. 	US\$35-60m
San Juan, Puerto Rico	August 2001	20 years preferential berthing	<ul style="list-style-type: none"> Carnival announced in August 2001 its plans to invest \$8.5m to upgrade San Juan, Puerto Rico's Pier Four, making it practical for the 3,400 passenger Destiny-class vessels to be home-ported in San Juan. In return, Carnival has preferential berthing at the pier for 20 years and recoups its investment by retaining a portion of the port charges paid by passengers. 	\$8.5m
Sugar Point Cruise Terminal, Barbados	Terminal scheduled for completion in 2016		<ul style="list-style-type: none"> The Barbados Port Authority partnered with SMI Infrastructure Solution Inc. and Royal Caribbean Cruise. Government will manage the piers and both the JV and Government will be involved in the commercial build-out. Project will be carried out in two phases, phase one costing approximately \$300m and to be completed in two years. The new terminal is expected to have capacity to berth some of the world's biggest cruise ships and will be able to handle up to seven large cruise vessels a day. The project would involve the reclamation of 15 acres of waterfront land on which 100,000 square feet of commercial activity would be built; the installation of underground infrastructure, such as electrical cables and water mains; the construction of two cruise piers; the arrival and departure facilities; and the start of the build-out of shops and parking spaces. Possibility of constructing a hotel as part of the project also being explored to encourage passengers to stay in Barbados either at beginning or end of their trips. 	\$300m

7. Port Authority: PPP transaction types

Two general PPP types exist, availability-based and economic PPPs – each has a different risk profile and this drives the balance sheet impact, market appetite and ultimate cost of such a transaction to the Government

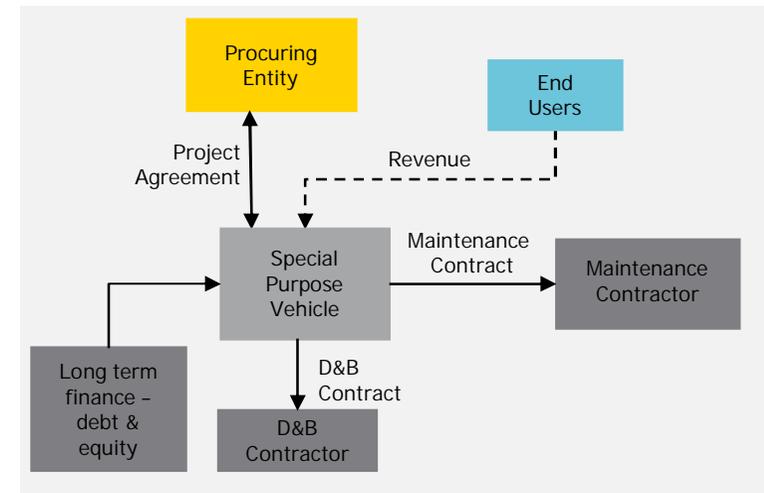
Availability-Based PPP Summary

- An availability PPP model involves a service contract between the procuring entity and a private sector entity to deliver infrastructure and related services over a fixed period of time.
- The private sector entity usually establishes a SPV to deliver the project.
- Typically, under an Availability PPP Model, a single entity is responsible for:
 - Designing and constructing the project
 - Funding and owning the asset (for a fixed term)
 - Maintaining the asset (for a fixed term)
 - Transferring ownership back to the procuring entity at the end of the contract term
- Key model features
- The Government develops the output specification, makes service payments to the contractor once the core package of works is commissioned and operational.
- Payments are subject to availability, performance specification and asset performance and are at least partially at risk through abatement regime.
- The contractor is a single Government counterparty responsible for design, build, maintenance and financing. It manages all interfaces between constructor, maintainer, equity and debt providers. It owns delivery and acceptance risk and is equity and debt funded.
- Typically remains on the balance sheet of the Government.



Economic PPP Summary

- An economic PPP model involves a service contract between the procuring entity and a private sector entity to deliver infrastructure and related services over a fixed period of time.
- The private sector usually establishes an SPV to deliver the project.
- Typically, under an economic PPP model, a single entity is responsible for:
 - Designing and constructing the project.
 - Funding and owning the asset (for a fixed term).
 - Maintaining the asset (for a fixed term).
 - Transferring ownership back to the procuring entity at the end of the contract term
 - Revenue to the SPV is from charges levied to users of the assets and the SPV is typically exposed to the market/demand risk.
- Key model features
- The Government effectively transfers economic risks to the SPV.
- Typically economic PPPs are off the balance sheet of the Government given the transfer of demand risk and economic ownership risks to the SPV.
- Market participants will view this as a riskier transaction compared to an availability PPP - potential to affect appetite for the deal.



7.1. Ports Authority: Option Port 7.1 and 7.2: Sale/Long term lease or IPO

Sale or long term lease of the port assets and operations including expansion rights such as new cruise facilities

Overview of the Opportunity/Option

- Long term lease (e.g. 99 years) or outright sale of port assets, including the right to levy charges for handling charges and dues, land rents.
- Conventional port transactions are often by way of lease, typically to afford the Government some rights regarding strategic development etc. However, the substance of the transaction is the transfer of economic ownership to the private sector.
- Transaction model options include:
 - Trade sale
 - Initial Public Offering (IPO)
- Determining the appropriate transaction model will require assessment of a range of factors including market capacity, appetite, regulatory environment etc.
- Consider the option of bundling the sale/lease of port assets with the other infrastructure development studies airport – to provide added scale and diversify cash flows.

Potential Benefits

- Upfront payment to Government.
- Transfer of future capital funding obligations, enabling investment in port capacity to accommodate trade growth.
- Potential for improvements to port efficiency and volumes from private sector performance.

Risks and Issues

- Fewer carve out issues with full privatization, involving entire assets and services being divested. Continuity of operations is fundamental.
- Demand – Private investors exposed to demand risk and growth in trade revenues and land rents – may need to consider any need for Government subsidy, particularly in relation to Little Cayman and Cayman Brac terminals.
- Scale – relatively large port for the region but operation is small in the context of commercial ports.
- Pool of buyers – will need to be further tested, likely to be a small pool of local investors or trade buyers including local pension funds.
- Political/Community – may be resistance by residents to the sale/lease, particularly to ensure that there are no adverse impacts to the region, including local jobs – The IPO option may provide potentially more appealing sale route than trade sale.
- Competition – Sale/lease of port operations at all 3 islands does potentially create the need for regulations to govern pricing – this will also have valuation implications.
- Fewer carve out issues with full privatization, involving entire assets and services being divested. Continuity of operations is fundamental.
- Will need to manage systems, IT, and process transition arrangements including handover and cessation of functions. Transition of personnel will require clear strategy including liaison with any employee representatives regarding transfer of terms and conditions.

Summary financials FY12/13

- Total Income 19.5 million
- EBITDA 3.2 million
- Total assets 51.9 million

Indicative value

- Indicative enterprise value of circa \$25 million to \$38 million for the existing business.
- Based on EV/EBITDA of 8 to 12 times EBITDA.
- This indicative valuation will require more comprehensive consideration of trade growth forecasts and expansion opportunities together with land/property rents to enable a fuller view to be formed on valuation.
- Valuation will also depend upon conditions within the sale/lease agreement, particularly regarding regulatory implications on fees and charges.
- An IPO process will likely yield a lower valuation compared to a trade sale given the absence of a control premium.

Implications

- Privatization of this nature establishes a monopoly provider of marine side services. Port users will require assurance regarding port charges and mechanisms to facilitate port expansion and ensuring continuation of trade given the limited alternative trade gateways.
- Local community – will seek to ensure that there are no adverse impacts to the region due to any sale, including local jobs.

Implementation Considerations

- Conduct detailed scoping exercise, including comprehensive determination of transaction perimeter and structure.
 - Conduct review of the transaction model options to determine whether trade sale of IPO is preferred.
 - Conduct market sounding to ascertain potential pool of buyers.
 - Consider potential to market a combined port/airport infrastructure transaction.
 - Consider best long term operational model including potential to split commercial and cargo operations / potential establishment of additional facility.
- For business exit readiness:
 - Establish framework to govern charges, access and expansion rights and obligations
 - Determine requirements for enabling legislation.
 - Detailed legal review required to get clarity regarding ability to sell or implement long lease.
 - Plan for the restructure of the Port Authority's assets into land holding and asset holding SPV's.
- Transaction preparation:
 - Set policy and commercial objectives, confirming the design of the process, preparing marketing materials and preparing for due diligence.
 - Vendor DD reports should be produced in relation to financial, tax and legal.

7.2. Ports Authority: Option Port PPP

PPP for the cruise berth development that is either separate to or together with the existing port e.g. 30 year build, operate, finance, maintain concession

Overview of the Opportunity/Option

- A PPP for cruise berth development that is either separate to or together with existing port.
- A private sector entity would build, finance, operate and maintain new infrastructure over contract term.
- The elements of a PPP contract to consider include:
 - Availability based PPP – i.e. demand risk retained by the Government, with unitary charge paid to the private sector entity over the contract term for the availability of the assets.
 - Economic PPP – i.e. demand risk is transferred to the private sector entity, who takes a long term revenue risk over the terminal along with asset delivery, operation and maintenance.
- The Government will need to determine its risk appetite with respect to its preferred PPP model. Competitive procurement process would be undertaken to award the PPP contract to the private sector entity.

Potential Benefits

- PPP contracts enable capital investment without the need to transfer long term ownership of the asset.
- It enables Government to profile its payment obligations to operational cash flow/receipts.
- It can also facilitates growth and increased revenues from improved/new facilities, including growth in cruise berth charges and non maritime cruise revenues (e.g. rents and retail/duty-free etc.).
- The primary objective of the development is to establish a modern facility that will separate cruise and cargo handling to avoid the conflicts which now result from the dual function of the existing port.
- Development of the berthing facilities will provide infrastructure to better facilitate the efficient embarkation and disembarkation of passengers from larger cruise vessels, provide improved visitor safety, and in turn improve visitor experience so they will continue to choose Cayman as a holiday destination.

Costs

- The structure of the PPP model will need to consider cost components of the project including:
 - Construction costs
 - Operation & maintenance costs
 - Financing costs
 - Transaction costs (bidders and the Government)
- An assessment of the value for money of a PPP transaction versus a conventional Government funding would typically be undertaken. This will assess whether the risk-adjusted cost of the PPP does provide overall better value for money.
- The transaction perimeter will need to be defined in terms of the projects to be developed does the scope of the cruise development and/or Cargo development to include any existing terminals or assets.

Risks and Issues (current constraints)

- Financing - Due to restrictions under the Public Management and Finance law (PMFL), the Government is unable to finance the construction of port facilities through conventional borrowing methods. The Government is also dependent on existing revenue streams stemming from the port as a means of funding its on-going operations.
- The business case for PPP projects will need to support increased revenues to the Government from the assets.
- Delays and disruption during construction will need to be considered.
- Scale – determining whether a stand-alone cruise terminal financially viable.
- Natural environment - Project requires dredging (36ft or 11m) which has environmental impacts. Department of Environment and the local community are key stakeholders.
- Development of an additional new facility in a new location has the above risks but provides a solution to the future capacity needs and in the long term may be more cost effective.

Implementation Considerations

- Significant considerations will be necessary to determine a financing model that provides assurance and security to a private sector investment partner.
- The Public Management and Finance Law 2012 sets out the five key stages that will be undertaken by the CIG in the planning, development, and execution of a project:
 - Appraisal and business case
 - Procurement
 - Contract management
 - Delivery
 - Evaluation
- PPPs are fairly new for the Cayman Islands Government. External expertise will be necessary to review and advise on potential contractual arrangements. Financial, legal, technical and environmental consultation will be required.
- Consideration will need to be made of the potential PPP participants and ensuring that a competitive procurement process can be conducted. Market sounding prior to formal commencement of the process should provide greater clarity on market appetite and likely bidders in the process.

7. Ports Authority: Options analysis

Each option has been evaluated. Depending on Government appetite, all options could be pursued however a PPP option may align more to existing processes already underway for the cruise terminal

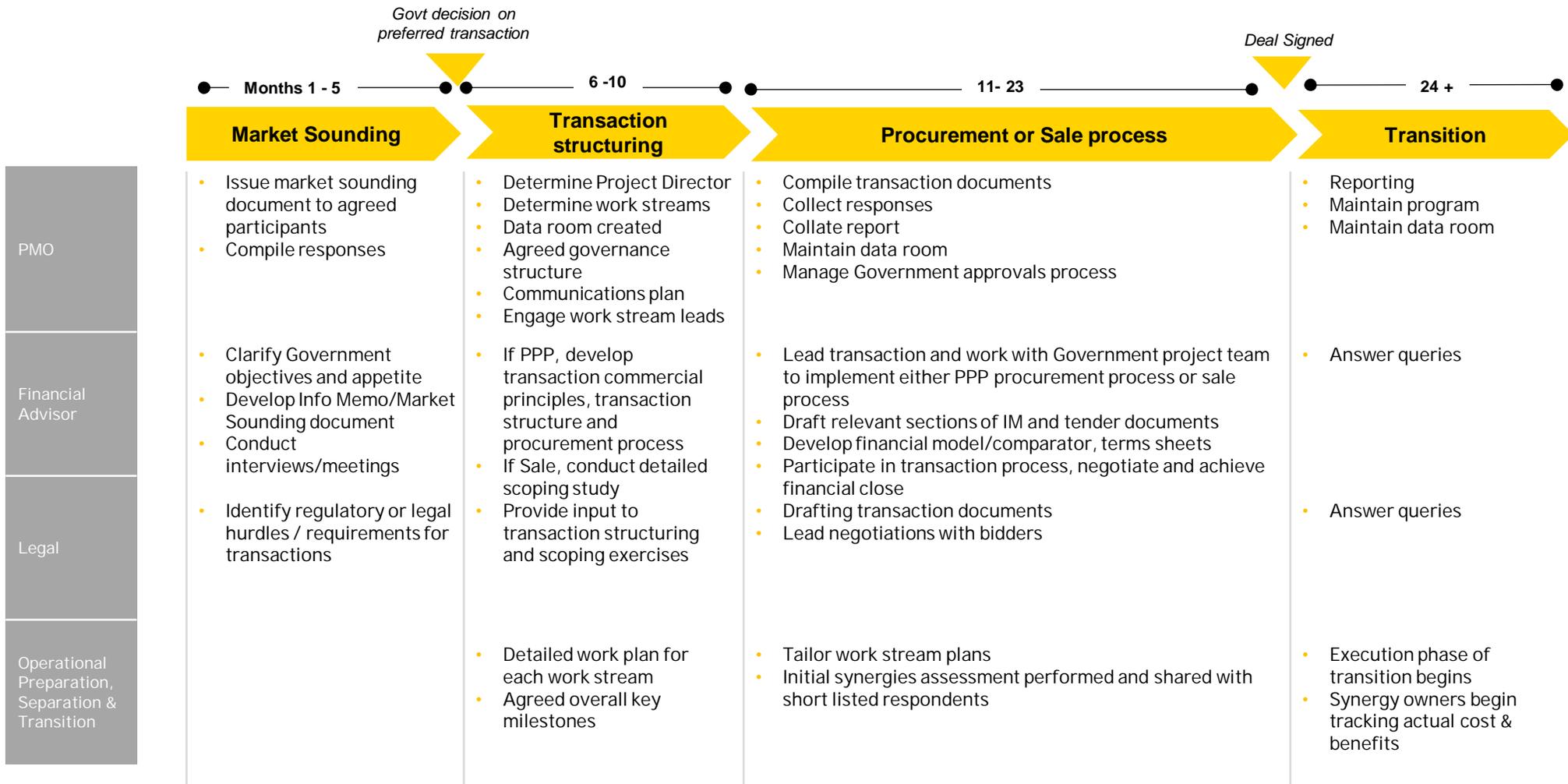
Criteria	7.1: IPO		7.1: Trade Sale		7.2: PPP	
	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Results in exit from port ownership and management, reduction in direct headcount and obligations. 	4	<ul style="list-style-type: none"> Results in exit from port ownership and management, reduction in direct headcount and obligations. 	4	<ul style="list-style-type: none"> Retains ownership of existing facilities but transfers obligations for new cruise terminal assets. 	3
Financial	<ul style="list-style-type: none"> Upfront proceeds to Government but typically lower than trade sale - would need to be satisfied that value exceeds retention value. 	4	<ul style="list-style-type: none"> Upfront proceeds to Government - would need to be satisfied that value exceeds retention value. 	5	<ul style="list-style-type: none"> Transfer of future capital financing obligations - investment in cruise terminal and potentially cargo operations. 	4
Ease of Implementation	<ul style="list-style-type: none"> IPO process is conventional, complexity will depend upon transaction structure and perimeter and book build process. 	3	<ul style="list-style-type: none"> Trade sale process is conventional, complexity will depend upon transaction structure and perimeter. 	4	<ul style="list-style-type: none"> Complex transaction process, appetite for transfer of demand risk will need to be tested as will potential to attract third party finance. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> Local economy may take share in IPO, local employment would continue, potentially positive message (local ownership/investment). Likely to have positive effect on economy. May result in increased prices but could be regulated by Government. 	5	<ul style="list-style-type: none"> Similar issues to IPO, but less favourable from a local economy perspective. 	4	<ul style="list-style-type: none"> Capital investment will positively impact economy. May result in increased prices but could be regulated by Government. Frees up capacity at existing port and makes cruise market more attractive and provides a long term capacity solution. 	4
Customer Service	<ul style="list-style-type: none"> Likely to enhance service levels. 	5	<ul style="list-style-type: none"> Likely to enhance service levels. 	5	<ul style="list-style-type: none"> Likely to enhance service levels for new assets - depends upon contract requirements and potential partner. 	4
Workforce Impact and Capability	<ul style="list-style-type: none"> Transition of workforce to a listed/private entity. Potential job creation through increased capital investment. 	3	<ul style="list-style-type: none"> Strongest potential for redundancies Potential job creation through increased capital investment. 	2	<ul style="list-style-type: none"> Transition of workforce to a private sector PPP party. Potential job creation through increased capital investment. 	3
Legislative and Regulatory	<ul style="list-style-type: none"> Likely to require legislative change to enable sale/long lease. May need to consider price monitoring regime. 	3	<ul style="list-style-type: none"> As per Option IPO option. 	3	<ul style="list-style-type: none"> May require some enabling legislation. 	4
Market	<ul style="list-style-type: none"> Limited precedent for IPO, deal scale is the significant concern in this case - will need to be tested. 	2	<ul style="list-style-type: none"> Precedent for trade sale, deal scale is the significant concern in this case - will need to be tested. 	2	<ul style="list-style-type: none"> Some precedent for PPP - market will need to be tested. Appetite for conventional infrastructure contracts exists. 	2

Recommendation:

Further clarity from Government is required over specific capital objectives and the interplay with existing PPP processes for the cruise terminal. Should capital injection be a priority, then consider trade sale or IPO, subject to thorough market testing and consideration of transaction perimeter & structure. Should a cruise terminal PPP be the immediate priority, then we recommend that the current Port operations be considered for packaging with the cruise terminal to contribute to the capital needs of existing Port and to allow private sector influence on Port operations. We recommend thorough market testing prior to a formal transaction option being selected particularly with regard to address the benefits and long term needs and whether a separate facility provides the optimal solution.

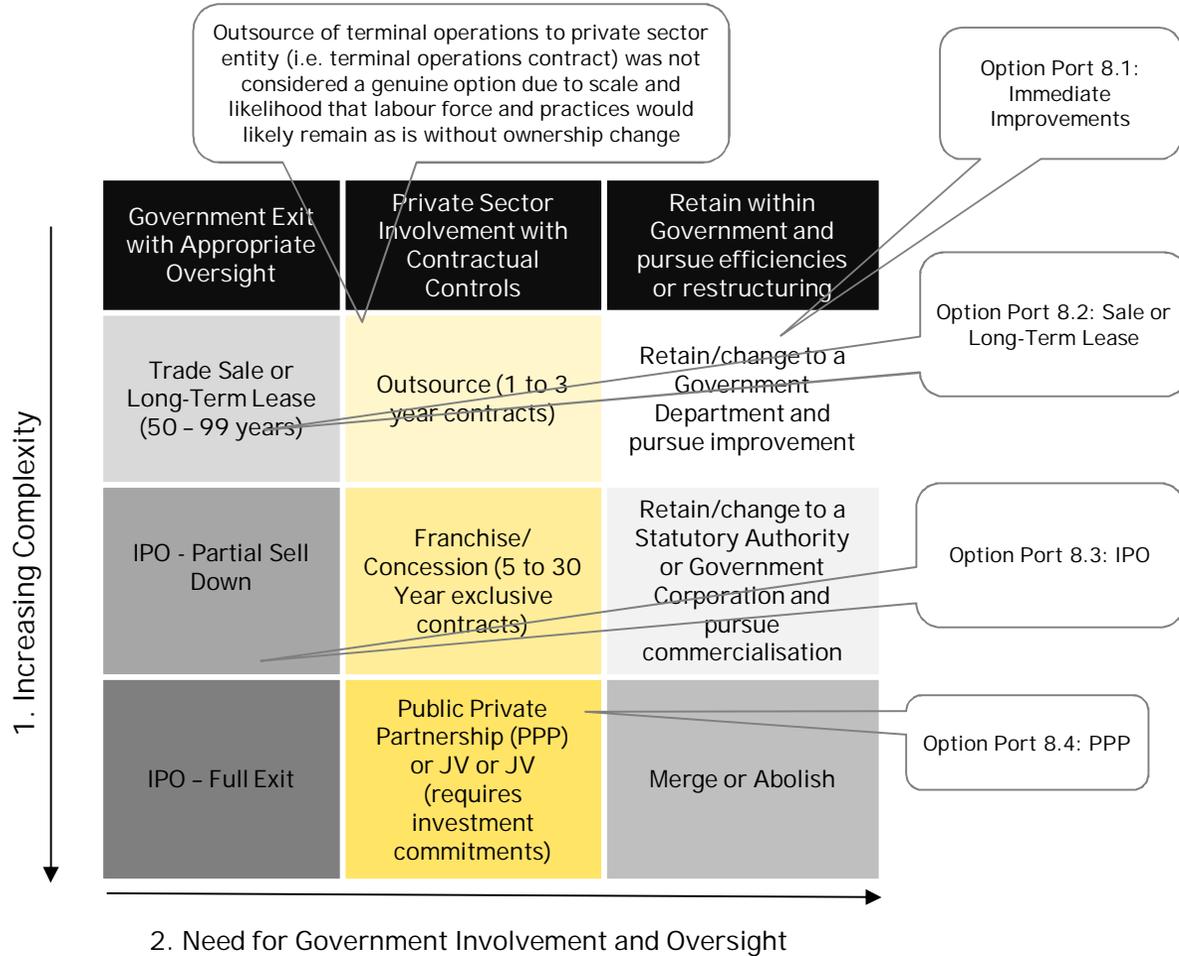
7. Ports Authority: Implementation roadmap

An implementation plan is outlined below for our recommendation for sale or PPP



8. Airports Authority: Options overview

Potential transaction options will need to consider the relative merits, trade offs and needs of Government in relation to control, asset ownership, future capital investment needs, service provision and risk



8.1: Immediate Improvements

- Immediate investment in the Airport to provide additional capacity.
- Introduction of US Customs Clearance in Grand Cayman, allowing passengers to arrive in the US as a domestic passenger.

8.2: Sale or Long-Term Lease

- Sale or long term lease of existing airport(s) including development rights for future capital investment and the transfer of economic ownership to private sector - considered a valid option to realise value in existing assets and support future capital investment.

8.3: IPO

- Initial Public Offering for the Airport, listing the CIAA on a stock exchange and looking for investment from the public as well as pension funds or other investors.

8.4: PPP

- PPP or long term concession to develop, operate & maintain terminal facilities and other major capital investments - considered a valid option to deliver capital investment and deliver a new airport able to meet the long term country needs.

8. Airports Authority: Overview

CIAA controls three airports: Owen Roberts International Airport on Grand Cayman, Charles Kirkconnell International Airport on Cayman Brac, and Little Cayman Airport on Little Cayman

Overview

- CIG is the sole owner of the two international airports: Owen Roberts International Airport ('ORIA'), Grand Cayman and at Charles Kirkconnell (formerly Gerrard-Smith) International Airport, Cayman Brac, and Little Cayman Airport on Little Cayman.
- CIAA activities involve providing a safe and efficient environment for the movement of aircraft and people in accordance with international and national practices.
- Services are provided to eight international airlines, Cayman Airways, local and international charter aircraft, private aircraft, local businesses, various Government departments, and the general public.

Owen Roberts International

- Owen Roberts International Airport consists of one terminal building that includes areas for check-in, security checkpoint, departure lounge, arrival hall, office space, concession space, airline lounge, protocol lounge.
- Ancillary facilities consist of an air traffic control tower including equipment room and tower cab, general aviation terminal building including areas for immigration, customs, waiting lounge, aeronautical information services, national weather service, duty free shop, office space, cargo building, beacon house, annex building, warehouse, and courier building.
- Services provided at ORIA include air traffic services, ground handling, passenger services, landside services, airport security, fuel service, aircraft maintenance and hangar service, fixed base operator, cargo and courier service, admin and operations.
- Current facilities experience overcrowding in peak periods and service delivery and quality of facilities is falling behind many other jurisdictions.

Charles Kirkconnell International

- Charles Kirkconnell International Airport (CKIA) is located on Cayman Brac.
- The airport is one of the hubs for Cayman Airways with flights to ORIA on Grand Cayman, and Edward Bodden Airfield on Little Cayman.
- International flights are constrained to a once-weekly Cayman Airways arrival from Miami International Airport.
- CKIA currently does not have proper facilities in place to efficiently handle international flights.
- Some areas experience overcrowding when there are commercial jet operations.

Revenue streams

- CIAA and CIG jointly receive revenues from the airlines in various taxes included in their individual ticket prices. CIAA also receives income from non-aeronautical revenue streams such as rental income, advertising, ground transportation and parking fees. There are seven existing retail concessionaires and one food and beverage provider at ORIA. At CKIA, one food and beverage provider exists. CIAA generates revenue from the rental of space to concessionaires at extremely low rates (circa. \$50 per month). The constraints of the present facility represent a significant lost revenue opportunity.
- Revenue streams include passenger taxes/revenue. CIG currently receives revenues from the CIAA as fees, Passenger Facility Charge (PFC), security tax, and terminal fee. CIG receives a portion of the departure tax directly (\$4 per passenger).
- Total fee per passenger is \$42 and this fee is anticipated to rise to \$52 with a revision to the Travel Law (Departure tax and environmental protection law).

Key financials (KY\$)

(\$Million)	FY13A	FY14B
Revenue	24.4	24.9
Operating Expenses (excl. Dep)	16.9	15.4
EBITDA	7.4	9.5
Depreciation Charge	3.50	3.50
Net cash flows from operating activities	6.67	7.09
Net cash flows from investing activities	(2.87)	(1.16)
Net cash flows from financing activities	(2.99)	(0.03)

Revenue streams (cont.)

- Passenger Facility Charge (PFC) is \$13 per passenger and is levied on 'every eligible departing passenger' to an international destination. Revenue from the PFC is currently the only charge that can be utilized for airport capital developments and these funds cannot be utilized for operations and maintenance. The current development fund contains \$12.4 million (at May FY14) which is placed on deposit.
- Currently \$3 million of the PFC fund (not included in funds currently on deposit) is being utilized for potential future works: Brac terminal expansion, ORIA emergency works, emergency generator for ORIA.
- Total PFCs receivable for FY12/13 was \$6.2 million.
- There have been some issues surrounding aged accounts receivable of PFCs from some of the airlines. Total outstanding PFCs to date is \$5million. CIAA and delinquent airlines are in negotiations to agree on arrangements for payment of the outstanding amounts to be repaid over a set period of time.

8. Airports Authority: Overview continued

Owen Roberts terminal suffers from aged and cramped facilities, currently operating over the original design intent. A redevelopment of the existing site is being discussed but this will only meet mid term needs.

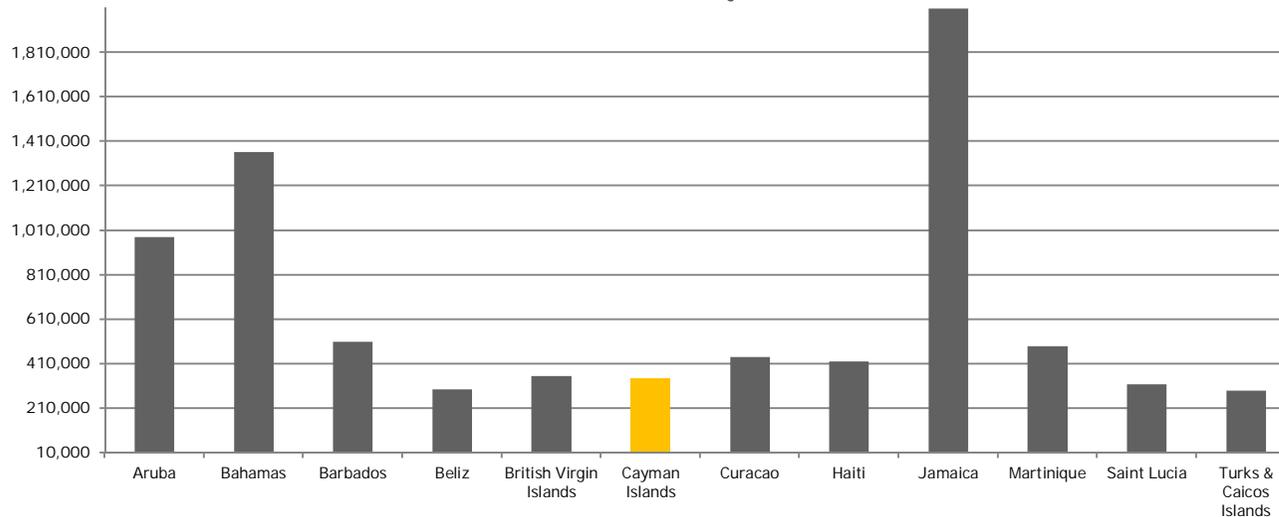
Operational issues, constraints and needs

- Terminal building – Current ORIA commercial airline terminal was opened in 1984 and designed with space to handle a maximum 500,000 passengers by the year 2000 and its current traffic volume significantly exceeds this.
- The airport terminal reflects a combination of aged and cramped facilities and a severely congested and uncomfortable environment, providing a poor level of service to travellers passing through.
- There is no space to develop in-transit facilities and employees are forced to work under confined conditions. The terminal building needs to be expanded.
- Apron – This needs expansion as it currently only has a maximum of 8 aircraft parking stands.

- General Aviation Terminal (GAT) – The current facility is inadequate and restricted in size and cannot accommodate the number of passengers and aircraft using the facilities. There has been private sector interest in partnering with CIAA to develop the GAT.
- Runway extension – The need to evaluate the extension of the runway to accommodate long-haul flights has been highlighted by the recent announcement that British Airways is considering introducing the B777 for the GCM route. This route is at risk if the runway and apron cannot accommodate this kind of aircraft if the change takes effect in the future.
- Parallel taxiway - Currently there is not a parallel taxiway, which causes delays in take off and landing. Need for a parallel taxiway from end of runway to main apron.
- Need for improved cargo facilities, fuel facility, fire service.
- The current site is space constrained for the long term needs and require improvements to meet the short to mid term needs.

- Need for enhanced safety:
 - Runway end safety area (RESA) – Currently there is no RESA on eastern end of ORIA Runway 08 – considered one of the two most serious safety concerns.
 - Secondary surveillance radar.
 - Runway perimeter road and fencing.
- Needs to enhance passenger convenience:
 - Boarding bridges.
 - US Border Control pre-clearance.
 - Common Use Passenger Processing System.
- Need to enhance revenue streams:
 - Concessions – Revised concession model to move from rent based to revenue based.
 - Office space rental.
 - Advertising space.
 - Energy efficient facilities to cut costs.
 - Vehicle parking facilities.

FY13 tourist (stop-over) arrivals of competing regions
Source: Caribbean Tourism Organisation



This graph excludes resident tourist and business travel, hence the difference with the figures presented above and that indicated on the graph.

Key risks and issues

- CIG is currently constrained by numerous economic factors. Due to restrictions under the Public Management and Finance Law 2012 (PMFL), the CIG is unable to finance the development of the airport through conventional borrowing methods.
- The CIAA is also dependent on existing revenue streams stemming from the airline industry as a means of funding its on-going operations.
- Issues surrounding dividends to Government and effect on long term planning and bureaucracy of decision making.
- CIAA generates their own capital - there is no support from Government.
- CIAA is unable to retain capital for investment as Government seeks arbitrary dividends.
- Not all costs are correctly covered/charged.
- Concerns expressed regarding fire and rescue, and whether a fee is paid for these services by CIAA or whether the cost is borne by Fire Department. At this stage, no rent is charged to Fire and Rescue for their domestic and aerodrome building location as a balancing item.

8. Airports Authority: Market overview

There have been a number of long term airport concessions in the region

Airport	Award date	Term	Description	Deal value
Curacao International Airport	2003	30 year concession expiring in August 2033	<ul style="list-style-type: none"> Brazilian CCR is the majority shareholder of Curacao Airport Partners N.V. (CAP) and holds 79% of the shares of the company. 39% directly and 40.8% via CPA, a JV with Flughafen Zurich AG 7.7% and IDC 2.6%. Dutch construction group Janssen de Jong is the minority partner with 10%. A-port Operaciones S.A. signed an O&M Agreement for the operation of the airport 30 year concession for the development and operation of the airport. Milestones: <ul style="list-style-type: none"> 2003 - Start of the 30 year concession, led by Alterra Partners 2006 - Start-up of the new terminal building with initial capacity of 1.6m passengers p.a., which can be expanded to 2.5m p.a. 2009 - Acquisition of the majority share from Alterra Partners by consortium of Camargo Correa, Zurich Airport and IDC 2012 - Camargo Correa seels participation to CCR 2013 - CCR purchase additional shares from Jansen de Jong and takes control of the concession 	CCR acquired 40.8% for US\$24.5m
San Juan Luis Munoz Marin International Airport (SJU). Puerto Rico.		40 year lease	<ul style="list-style-type: none"> PPP Co: Aerostar (JV between Mexico's Group Aeroportuario de Surest (ASUR) and New York based Highstar Capital) Upfront leasehold fee to Puerto Rico Government of \$615m, through \$350m in investment grade bonds and \$265m in equity. Aerostar to make additional payments of \$2.5m annually for the first 5 years and then pay 5% of airport revenue for 25 years, followed by 10% for the remaining 10 years of the contract 	c.\$1.4b over 40 year life of the lease
Galeao International Airport, Rio de Janeiro, Brazil	2014	25 year concession	<ul style="list-style-type: none"> Upgrade to Rio de Janeiro's Galeao International Airport Preferred bidder submitted the highest bid above the Government's reserve price of \$2.231b. In addition to the upfront fee, the concession company must pay Brazil's civil aviation agency, ANAC, 5% of gross annual airport revenue over the life of the 25 year concession. Selected bidder was infrastructure giant Odebrecht teamed with Singapore's Changi Airport Group, which bid \$8.6b 	\$8.6b
Confin Airport, Belo Horizonte, Brazil	2014	30 year concession	<ul style="list-style-type: none"> Upgrade Belo Horizonte's Confin Airport Preferred bidder submitted the highest bid above the Government's reserve price of \$505m In addition to the upfront fee, the concession company must pay Brazil's civil aviation agency, ANAC, 5% of gross annual airport revenue over the life of the 30 year concession Selected bidder was led by CCR, bidding \$827m 	\$827m
Ernesto Cortissoz International Airport, Barranquilla Colombia	Issued for tender June 2014. Preferred bidder to be selected 31 October 2014		<ul style="list-style-type: none"> Package one of a \$263m airport PPP package Concession will involve expanding the current passenger terminal, along with repairs and upgrades to the runway and taxiing lanes. Airport will need investment of US\$135m. US\$63m in the first five years Bidding conditions: Minimum availability payment of US\$28m or 4.18% of estimated revenues. Bidders can also offer a revenue sharing agreement of no less than 16.9% p.a. ANI will select bidder that offers the highest revenue sharing arrangement 	US\$135m
Three regional airports in Armenia, Neiva and Popayan, Colombia	Issued for tender June 2014. Preferred bidder to be selected 31 October 2014		<ul style="list-style-type: none"> Package two of a \$263m Airport PPP package Airport will need investment of US\$128m. Concession will require expanding the terminals, traffic control towers, taxiing lanes and runways Bidding conditions: bidders can request maximum availability payments of US\$161m, or 100% of estimated revenues through 2027. ANI will select bidder that offers the lowest availability payments 	US\$128m
Sangster International Airport, Jamaica	2003	30 year concession	<ul style="list-style-type: none"> Consortium of four companies formed a joint venture company, MJB Airport Ltd to operate and manage Sangster International Airport Build, operate, transfer arrangement on a concession basis for a period of 30 years After success of the Sangster International Airport privatization project, Jamaica is now seeking a similar deal for the Norman Manley International Airport in Kingston, which needs both a new terminal and upgraded main runway. This project is in concession and procurement planning. 	US\$200m
Princess Juliana International Airport, St. Maarten	1997, extended in 2004 and 2012.	33 year concession	<ul style="list-style-type: none"> PJIAE N.V., the airport's operating company, is fully owned by the Princess Juliana International Airport Holding Company (PJIAH N.V.), which in turn is owned 100% by the Government of St. Maarten Government of St. Maarten is the Concessor, the Holding Company is the Landlord, PJIAE is the tenant, operator and concessionaire of the airport and all its facilities. PJIAE has a lease agreement with the Holding Company for the commercial use of the airport facilities including buildings etc. The lease expires either 10 years after the final settlement of all outstanding debts incurred with regards to the financing of the extension of the airport, or after 25 years with effect from the date of the signing of the lease agreement, whichever is later In 1997, Government granted the company a concession for an initial period of 10 years. In 2004, this was extended by an additional 8 years until 2025. In 2012, the concession was against extended for another 15 years 	
Lynden Pindling International Airport (NAS) in Nassau, Bahamas	2007	10 year contract	<ul style="list-style-type: none"> Lynden Pindling International Airport is owned by The Nassau Airport Development Company (NAD), a company owned by the Bahamas Government, and is operated by Vantage Airport Group under a 30 year lease. In 2007, Vantage Airport Group signed 10 year contract for a \$410m three phase redevelopment and construction project, expanding airport's terminal space to 45,060m² and increasing its capacity by 24% to 5m annual passengers. Development included a total of 10 aircraft bridges and 30 aircraft ground loading positions, improved and expanded food and beverage options as well as expansion of retail and other amenities. 	\$410m redevelopment

8.2. Airports Authority: Option Sale/Long term lease

Sale or long term lease of full airport operations, including investment rights for expansion. Includes Little Cayman and Cayman Brac

Overview of the Opportunity/Option

- The long term lease (e.g. 99 years) or outright sale of airport assets, including the right to levy charges for passenger and freight aviation and non-aeronautical revenues associated with terminal retail and other rents.
- Conventional airport transactions are often by way of lease, typically to afford the Government some rights regarding strategic development etc. However, the substance of the transaction is the transfer of economic ownership to the private sector
- Transaction model options include:
 - Trade sale
 - Initial Public Offering (IPO)
- Determining the appropriate transaction model will require assessment of a range of factors including market capacity, appetite, regulatory environment etc.
- Potential to consider the option of bundling the sale/lease of airport assets with the port – to provide added scale and diversify cash flows.

Potential Benefits

- Upfront payment to Government.
- Transfer of future capital funding obligations, enabling investment in airport capacity to accommodate passenger growth and enable growth in non-aeronautical revenues (e.g. retail/duty-free etc.).
- Transfer of operational risk.
- Potential for improvements to airport efficiency and volumes from private sector performance.

Risks and Issues

- Demand – private investors exposed to demand risk and growth in passenger and other revenues – may need to consider need for Government subsidy, particularly in relation to Little Cayman and Cayman Brac.
- Scale – relatively large airport for the region but operation is small in the context of commercial airports.
- Pool of buyers – will need to be further tested, likely to be a small pool of local investors or trade buyers including local pension funds.
- Political/Community – may be resistance by residents to the sale/lease, particularly to ensure that there are no adverse impacts to the region including local jobs – the IPO option may provide a potentially more appealing sale route than trade sale.
- Competition – sale/lease of airport operations at all 3 islands does potentially create the need for regulations to govern pricing – this will also have valuation implications
- Fewer carve out issues with full privatization, involving entire assets and services being divested. Continuity of operations is fundamental.
- Will need to manage systems, IT, and process transition arrangements including handover and cessation of functions. Transition of personnel will require clear strategy including liaison with any employee representatives regarding transfer of terms and conditions.
- Current site is constrained and deal may need to include development of a new site in the mid term.

Summary financials FY13 (\$)

Total Income	24.91 million
EBITDA	9.42 million
Total assets	79.24 million

Indicative value

- Indicative enterprise value of circa \$94 million to \$141 million for the existing business, based on EV/EBITDA of 10 to 15 times EBITDA.
- This indicative valuation will require more comprehensive consideration of the growth and expansion opportunities and non-aeronautical revenue opportunities to enable a fuller view to be formed on valuation.
- Valuation will also depend upon conditions within the sale/lease agreement, particularly regarding and regulatory implications on fees and charges.
- An IPO process will likely yield a lower valuation compared to a trade sale given the absence of a control premium.

Implementation Considerations

- Scoping study:
 - Conduct detailed scoping exercise, including comprehensive determination of transaction perimeter and structure.
 - Conduct review of the transaction model options to determine whether trade sale or IPO is preferred.
 - Conduct market sounding to ascertain potential pool of buyers.
 - Consider potential to market a combined port and airport infrastructure transaction.
- For business exit readiness:
 - Establish framework to govern charges, access and expansion rights and obligations.
 - Determine requirements for enabling legislation.
 - Detailed legal review required to get clarity regarding ability to sell or implement long lease.
 - Plan for the restructure of the Airport Authority's assets into land holding and asset holding SPV's.
- Transaction preparation:
 - Set policy and commercial objectives, confirming the design of the process, preparing marketing materials and preparing for due diligence
 - Vendor due diligence reports should be produced in relation to financial, regulatory and legal.

8.4. Airports Authority: Option PPP

PPP for rebuild of Owen Roberts International Airport on an alternative location, private jet terminal and new build Little Cayman Airport e.g. 30 year build, operate, finance, maintain concession

Overview of the Opportunity/Option

- PPP transaction for the rebuild of Owen Roberts International Airport, new private jet terminal and new build of Little Cayman airport.
- Ideally, selection of a new location for the new airport on Grand Cayman.
- Private sector entity would build, finance, operate and maintain new infrastructure over contract term.
- Nature of PPP contract to consider:
 - Availability based PPP – i.e. demand risk retained by the Government, with unitary charge paid to the private sector entity over the contract term for availability of the assets
 - Economic PPP – i.e. demand risk is transferred to the private sector entity, who takes long term revenue risk over the terminal along with asset delivery, operation and maintenance
- Government to determine its risk appetite with respect to its preferred PPP model
- Competitive procurement process would be undertaken to award the PPP contract to the private sector entity.

Potential Benefits

- PPP contract enables capital investment without the need to transfer long term ownership of the asset.
- Enables Government to profile its payment obligations to operational cash flow/receipts.
- Facilitates growth and increased revenues from improved/new facilities, including growth in aeronautical and non-aeronautical revenues.
- New site could provide greater security to Grand Cayman if located in a more elevated (less storm surge vulnerability) location.

Risks and Issues (current constraints)

- Financing: Due to restrictions under the Public Management and Finance Law (PMFL) 2012, the Government is unable to finance the construction of airport facilities through conventional borrowing methods. The Government is also dependent on existing revenue streams stemming from the airport as a means of funding its on-going operations.
- Stakeholder issues with selection of a new location.
- Business case for PPP projects will need to support increased revenues to the Government from the assets .
- Cost of acquiring and/or developing a new site but this would be integrated long term with the sale or redevelopment of the existing site.

Costs

- The structure of the PPP model will need to consider cost components of the project including:
 - Construction costs
 - Operation & maintenance costs
 - Financing costs
 - Transaction costs (bidders and the Government)
- An assessment of the value for money of a PPP transaction versus a conventional Government funding would typically be undertaken. This will assess whether the risk-adjusted cost of the PPP does provide overall better value for money.
- The transaction perimeter will need to be defined in terms of the projects to be developed (i.e. Owen Roberts terminal only, multiple terminals, single transaction or multiple transactions) – the costs of each will need to be evaluated.

Implementation Considerations

- Significant considerations will be necessary to determine a financing model that provides assurance and security to a private sector investment partner.
- The Public Management and Finance Law 2012 sets out the five key stages that will be undertaken by the Cayman Islands Government in the planning, development, and execution of a project:
 - Appraisal and business case
 - Procurement
 - Contract management
 - Delivery
 - Evaluation
- PPPs are fairly new for the Cayman Islands Government. External expertise will be necessary to review and advise on potential contractual arrangements. Financial, legal, technical and environmental consultation will be required
- Consideration will need to be made of the potential PPP participants and ensuring that a competitive procurement process can be conducted. Market sounding prior to formal commencement of the process should provide greater clarity on market appetite and likely bidders in the process.

8. Airports Authority: Option evaluation

Further guidance is required from the Government on whether a sale/IPO or PPP path should be pursued. Either way, immediate improvements to the Airport should be pursued.

Criteria	8.1: Immediate Improvements		8.2: Trade Sale	
	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Achieves Government's role of providing suitable transport infrastructure and customs facilities for citizens, however Government still in direct service delivery. 	4	<ul style="list-style-type: none"> Results in exit from airport ownership and management, reduction in direct headcount and obligations. 	4
Financial	<ul style="list-style-type: none"> Requires significant investment, however CIAA has the fund to create airport extensions. US pre-clearance may require some investment. 	5	<ul style="list-style-type: none"> Upfront proceeds to Government – would need to be satisfied that value exceeds retention value. 	5
Ease of Implementation	<ul style="list-style-type: none"> Not a complex process to build extension to airport Negotiation with US Border Protection may take time. 	4	<ul style="list-style-type: none"> Trade sale process is conventional, complexity will depend upon transaction structure and perimeter. 	4
Local Economy /Sensitivity	<ul style="list-style-type: none"> Will provide an immediate improvement to passenger experience at the airport, for both tourists and local citizens. Building work will provide employment within the local economy. 	4	<ul style="list-style-type: none"> Less favourable compared to IPO. 	4
Customer Service	<ul style="list-style-type: none"> Will significantly improve customer experience at the airport. 	5	<ul style="list-style-type: none"> Likely to enhance service levels. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> Requires the US to place its own pre-clearance officers at the airport. 	4	<ul style="list-style-type: none"> Strongest potential for redundancies. Potential job creation through increased capital investment. 	2
Legislative and Regulatory	<ul style="list-style-type: none"> No legislative or regulatory barriers. 	3	<ul style="list-style-type: none"> Likely to require legislative change to enable sale/long lease. May need to consider price monitoring regime. 	3
Market	<ul style="list-style-type: none"> Bermuda and the Bahamas have US pre-clearance. 	5	<ul style="list-style-type: none"> Precedent for trade sale, deal scale is the significant concern in this case – will need to be tested. 	2

8. Airports Authority: Option evaluation

Further guidance is required from the Government on whether a sale/IPO or PPP path should be pursued. Either way, immediate improvements to the Airport should be pursued.

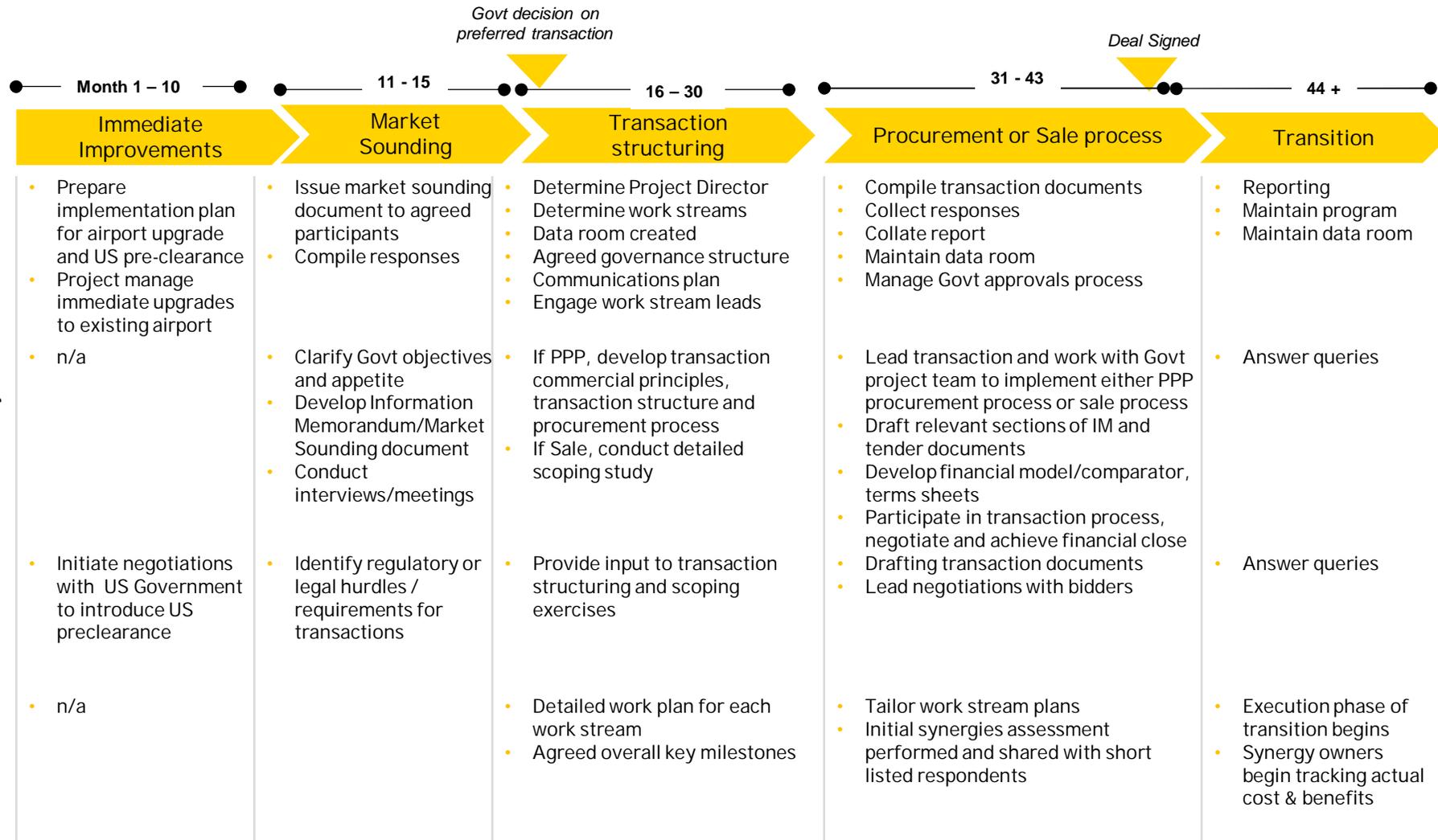
Criteria	8.3: IPO		8.4: PPP	
	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Results in exit from airport ownership and management, reduction in direct headcount and obligations. 	4	<ul style="list-style-type: none"> Retains ownership of existing facilities but transfers obligations for new assets. 	3
Financial	<ul style="list-style-type: none"> Upfront proceeds to Government, but typically lower than trade sale – would need to be satisfied that value exceeds retention value. 	4	<ul style="list-style-type: none"> Transfer of future capital financing obligations. 	5
Ease of Implementation	<ul style="list-style-type: none"> IPO process is conventional, complexity will depend upon transaction structure and perimeter and book build process. 	3	<ul style="list-style-type: none"> Limited precedent in region, complex transaction process. 	2
Local Economy /Sensitivity	<ul style="list-style-type: none"> Yes, could take share in IPO, local employment would continue, potentially stronger social message (local ownership/investment). Likely to have positive effect on economy. May result in increased prices but could be regulated by Government. 	5	<ul style="list-style-type: none"> Capital investment will positively impact economy. May result in increased prices but could be regulated by Government. 	3
Customer Service	<ul style="list-style-type: none"> Likely to enhance service levels. 	5	<ul style="list-style-type: none"> Likely to enhance service levels for new assets – depends upon contract requirements and potential partner. 	4
Workforce Impact and Capability	<ul style="list-style-type: none"> Transition of workforce to a listed/private entity Potential job creation through increased capital investment. 	3	<ul style="list-style-type: none"> Potential transition of workforce to a private sector PPP party. Potential job creation through increased capital investment. 	3
Legislative and Regulatory	<ul style="list-style-type: none"> Likely to require legislative change to enable sale/long lease. May need to consider price monitoring regime. 	3	<ul style="list-style-type: none"> May require enabling legislation. 	4
Market	<ul style="list-style-type: none"> Limited precedent for IPO, deal scale is the significant concern in this case – will need to be tested. 	2	<ul style="list-style-type: none"> Some precedent for PPP – market will need to be tested. Appetite for conventional infrastructure contracts exists. 	2

Recommendation

Option 8.1 should be pursued now in the short term. However, further clarity from Government is required over specific objectives for the long term. Should a sale and the resulting capital injection be desired, then consider trade sale or IPO, but subject to thorough market testing and consideration of transaction perimeter & structure. Consider the merits of a combined port and airport 'infrastructure sale transaction'. Should a PPP be desired to support the building of infrastructure without capital injection, we recommend thorough market testing of appetite for economic PPP and market/demand risk transfer.

8. Airports Authority: Implementation roadmap

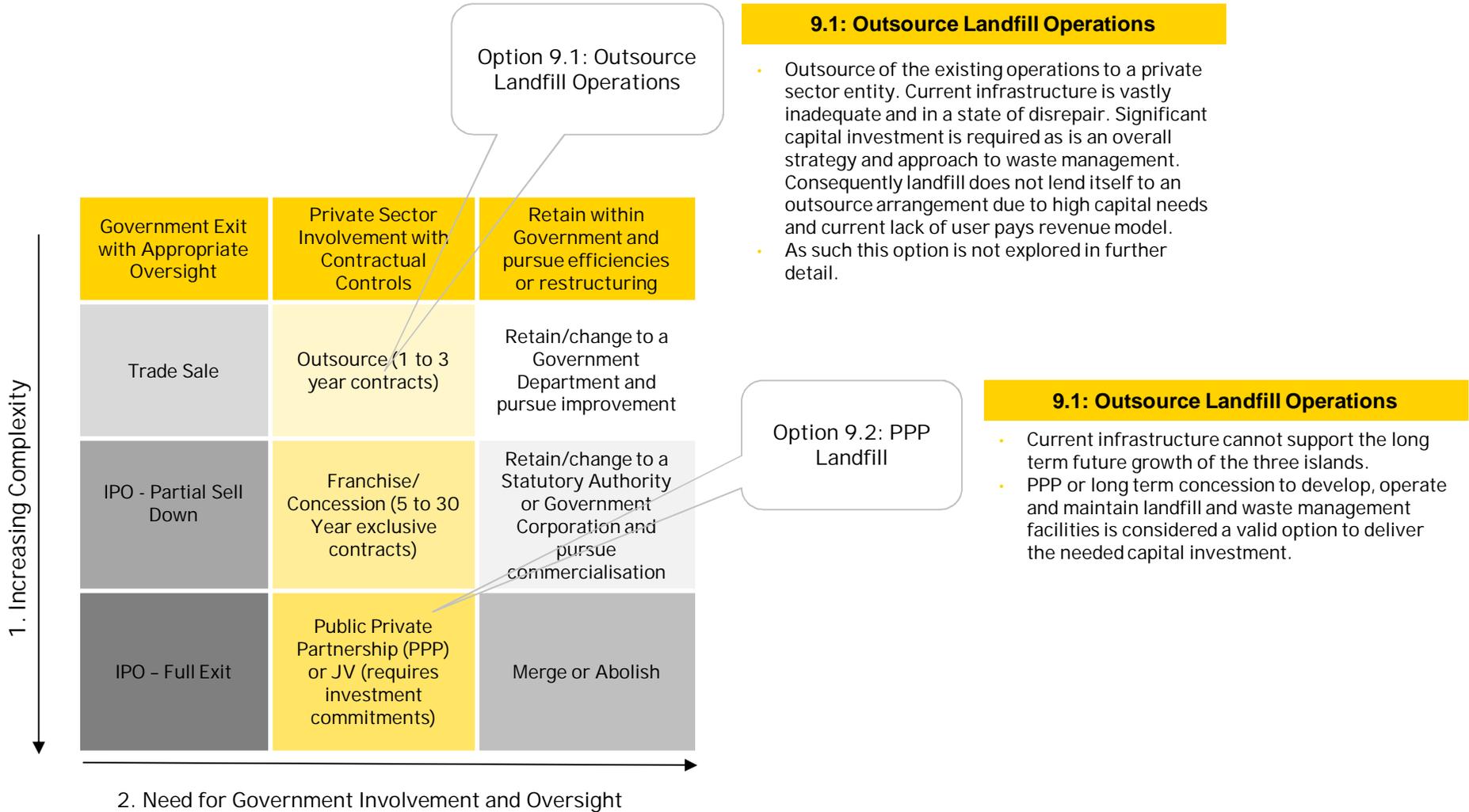
An implementation plan is outlined below based on either a PPP or a sale option



Undertake reform to achieve commercially viable business

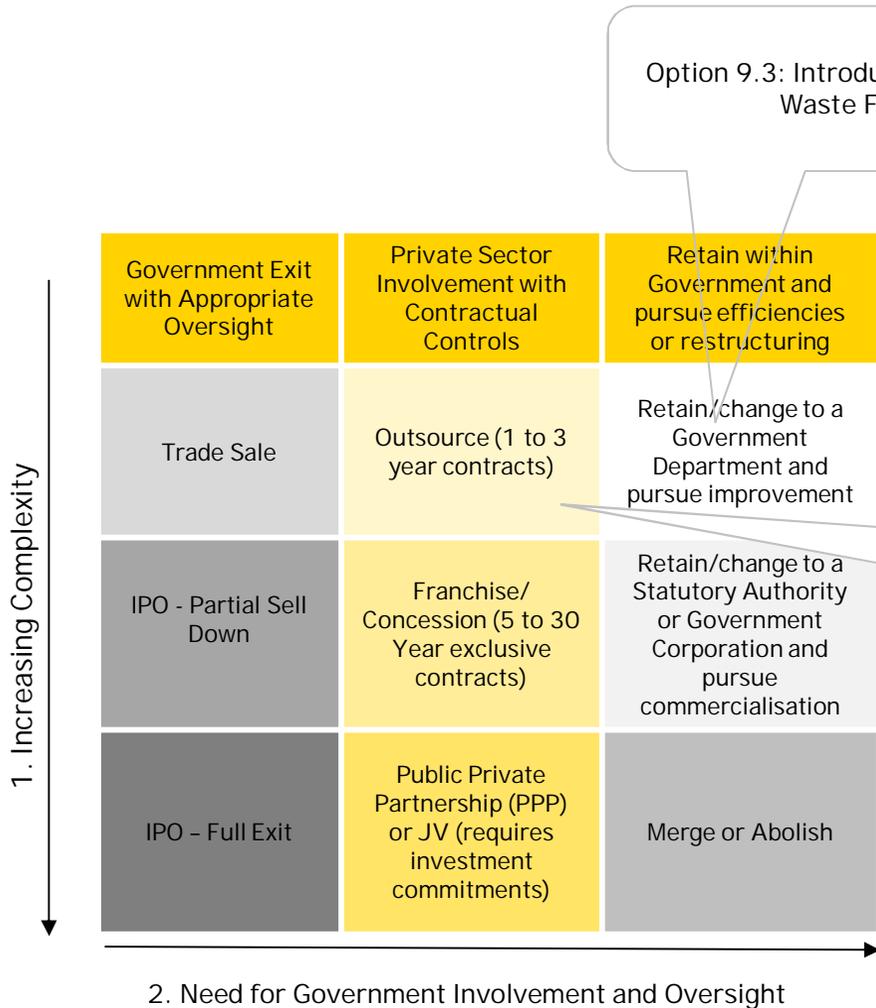
9. Environmental Health: Landfill

The following options have been analysed for the Landfill, these are focussed on existing operations and not the range of option for waste management that Government are separately analysing.



9. Environmental Health: Waste Collection

The following options have been analysed for Waste Collection:



9.3: Introduce & Enforce Waste Fee

- This option involves designing and implementing a waste collection fee system. Current waste collection fee arrangements in the Cayman Islands are ineffective and result in CIG having to subsidise waste collection fees and landfill services by \$2 million per annum.
- It will be necessary for this option to be successfully implemented before option 9.4 can be explored and initiated.

Option 9.4: Outsource Waste Collection

9.4: Outsource Waste Collection

- This option involves outsourcing the collection of waste to a private enterprise.
- Many Governments across the world have outsourced this service and despite Cayman's small scale this provision lends itself to private operations.

9. Environmental Health: Landfill & Waste Collection

An overview of the landfill and waste collection functions of Environmental Health are provided below:

Overview

- CIG issued a policy directive for its Department of Environmental Health ('DEH') to develop a Comprehensive Solid Waste Disposal Management System in December 2013.
- There exist currently one land fill site on each of the three islands.
- Current infrastructure cannot support the long term future growth of the three islands.
- All three current land fills are non-engineered, unlined and do not meet the key principles of sustainable waste management.

Background context

- No successful waste management strategy or plan has been implemented over the past 20+ years. In 1992 an environmental investigation identified high levels of Iron, Chromium and Mercury in samples taken from a canal adjacent to the George Town land fill. No further action has been taken in regards to these findings over the past two decades.
- No environmental investigations have been carried out on the Sister Islands to determine the effects on surface or ground water as well as soil contamination.

Functions

- The DEH is responsible for:
 - The collection of waste from all three islands, and maintaining each of the three landfills.
 - Providing a cost effective and environmentally safe waste management services to both its citizens and tourists.
- Operations are currently divided between 'Solid Waste' and 'Environmental Health' services.
- Solid Waste services include:
 - Solid waste education and awareness.
 - Solid waste collection and litter control.
 - Collection of recyclable material.
 - Waste reduction/recycling.
 - Waste disposal.
 - Medical waste.
- Environmental Health services include:
 - Environmental health education and awareness.
 - Environmental health monitoring services.
 - Rodent control.
 - Meat and other food safety and hygiene.
 - Environmental health laboratory.
- Main operational revenue sources after cabinet funding comes from garbage collection and disposal, recycling and vehicle disposal.
- Responsible for general maintenance of all waste management infrastructure/facilities.

Key Issues and Risks

- Financing: The CIG is currently unable to finance an Integrated Solid Waster Management System (ISWMS) through conventional borrowing methods, due to pre-existing levels of debt and the Public Management and Finance Law (2013 revision).
- Environment: The islands faces unique environmental characteristics to consider with an improvement project such as suitable land availability, substantial wetland areas and hurricanes and public health and environmental implications.
- Land Ownership: The limited land availability of the CIG is a potential constraint on choosing an appropriate location for the ISWMS and significant public sentiment has worked against relocation options in recent times.
- Stakeholder Alignment: No successful waste management strategy or plan has been implemented over the past 20+ years, despite many proposals, which has created community frustration among.
- Public Education: Disparity between the level of public awareness and understanding of sustainable waste management practices and the limitations of managing waste on small islands.

9. Environmental Health: Landfill & Waste Collection continued

An overview of the landfill and waste collection functions of Environmental Health are provided below:

Waste Disposal (Landfill) Financial Performance

Y/E 30 June (KY\$'000)	FY13A	FY12A
Third Party Revenue	929	1,381
Government Revenue	1,557	2,706
Total Revenue	2,486	4,087
Operating Expenses	(2,007)	(2,972)
Net Surplus/Deficit	479	1,115
Depreciation Charge	74	78
EBITDA	553	1,193
Net excluding Government Revenue	(1,078)	(1,591)

Source : Management accounts

Waste Collection Financial Performance

Y/E 30 June (KY\$'000)	FY13A	FY12A
Third Party Revenue (collection fees)	2,619	2,515
Government Revenue	1,239	1,173
Total Revenue	3,859	3,688
Operating Expenses	(3,622)	(3,582)
Net Surplus/Deficit	196	106
Depreciation Charge	150	161
EBITDA	346	267
Net excluding Government Revenue	(1,003)	(1,067)

Source : Management accounts

Financial Comments

- The cost of operating the landfill was \$2 million in in FY13. CIG provided \$1.6 million in output payments and \$0.9 million of revenue was from third parties. This yielded a reported \$0.5 million surplus, this surplus was returned to CIG. The net position is that CIG subsidised the cost of waste disposal by 50%, or \$1 million in FY13.
- There are currently no tipping fees.
- In FY13, Landfill and Waste collection costs amount to \$5.6 million of which \$2.0 million of the revenue to support and finance operations was provided by CIG.
- With regard to both the Landfill and Waste collection figures presented opposite, not all costs of the services are captured due to the lack of interagency charges. It is thought that the reported costs would increase if interagency charges were introduced. They are a net user of other services; primarily because of equipment requiring ongoing repair.
- In addition, there are likely to be significant costs associated with the capital investment and the remediation of the existing landfills, which will further add costs to the overall waste management program.

Financial Comments

- The cost of operating the Waste collection service was \$3.6 million in FY13. \$2.6 million of this cost is recovered from third parties in the form of collection fees. Consequently revenues only cover 63% of the cost of the service provision.
- The funding/revenue from CIG is essentially the difference between the amount of money collected directly by the department and the total expenses incurred as part of its operations on an annual basis. As such the shortfall balance of \$1 million per annum for FY12 and FY13 is subsidised by Government.
- The existing third party revenue in the form of collection fees are primarily from large commercial businesses and large residential sites.
- Broad based waste collection fees have not been effectively charged or collected since July 2010. The result is that many commercial and almost all residential sites do not pay any waste collection fees.

9. Environmental Health: Landfill & Waste Collection

Market overview / precedent transactions / jurisdictional comparison

Market overview

- In 1992, globally there were 2.9 billion urban residents who generated about 0.64 kg of MSW per person per day (0.68 billion tonnes per year). In FY12 this amount increased to about 3 billion residents generating 1.2 kg per person per day (1.3 billion tonnes per year). By 2025, it is forecasted to increase to 4.3 billion urban residents generating about 1.42 kg/capita/day of municipal solid waste (2.2 billion tonnes per year).
- Between FY05 and FY13 there were a total of 105 waste projects built globally with a total value of around USD\$20.5 billion.
- OECD countries produce almost half the world's waste, while Africa and South Asia regions produce the least in total waste volume terms. The total amount of waste generated per year in the Latin America and Caribbean region is 160 million tons, with per capita values ranging from 0.1 - 14 kg/capita/day with an average of 1.1kg/day. Similar to the high per capita waste generation rates on islands in Africa, the largest per capita solid waste generation rates are found in the Caribbean. This is likely due to waste generated by the tourism industry and a more complete accounting of all waste generated.

Precedent transactions

- In FY14, the City of Detroit (US) outsourced its waste management services as part of its bankruptcy recovery plan and is auctioning off its aging fleet of refuse trucks. Outsourcing waste management is estimated to save the city USD\$40 million over 10 years. The city approved contracts for two commercial trash contractors for the values of USD\$73.5 million and USD\$49.1 million respectively, over a 5 year period, where they will provide garbage collection services to 215,000 residents.
- In FY13, Watford Borough Council (UK) awarded a 7 year contract for waste and recycling collection services for £5 million per annum. The council expects to save £730,000 annually by outsourcing these services to Veolia Environmental Service, which will service approximately 86,000 residents.
- In FY10, the City of Westminster entered into a seven year contract with environmental services company, Veolia, costing £37 million per annum with the option to be extended to 14 years. Veolia will be responsible for the waste and recycling collections for the 250,000 residents in the central London borough resulting in an annual savings of £800,000 to the City of Westminster.

Jurisdictional comparison

- In FY11, the Bahamas Department of Environmental Health Services entered into an outsourcing agreement for residential garbage collection with three private contracting companies; Bahamas Waste, Impac and United Sanitation. The agreements were month to month contracts which are updated at that frequency. At that time the house count in those areas was 112,949 and the contracted companies were paid USD\$5 per house. By FY13 the Government discovered it had been over charged since FY11, as the number of houses charged did not reflect updated data, which subsequently cost the tax payers USD\$2 million between FY11-13. Because of this, contracts have been adjusted and renegotiated which has achieved a 50% reduction in the monthly cost per household to \$2.50, expected to save tax payers USD\$500,000 annually.

9.2. Environmental Health: Landfill & Waste Collection

There are significant benefits to entering into a PPP arrangement for the landfill to meet the high capital needs and resolve the landfill issues that have existed for a considerable period of time without resolution

Initiative Overview

- Current infrastructure cannot support the long term waste needs of the Cayman Islands and existing facilities are vastly inadequate, non-engineered, unlined and do not meet the key principles of sustainable waste management.
- CIG issued a policy directive for its Department of Environmental Health ('DEH') to develop a Comprehensive Solid Waste Disposal Management System in December 2013.
- We understand this review has commenced with a view to the development of a sustainable, cost effective, environmentally sound integrated waste management system that considers the local and geographical constraints is necessary.
- Once the review is completed, planning and implementation will require significant capital expenditure as well as technical expertise and experience. A PPP that develops, operates and maintains the landfill solutions that will effectively deliver needed capital investment in exchange for a revenue stream could be part of an effective solution.
- This option requires the introduction of waste disposal fees for users of the landfill site

Risks to Implementation

- CIG is currently constrained by numerous financial factors. Due to restrictions under the Public Management and Finance Law 2012 (PMFL), the CIG is unable to finance an expensive waste management solution (e.g. a waste to energy solution) through conventional borrowing methods.
- Identifying a suitable PPP partner and operator may take time. Additionally structuring a suitable agreement to protect and ensure CIG's needs and requirements are met may require additional skill within CIG.
- CIG will need to make improvements; procedure, regulation, enforcement etc. to other areas of the waste management process such as collection fees and recycling as part of this wider initiative.
- CIG will need to augment their skills to enable them better monitor and regulate waste disposal as opposed to operating facilities.

Benefits to Government

- All three of CIG's current land fills are non-engineered, unlined and do not meet the key principles of sustainable waste management. As such it is key to development a sustainable, cost effective, environmentally sound integrated waste management system.
- A development of a waste management plan that adheres to the waste management hierarchy; prevention, reuse, recycle, recover and dispose need to underpin the strategic outline benefits all stakeholders.
- The existing site, facility and approach has a number of significant issues that require immediate resolution: no environmental controls, proximity to heavily populated area, access to vectors for disease, storm water concerns, visual eye sore, fire threat etc.
- A PPP could provide a solution to the existing problems and provide capital investment to support the initiatives.
- CIG can focus on core Governmental roles of monitoring and regulating rather than operation of facilities.

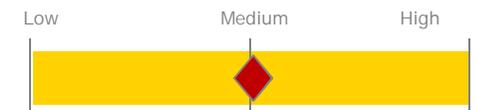
Initiative Profile

Estimated Value

CIG able to benefit from PPP capital to deliver a sustainable and effective solution

21

Estimated Headcount Impact



Implementation Difficulty

Short Term Medium Term Long Term

Implementation Timing



9.2. Environmental Health: Waste Collection & Disposal

We recommend that CIG continue with their existing directive to develop a Comprehensive Solid Waste Disposal Management System and engage a in PPP process to facilitate and provide the capital funding required

Criteria	9.2: PPP Landfill	
	Comments	Rating (1-5)
Alignment to Government's Role	<ul style="list-style-type: none"> The provision of waste management facilities and solutions is a core Government role, however, CIG can fulfil this role through monitoring and regulating rather than the of facilities. 	5
Financial	<ul style="list-style-type: none"> A PPP has the potential to provide a solution to the existing problems and provide capital investment to support the initiatives. CIG will not be required to provide upfront capital, the private partner will, in exchange for a revenue stream going forward. 	5
Ease of Implementation	<ul style="list-style-type: none"> The determination of an integrated and sustainable waste disposal strategy and solution and the identification of a suitable PPP partner will take time. Additionally the implementation will take several years to complete. 	2
Local Economy /Sensitivity	<ul style="list-style-type: none"> Potential for local sensitivity in relation to any new site for the landfill. This may be offset by the satisfaction of those currently inconvenienced by the existing site. Charges are likely to be introduced to dump waste at the site, for both private garbage collection companies and private citizens. 	3
Customer Service	<ul style="list-style-type: none"> An integrated and sustainable waste management program and offering should improve the customer and stakeholder experience. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> Minimal redundancies (if any) but a requirement for additional capability to aid design and implement the waste management solution. 	4
Legislative and Regulatory	<ul style="list-style-type: none"> Some legislation change to enable effective monitoring and control by CIG of operations going forward. 	4

Recommendation

We recommend that CIG continue with their existing directive to develop a Comprehensive Solid Waste Disposal Management System and engage a in PPP process to facilitate and provide the capital funding to complete the project.

9.3. Environmental Health: Waste Collection & Landfill

In line with most jurisdictions, a user pays system for waste collection and disposal at the landfill

Initiative Overview

- The design and implementation of a waste collection fee system. Current waste collection fee arrangements in the Cayman Islands are ineffective with most residents and many commercial entities not paying for services.
- It will be necessary for consideration and a feasibility study into the most appropriate and effective mechanism of collection of fees. Fees were effectively abolished in 2010 due to difficulties and costs of collection.
- Pay as you throw ('PAYT') is a usage-pricing model for disposing of municipal solid waste where by users are charged a rate based on how much waste they present for collection. It is the preferred method for Government bodies to recover waste collection costs.
- There are three main types of PAYT programs:
 1. Full-unit pricing: Users pay for all the garbage they want collected in advance by purchasing a tag, custom bag, or selected size container.
 2. Partial-unit pricing: The local authority decides on a maximum number of bags or containers of garbage, with collection paid via taxes. Additional bags or containers are available for purchase should the user exceed the permitted amount.
 3. Variable-rate pricing: Users choose to rent a container of varying sizes with the price corresponding to the amount of waste generated.

Risks to Implementation

- It will be necessary to explore and identify the most effective and efficient method of collecting fees from those options above.
- There is likely to be a cost of collection, and enforcement and regulatory change is likely to be required. Those not willing to pay may illegally dump waste.
- CIG will need to augment their skills to enable better monitoring and regulation of waste disposal particularly revenue collection. Development of systems to aid and assist will be key.
- Managing the public perception and awareness of the need to embrace collection fees is also an important consideration. As with many services in Cayman it is currently considered a 'free good' and information and education will need to be provided for this shift in approach with the emphasis on the community benefits achieved through more effective waste management.

Benefits to Government

- The implementation of a fee will reduce and ultimately eradicate the CIG's current subsidy for waste collection fees and landfill services of \$2 million per annum.
- By imposing a financial cost to the users of waste collection this should lead to better behaviours and incentives to reduce waste production leading to a greener more ecological friendly society that adheres to the waste management hierarchy; prevention, reuse, recycle, recover and disposal.
- Studies have indicated that waste collection fees shift waste generators up the waste management hierarchy reducing the amount of waste disposed of.
- In order to successfully outsource waste collection it is a necessary preceding step to implement a collection fee structure and system.

Initiative Profile



9.4. Environmental Health: Waste Collection & Landfill

Options Analysis: Outsource Waste Collection

Initiative Overview

- Outsourcing of the waste collection function to a private enterprise.
- Many Governments across the world have outsourced this service and, despite Cayman's small scale, this provision lends itself to private operations. This initiative has led to significant costs savings for equivalent services for Governments/authorities elsewhere.
- The current infrastructure and equipment employed in all elements of waste collection and disposal are currently vastly inadequate. Capital investment is required in waste collection equipment and private operators would be able to commit capital to ensure improvements. This could result in the cost of service delivery being similar to the current costs, but that contracts may be needed for a longer period to recoup the investment required.
- CIG's role in waste collection would move from operations to contract management, oversight and regulation.

Risks to Implementation

- CIG would need to augment and potentially upgrade their skills to enable them to better monitor and regulate waste disposal as opposed to operating facilities.
- Waste collection and disposal is a key environmental health concern and necessary service for society to function safely, as such it will be necessary for CIG to ensure contract management, oversight and protections exist to safeguard stakeholders.
- The outsourcing of operations is contingent on CIG successfully implementing a waste collection fee policy and system.

Benefits to Government

- The outsourcing of waste collection in conjunction with the implementation of a collection fee will reduce and ultimately eradicate the CIG's current subsidy for waste collection fees and landfill services of \$2 million per annum.
- Reduction in Government head count as employees will be transferred to the private sector and ability for CIG to concentrate more on core oversight and functions as opposed to operation and delivery of service.
- Improvement of service and equipment via private sector investment and processes.

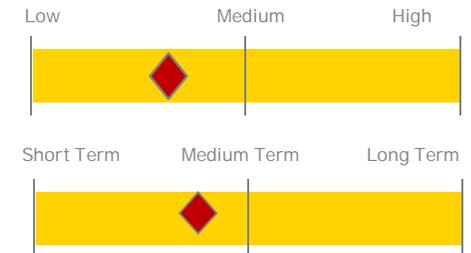
Initiative Profile

Estimated Value: Delivery of equivalent or improved services at lower price to customers. Gov't also benefit from waste fees which will reduce/eliminate \$2 million current subsidy.

Estimated Headcount Impact: 74

Implementation Difficulty

Implementation Timing



9. Environmental Health: Option Evaluation

Evaluation: Garbage fees and Outsource of Waste Collection

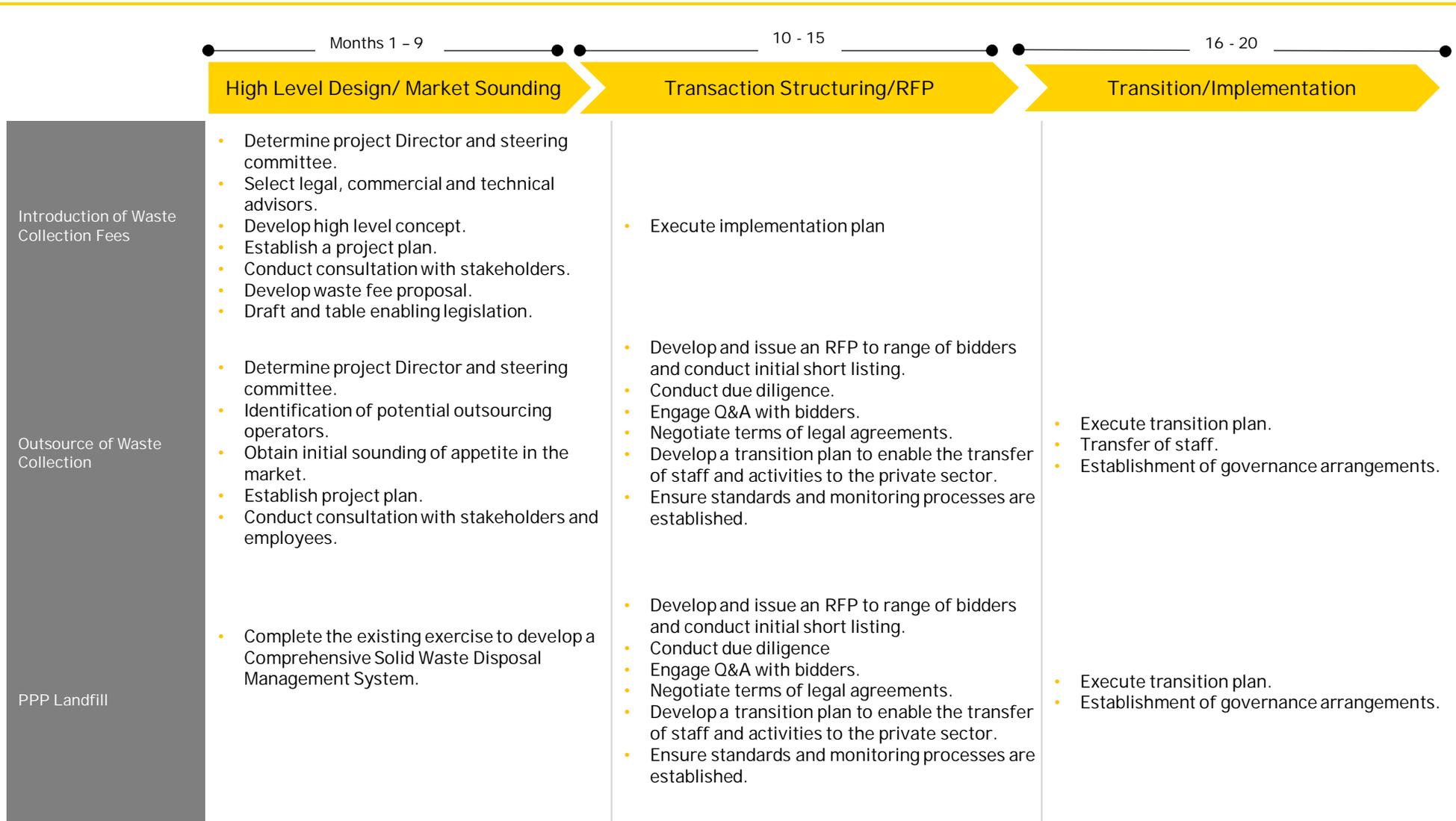
Criteria	9.3: Waste Collection Fees		9.4: Outsource Collection	
	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> By imposing a financial cost to the users of waste collection this will lead to better behaviours and incentives to reduce waste production leading to a greener more ecological friendly environment. 	5	<ul style="list-style-type: none"> This option allows Government to concentrate on contract management and oversight as opposed to operations. 	5
Financial	<ul style="list-style-type: none"> Aim to reduce the need for Government support/subsidy. 	5	<ul style="list-style-type: none"> Aim to reduce the cost of the service provision and provide capital for new equipment. 	5
Ease of Implementation	<ul style="list-style-type: none"> Consultation required to explore and identify the most effective and efficient method of collecting fees from the PAYT options. 	3	<ul style="list-style-type: none"> Tender process required to identify and contract with suitable operator. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> Potential for some resistance to fee as collection is currently a 'free good'. 	3	<ul style="list-style-type: none"> Minimal. 	5
Customer Service	<ul style="list-style-type: none"> Service provision will not change except that resident and commercial entities will now pay directly. 	5	<ul style="list-style-type: none"> Service provision will not change, equipment and systems should improve efficiency and the customer experience. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> Requirement for skills to aid design and develop fee collection system, then additional resource to operate fee collection process. 	4	<ul style="list-style-type: none"> Requirement to ensure contract management and oversight skills are present to manage operator. Potential for some minimal redundancies by operator. 	3
Legislative and Regulatory	<ul style="list-style-type: none"> Some legislation change to enforce fees and penalties. 	4	<ul style="list-style-type: none"> Some legislation change to reflect outsource of operation. 	3

Recommendation

We recommend that CIG immediately commence a process to identify and examine the most effective and cost effective method of introducing waste collection fees. We also recommend that CIG outsource waste collection to the private sector and it may be sensible to consult with such providers and join them at the fee collection exploration stage to obtain their buy-in and expertise ultimately it would be sensible for the outsource provider to provide the full suite of services including revenue collection.

9. Environmental Health: Waste Collection & Landfill

Implementation plan: Introduction of Waste Collection Fees and Outsource of Collection



10. Cayman Airways

The following options have been analysed for Cayman Airways

10.1: Trade Sale

10.1: Trade sale

- Explore the appetite for an existing commercial operator to purchase the operations of Cayman Airways. This is not considered a realistic option because Cayman Airways is currently and has been historically loss making and provides a number of strategic services that a commercial operator would not be willing to continue without compensation.
- As such this option is not explored in detail.

	Government Exit with Appropriate Oversight	Private Sector Involvement with Contractual Controls	Retain within Government and pursue efficiencies or restructuring
	Trade Sale	Outsource (1 to 3 year contracts)	Retain/change to a Government Department and pursue improvement
	IPO - Partial Sell Down	Franchise/ Concession (5 to 30 Year exclusive contracts)	Retain/change to a Statutory Authority or Government Corporation and pursue commercialisation
	IPO - Full Exit	Public Private Partnership (PPP) or JV (requires investment commitments)	Merge or Abolish

1. Increasing Complexity

2. Need for Government Involvement and Oversight

10.2: Improve transparency of operations and strategic benefits

10.2: Improve transparency of operations and strategic benefits

- Cayman Airways provides a number of strategic and social functions on behalf of CIG. These services provide CIG and its citizens with a range of benefits. It is important that these benefits are transparent and correctly identified and articulated to the various stakeholders.

10.3: Wind down Cayman Airways and subsidise 3rd party provider

10.3: Abolish

- CIG may wish to wind down Cayman Airways and attempt to continue to benefit from the strategic and social functionality and benefits via a subsidy to a 3rd party provider. It is not thought that a third party provider would be willing or able to provide the equivalent routes, benefits and functionality of Cayman Airways for a lower cost.
- As such this option is not explored in detail.

10. Cayman Airways

Cayman Airways main activity is the provision of scheduled passenger and cargo air transportation to, from and within the Cayman Islands

Overview

- Cayman Airways was established and started operations in August 1968. It was formed following the Cayman Government's purchase of 51% of Cayman Brac Airways from LACSA (the Costa Rican flag carrier). It became wholly owned by CIG in December 1977.
- Cayman Airways has built its business model around its use as a strategic tool for the Cayman Islands. This model hinges largely on the airline's ability to continue the sale of flight services to the CIG as part of a larger national tourism and economic development strategy.
- Its atypical business model ensures that the interests of the Cayman Islands are always given priority even over the airline's own profit producing ability.

Background context

- Management have asserted that Cayman Airways contributes approximately \$200 million annually to the Cayman economy.
- The Cayman Islands Government paid Cayman Airways \$18.2 million in FY13 as part of a purchase agreement for the airline to provide its strategic air services including to the sister Islands.
- Cayman Airways operates non-stop services between Grand Cayman and the following major US cities: Miami and Tampa, Florida; Washington DC; New York and Chicago, Illinois. Additionally, non-stop services are offered to Kingston and Montego Bay, Jamaica; Havana, Cuba; and La Ceiba, Honduras.
- Cayman Airways employs a staff of 300+ with two national and eight international gateways.

Functions

- Cayman Airways main activity is the provision of scheduled passenger and cargo air transportation to, from and within the Cayman Islands.
- Cayman Airways provides a number of functions such as:
 - Creating a lever for strategic tourism and economic development
 - Providing an inter-island air-bridge
 - Guaranteeing air service independent of foreign carrier priorities
 - Providing disaster relief before and after events
 - Ensuring tourists are able to be evacuated when necessary
 - Ensuring a competitive fare structure from foreign carriers
 - Preventing foreign carrier monopolies
 - Providing community support from corporate citizenship (Humanitarian, Charity, Sponsorship etc.)

Key Issues and Risks

- Financing: Currently and historically Cayman Airways is/has been dependent upon the financial support of CIG to allow it to continue as a going concern. Any reduction in CIG contributions would lead to difficulties in financing operations.
- Government objectives: There exists a misalignment of strategic Government objectives (i.e. tourism / economic development/inter island amenity) with those of a commercial airline operator. Cayman Airways operates a number of commercially unattractive routes and services.
- Social consequences: Cayman Airways employs a large number of Caymanians. Additionally, Cayman Airways provides a number of socially beneficial and strategic routes that are effectively subsidised by CIG. These subsidies and strategic routes benefit residents, tourists and the Cayman economy as well as providing price competition and stability on international routes.

10. Cayman Airways continued

Cayman Airways has a negative net worth position with a shareholders deficit of \$69 million in FY11, primarily driven by accumulated losses/deficit

Cayman Airways

Y/E 30 June (KY\$'000)	FY12A	FY11A
Third Party Revenue	62,236	56,908
Government Revenue	18,774	17,857
Total Revenue	81,010	74,765
Operating Expenses	(86,187)	(80,557)
Net Surplus/Deficit	(5,177)	(5,793)
Depreciation Charge	1,797	1,672
Interest	789	1,193
EBITDA	(2,591)	(2,928)

Source: FY12 Statutory Audited Accounts

Financial Comments

- Strategic domestic and strategic tourism are operations which are considered critical for the Cayman Islands, but do not provide sufficient economic justification themselves for an airline to operate. Accordingly CIG purchases these operations from Cayman Airways, this purchase amounted to \$19 million in FY12, up from \$18 million in FY11.
- Government revenue amounts to approximately one quarter of Cayman Airways revenue.
- Cayman Airways reported a net deficit in FY12 of \$5.2 million, down from \$5.8 million in FY11.
- Total 3rd party revenue grew by \$5.3 million from \$56.9 million in FY11 to \$62.2 million in FY12. In the same period Government subsidies increased by \$0.9 million.
- Cayman Airways has a negative net worth position with a shareholders deficit of \$69 million in FY11, primarily driven by accumulated losses/deficit.

10.2. Cayman Airways

Options Analysis: Improve transparency of operations and strategic benefits

Initiative Overview

- This option would see Cayman Airways pro-actively improving the transparency of its operations, strategic functions and benefits. Cayman Airways delivers a range of crucial services paid for by CIG that provide a number of financial, social and strategic benefits to CIG and the populous. These are not currently transparently priced and communicated in the Cayman Airways financial statement but amalgamated as one line entry; 'Government payments' with limited detail as to the motivations and wider benefits they generate.
- As a consequence Cayman Airways' public relations and reputation is negatively affected and the organisation is often challenged. Increasing transparency and highlighting the specific costs and benefits to the community, tourism industry and economy as a whole can help to remedy this.
- Greater transparency will enable Government and the community to evaluate the airlines utility on an ongoing basis.
- Ensuring suitable pricing to commercial routes that support specific industries, for example financial services requirements for flights to New York.

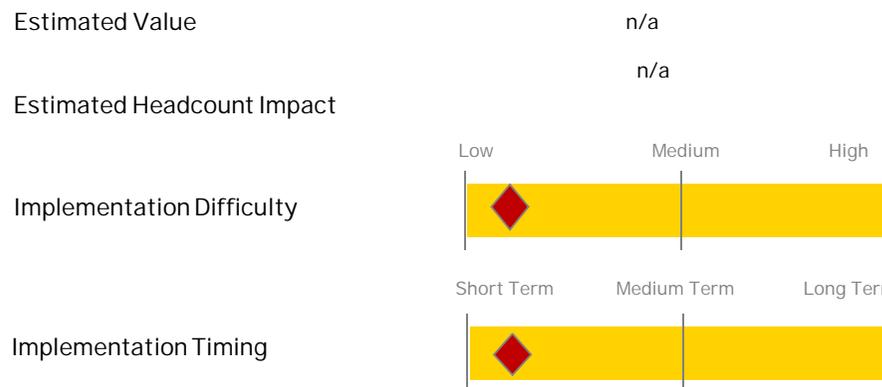
Risks to Implementation

- It will be necessary for CIG and Cayman Airways to correctly and accurately price the outputs. This activity may require some significant upfront analysis and review.
- There is a potential for some negative public sentiment towards certain outputs and their cost if they are considered disproportionate to the amenity or benefit they provide. Once the output costs are identified and presented in a transparent and clear manner criticism of these may arise, however, this criticism can not be attributed to Cayman Airways but CIG as it is their instruction that is being followed with regard to offering uncommercial routes.

Benefits to Government

- As indicated Cayman Airways provides a number and range of financial, social and strategic benefits to the Cayman Islands.
- In FY12 CIG provided \$18 million in output payments to Cayman Airways. By breaking this figure down and communicating that certain percentage related to inter-island subsidies and certain percentage related to tourism subsidies that resulted in a certain dollar value in economic stimulus to the economy, the general public can better appreciate the costs and commercial considerations that drives the financial performance of Cayman Airways.
- As such by highlighting these benefits, the specific outputs and rationale for these, the public perception of Cayman Airways as a commercial and strategic operation can be improved as can the perception attributed to CIG in relation to their support of Cayman Airways.

Initiative Profile



10. Cayman Airways: Option Evaluation

Evaluation: Improve Transparency vs Trade Sale and or Abolish

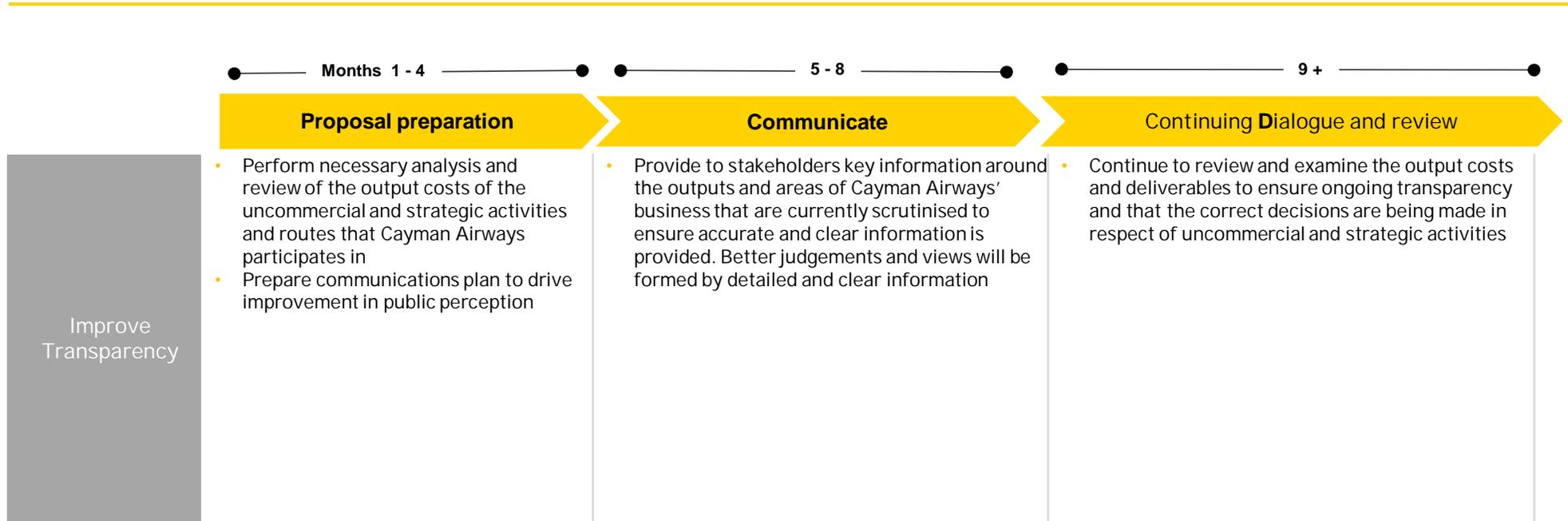
Criteria	10.2: Improve Transparency		10.1 & 10.3: Trade Sale and or Abolish	
	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Ensures the retention of the range of financial, social and strategic benefits Cayman Airways provides to CIG and the populous. 	5	<ul style="list-style-type: none"> Potential for the loss of the range of benefits Cayman Airways provides to CIG and the populous, particularly the strategic flexibility and functionality that a 3rd party carrier wont enable via a subsidy. 	2
Financial	<ul style="list-style-type: none"> Minimal financial impact, but improved transparency and understand by stakeholders. 	3	<ul style="list-style-type: none"> In event of sale or abolishment management have indicated that the capital generated and financial savings from support will be significantly less than the strategic losses and cost of 3rd party subsidies. 	2
Ease of Implementation	<ul style="list-style-type: none"> Simple and quick implementation and communication. 	5	<ul style="list-style-type: none"> It will require political and policy support and any sale or abolishment will take time as will establishing subsidised support from 3rd party carriers. 	2
Local Economy /Sensitivity	<ul style="list-style-type: none"> Minimal. 	5	<ul style="list-style-type: none"> Potentially significant if for example inter island routes are reduced or prices increased. 	2
Customer Service	<ul style="list-style-type: none"> Minimal and the potential for improvement as customers better understand subsidies and true costs. 	5	<ul style="list-style-type: none"> Potential for reduction in service levels particularly to sister islands and likely price increases. 	1
Workforce Impact and Capability	<ul style="list-style-type: none"> Minimal if any impact. 	5	<ul style="list-style-type: none"> Likely to lead to significant redundancies. 	1
Legislative and Regulatory	<ul style="list-style-type: none"> n/a 	5	<ul style="list-style-type: none"> Legislation and regulation required to ensure subsidies and service levels maintained with 3rd party carriers. 	2

Recommendation

We recommend improved transparency is pursued and that Cayman Airways immediately and pro-actively improves the transparency of its operations, strategic functions and benefits. Cayman Airways provides a range of crucial services to CIG that provide a number of financial, social and strategic benefits to CIG and other stakeholders. These should be clearly costed, communicated and recovered in order that improve public perception of the commerciality and operations of Cayman Airways.

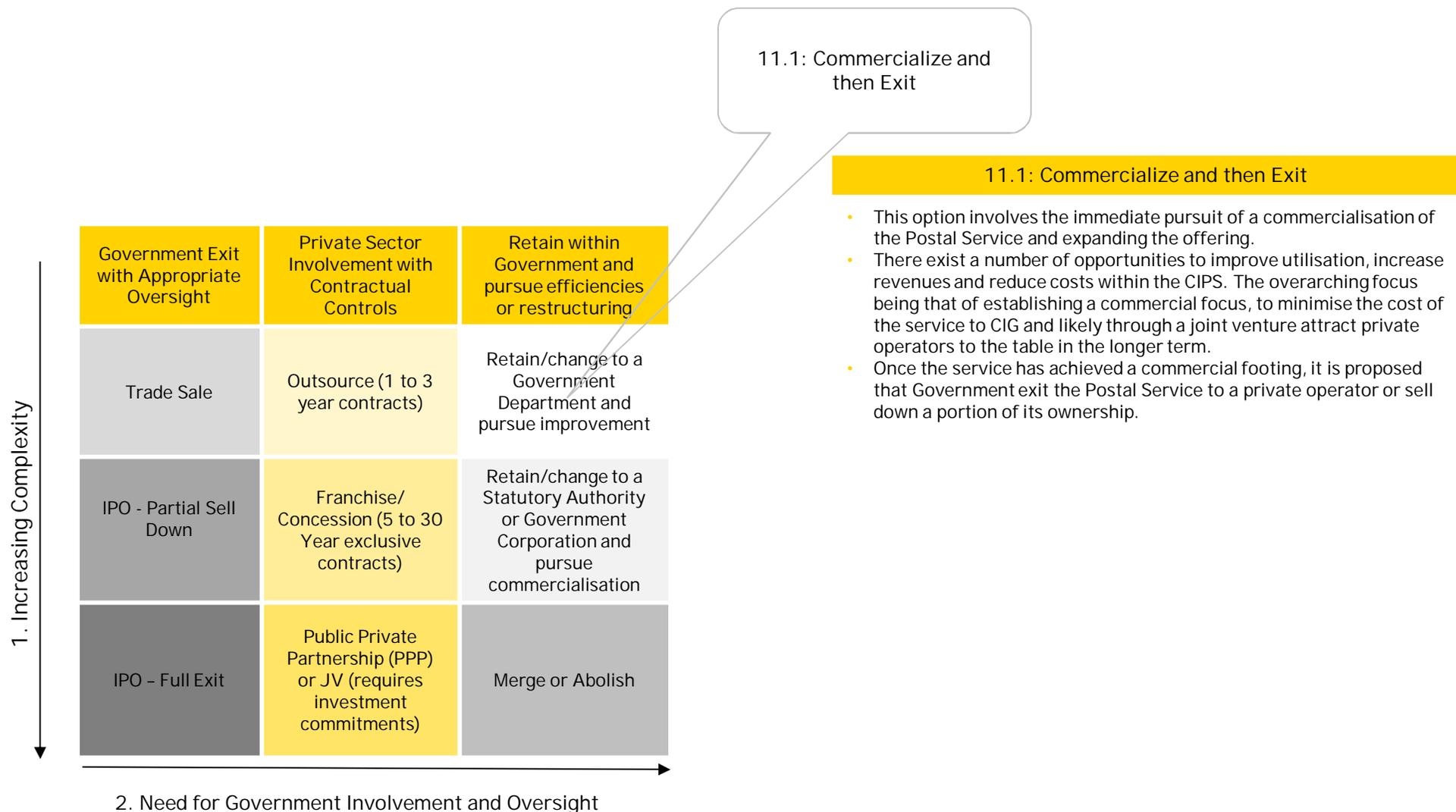
10. Cayman Airways

An implementation plan is outlined below for option 10.2



11. Postal Services: Option Overview

Globally traditional Government operated postal services are transitioning to new private sector based operating models. The CI Postal Service could be commercialised and its performance improved significantly.



11. Postal Services

Fact Sheet for the Cayman Islands Postal Service ('CIPS')

Overview

- The Cayman Islands Postal Service (CIPS) is the Government department designated as the postal operator responsible for fulfilling the CIG's obligations arising from adherence to the Universal Postal Union Convention (UPUC) in the Cayman Islands.
- As the designated postal operator (DPO), the CIPS is charged with ensuring that postal services are accessible to all residents and visitors in the territory.

Functions

- The CIPS provides a domestic and international letter mail and parcel service and Express Mail Service (EMS) across all 3 islands, via 16 post offices.
- To enhance the core letter mail service, the CIPS offers value-added-services (e.g. bill payments) to customers. In support of these activities there are accounting, quality control and administrative functions.

People and Governance

- CIPS employees a total of 84 people, with 36 at the Airport Post Office and 19 at the General Post Office (George Town).

Key Issues and Risks

- **Technology & Resource:** A key challenge is a decline in typical 'snail mail' communication but the requirement to provide that service under the UPUC. Additionally, the slow introduction of technology such as parcel tracking, and a desire to fill vacant positions (currently 24 positions vacant).
- **Strategic:** Local postage rates are not set at cost but heavily subsidized by CIG (>\$1 million). Additionally management have indicated that, there exists a historic practice that the Postal Service be one of CIG's social employers for the functionally illiterate, computer phobic and otherwise unemployable
- **Infrastructure:** Too many site locations and buildings that were not designed for computerization in mail processing which also impacts the ability to implement technology.
- **Labour:** A long-serving workforce that is comfortable with manual processing and conversely highly resistant to the introduction of computerization, automation and technology in mail processing despite management's efforts.
- **Financial Performance:** CIPS is dependent on a significant cabinet subsidy.

Key Financials (KY\$)

Y/E 30 June (KY\$'000)	FY13A	FY12A
Third Party Revenue	3,375	3,450
Operating Expenses	(4,560)	(4,530)
<i>Net loss/ Cabinet Subsidy</i>	<i>1,185</i>	<i>1,080</i>
Depreciation Charge	59	52
Interest Charge	Nil	Nil
Debt (Notes, Bank Loan & Overdraft)	Nil	Nil

Source: CIPS Management

Financial Comments

- CIPS is reliant on a significant cabinet subsidy in order to continue to operate. This subsidy amounted to (effectively the value of the annual loss) over \$1 million in FY12 and FY13.
- CIPS is only able to generate sufficient revenue to cover 75% of its costs of operating.

11.1. Postal Services: Option Analysis

Commercialising prior to exiting postal services is the route that the UK and Australia have taken to what has become a non-core Government service

Initiative Overview

- There exist a number of opportunities to improve utilisation, increase revenues and reduce costs within the CIPS. The overarching focus being that of establishing a commercial focus to minimise the cost of the service to CIG and ideally attract private operators to the table.
- These primarily include:
 - Expand the service and product offering at Post Offices such as utility and other bill payments. Post Offices across the world have developed beyond their core original postal based services to cope and address the technological advancements and provide a wide and varied array of counter services, particularly finance and administrative products (deposit account, bill payment, forex, insurance, licensing and permits). This counter service initiative will require an additional skill set, experience and infrastructure that would best be obtained through a joint venture.
 - This provides an opportunity to leverage the Post Office to house other Government revenue collection services, particularly in Cayman Brac and Little Cayman.
 - Possible cost reductions from the closure of a) the Bodden Town Post Office and absorbing operations into Savanah; b) decreasing the number of Cayman Brac sub-post offices given the small numbers of post boxes they provide.

Risks to Implementation

- In order achieve cost reductions and achieve the revenue expanding initiatives it will require a culture change within the CIPS. The risk of significant redundancies of lower skilled employees would be mitigated with the expansion of services particularly around parcel handling and administrative services. A movement away from social employment within CIPS may result in associated welfare issues for low skill individuals.
- Management have indicated that the infrastructure and buildings are in need of improvement and upgrade. The Government may need to provide capital improvements to commercialize the organisation and attract operators
- Noting the limited population, scale may be a barrier to achieve a financially self sustainable business.
- In terms of exiting the service provision, identifying a suitable and willing operator may be difficult. The operations in their existing form do not yield a profit and rely heavily on Government subsidies and support in order to function. As such a joint venture would be the most appropriate initial structure.
- Noting the limited population and higher education demographic, scale may be a barrier to achieve a financially self sustainable business by a private operator.

Benefits to Government

- The CIPS currently costs the Cabinet over a \$1 million per year in subsidies.
- The development and exploration of commercial activities and initiatives designed to increase revenue and reduce costs will lead to a reduction in the cost of this service to CIG.
- By partnering via a joint venture CIPS will be able to benefit from the skill and experience of an established commercial operator.
- Ultimately the medium to long term aim will be for the CIG to exit the CIPS and allow a private sector operator to perform this function. This will enable CIG to step away from a non core Government function.
- Additionally an Operator through experience, commercial awareness, economies of scale and improved business focus should improve the financial performance which should lead to better services to customers. Depending on the structuring of the transfer of the CIPS into the private sector, an upfront financial stimulus from sale proceeds if the operations are sold or some form of ongoing dividend if a joint venture of partnership is established, in the fullness of time may also occur.

Initiative Profile



11. Postal Services: Option Evaluation

We recommend that CIPS is commercialised and then, in the longer term, a potential sale be investigated in more detail

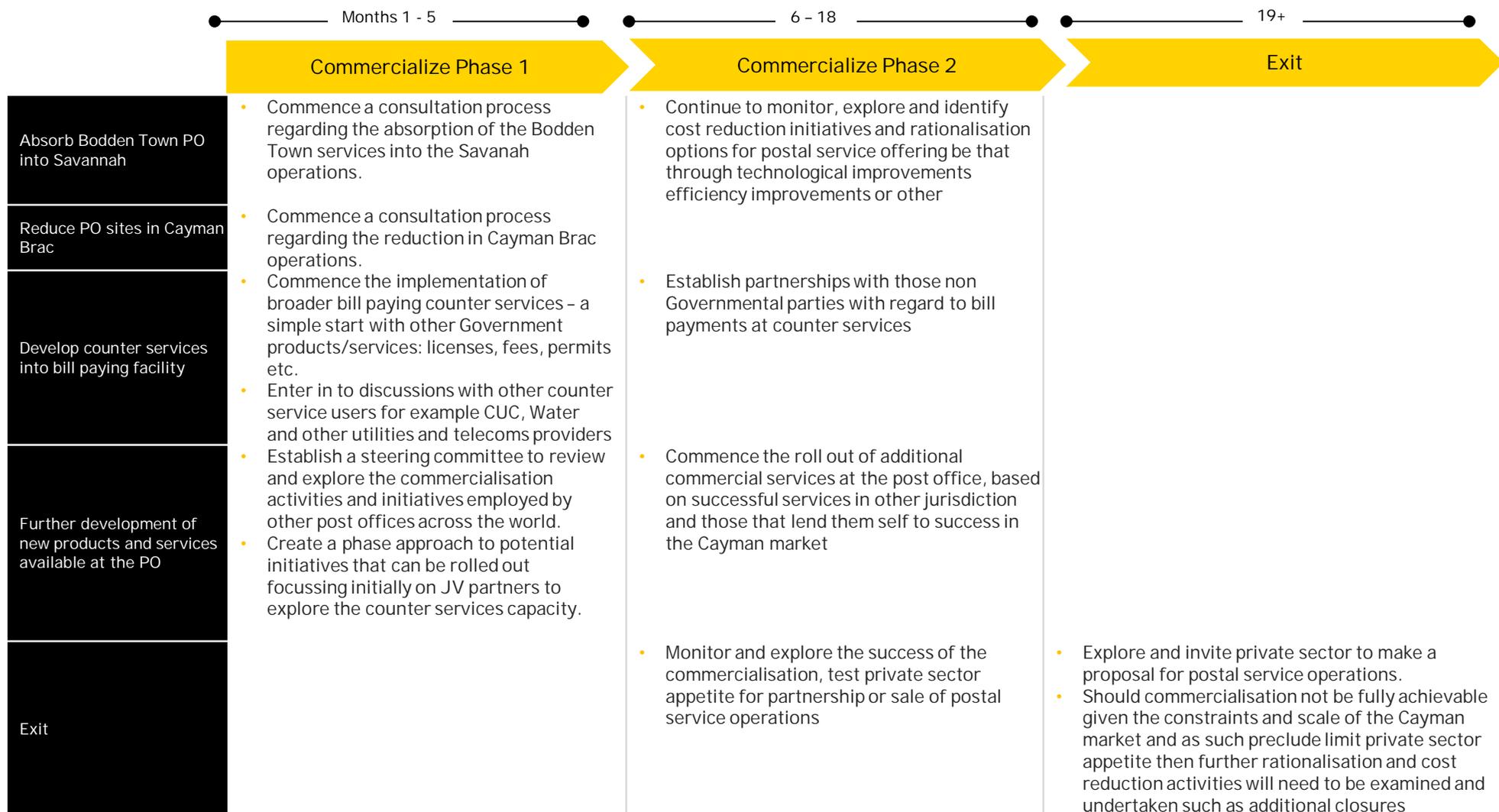
Criteria	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> The provision of postal services is a requirement under the UPUC, however, the service is heavily subsidised by CIG and the development of commercial initiatives to reduce this subsidy and ultimately exit this area of not core Governmental service provision is a strong positive for CIG. 	4
Financial	<ul style="list-style-type: none"> The objective of the options are to reduce the need for Government support/subsidy. So capital expenditure may be require and retraining upfront to achieve this. 	4
Ease of Implementation	<ul style="list-style-type: none"> Likely need for cultural change within the CIPS in order to effect the commercial improvements and technological initiatives to ensure improvements to efficiency. Potential difficulty attracting an operator due to scale of operations and existing losses. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> Potential for certain sensitivity around redundancies of lower skilled work force and the loss of some amenity for resident of certain areas where postal services are absorbed/amalgamated. 	3
Customer Service	<ul style="list-style-type: none"> Commercial initiatives should lead to a greater service offering to customers. Certain customer may lose some amenity through closures. 	4
Workforce Impact and Capability	<ul style="list-style-type: none"> Immediate potential for redundancies from closure of certain sites through the streamlining of operations. Additional capability will likely need to be brought in to develop and action many of the commercial initiatives. 	2
Legislative and Regulatory	<ul style="list-style-type: none"> Minimal legislation if any change in the short term but the potential for greater legislation should commercial venture be such that CIPS is able to attract private operator. 	4

Recommendation

We recommend the CIG implement the range of initiatives to reduce and contain the cost of the CIPS and effect the development and exploration of the available revenue generative activities that the CIPS can engage in as demonstrated by other postal services across the world. Initially this CIPS would benefit from establishing a joint venture to explore the counter service based products and services that the footfall of the post office can harness. We recommend that in the longer term, the CIPS is sold.

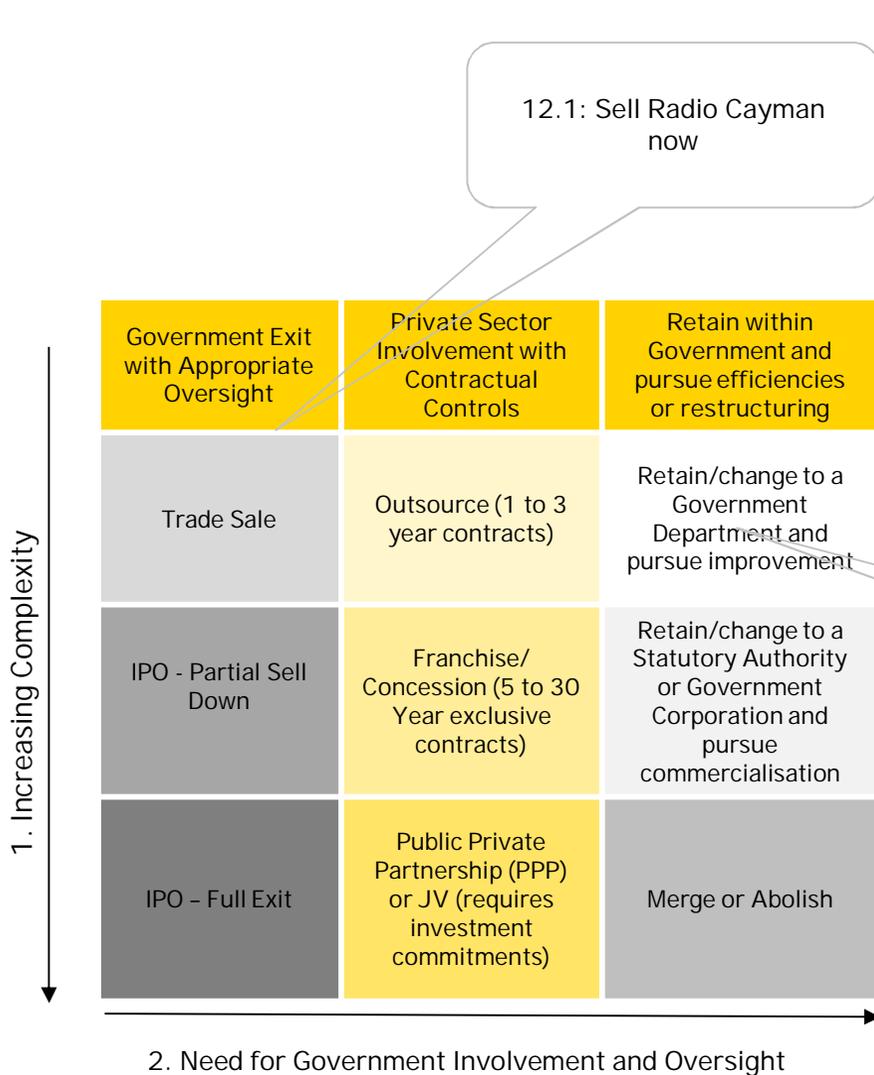
11. Postal Services

Implementation plan : commercialize and Exit



12. Radio Cayman: Option Overview

The functions provided by Radio Cayman could be provided by the private sector



12.1: Sell Radio Cayman now

- This option involves the immediate pursuit of a sale of Radio Cayman. Outright Trade Sale with a limited Government contract to provide community, cultural and emergency services.
- We do question the extent to which a sale would appeal to the commercial market given that non Government revenues represent only a third of overall revenue however are advised that interest has been expressed.
- It is likely that Government would have to enter into a contract with a new owner for the provision of community and emergency services and for the delivery of cultural programs and local content.
- The benefit to Government would be that it would most likely be able to secure a fixed cost for a multi year contract and in due course could tender this work to all broadcasters to achieve pricing efficiency
- Staff would likely benefit through the wider career opportunities afforded by a private sector operator.

12.2: Improve commercial viability then sell in 1 to 2 years

- This option involves improving the financial and commercial viability of the current operation and then selling the business once value can be maximised.
- This option requires a change in law to allow Radio Cayman to sell alcohol related advertising time and would also require the hiring of a new advertising accounts executive.
- It is not known if these measures would achieve the hoped for uplift in revenues and it should be noted that the operation is still projected to require Government funding of approximately \$500k pa even if the change and investment is successful.

12. Radio Cayman: Overview

Radio Cayman first started broadcasting in 1976 and now provides a mix of community news, information, programming and music through two radio stations. The majority of its funding is provided by Government.

Overview	Background context	Key Financials (CI\$)												
<ul style="list-style-type: none"> Radio Cayman first started broadcasting in April 1976 and regularly from December 1976. Radio Cayman comprises two stations Radio Cayman 1 and Breeze FM (originally Radio Cayman 2). Community radio station to provide public broadcasting services to the people of the Cayman Islands. Radio Cayman is governed by the Information and Communications Technology Authority Law. 	<ul style="list-style-type: none"> Radio Cayman teams with GIS and CIGTV when possible. Radio Cayman staffing comprises; Director, Deputy Director, Library/Traffic Officer/ Information Manager, Talk Show Hosts, Engineer, Clerical Officer, four Announcers, Accounts Officer, News Director, three Reporters and three sales Account Executives. 18 staff full time. 	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Y/E 30 June (\$'000)</th> <th style="text-align: right;">FY13A</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td style="text-align: right;">486</td> </tr> <tr> <td>Government Funding</td> <td style="text-align: right;">1,049</td> </tr> <tr> <td>Total Revenue</td> <td style="text-align: right;">1,535</td> </tr> <tr> <td>Operating Expenses</td> <td style="text-align: right;">(1,483)</td> </tr> <tr> <td>Net Surplus</td> <td style="text-align: right;">51</td> </tr> </tbody> </table>	Y/E 30 June (\$'000)	FY13A	Revenue	486	Government Funding	1,049	Total Revenue	1,535	Operating Expenses	(1,483)	Net Surplus	51
Y/E 30 June (\$'000)	FY13A													
Revenue	486													
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Total Revenue	1,535													
Operating Expenses	(1,483)													
Net Surplus	51													
Functions	Key Issues and Risks													
<ul style="list-style-type: none"> The objective of Radio Cayman is to provide all three islands with reliable information 24 hours per day and with a full range of music, current affairs, news, sports, weather, talk and cultural programmes which are not currently provided continuously or in any significant way by any other radio station. There are 18 radio stations (including Radio Cayman) licensed by the Information and Communications Technology Authority. Radio Cayman's operations are mainly broadcasting services, ranging from the proceedings of the news, Legislative Assembly, to live commentary of national events. Other content includes Business Buzz, For the Health Of It, Caymanian Stories and Talk Today and Sports Extra. Radio Cayman provides free advertising to all schools, churches, Government agencies, service clubs, Red Cross, other charitable organizations and persons raising funds for various health issues. 	<ul style="list-style-type: none"> Reputation: Radio Cayman is well respected by the community due to dependable/credible newscast. Local representation: Staff are almost all Caymanian by birth or status and/or have been long term employees. Financing: Radio Cayman sells commercial time to clients but this is not sufficient to cover the costs of operation. Automation: Where possible, the station uses automation of the provision of the service to reduce costs, for example at weekends and in the event of staff absence. Risks: Risks include: <ul style="list-style-type: none"> Computer failure Lack of staff Law suits arising from defamation claims from news stories or talk show contributions Lack of staff: Impacts on the ability to staff the station at all times or full-time live radio sessions Flexible: Radio Cayman is considered able to react quickly to commercial opportunities. Emergency information: Radio Cayman is able to provide emergency announcements at short notice. Change: A number of Radio Cayman staff are long standing, and have strong views on the value provided to the community by the service in its existing form. 	<p style="text-align: center; background-color: #FFD700; padding: 5px;">Financial Comments</p> <p>Material service contracts (annual) include:</p> <ul style="list-style-type: none"> Associated Press – Source for international news \$7,568 Performing Rights Society – rights fees to play music \$6,650 ICTA – part operating expense, part service agreement \$43,587 Radio Express – American Country Countdown \$4,791 Janitorial – (Reliable Industries) \$10,560 Various other - \$15,926 <p>Management believe that material revenue is being lost due to an inability to sell advertising related to alcohol and that the recruitment of an additional sales manager would enhance private revenue. Management estimates potential revenue of \$420k from such initiatives.</p>												

Source: GIS memo and Budget Papers

12. Cayman Islands Radio Broadcasting market review

Globally Governments are reviewing the model by which publically owned radio and television operate and many operations have been under pressure to commercialize and/or to reduce dependency on the public purse

Market overview

- The Cayman Islands is well serviced by 18 Radio Stations and several Cable Television operators albeit it is reported that a number of the private radio stations struggle to operate profitably.
- Radio Cayman sees its role as crucial to the provision of local cultural content, the provision of reliable emergency communications and the provision of free or low cost community notices.
- A number of commercial stations do currently provide local contact beyond news reporting and can offer competitive pricing for advertising.
- A 24-hour FM weather broadcast is currently provided by separate arm of Government and all commercial carriers provide weather services.

Jurisdictional comparison

Bermuda - Broadcasting content on cable, radio and local television and political broadcasting are controlled by the Bermuda Government appointed Broadcasting Commissioners set up under the Broadcasting Commissioners Act 1953. They are answerable to a cabinet minister. They act as the Film Control Authority, under the Film/Control of Exhibition Act 1959. They also advise the Minister on matters concerning the Obscene Publications Act 1973. The only periodic exception to the all-commercial content is when the Government Emergency Broadcasting Facility operates, during a storm or hurricane or when no commercial station can broadcast because power lines are down.

The Bermuda Government does not hold an equity position in any of the broadcasting companies but awards contracts to them for certain programming. (<http://www.bermuda-online.org/media.htm>) Effectively 'Public Radio' is provided through commercial services. Bermuda has requirements for local content as a term of licensing.

The Broadcasting Corporation of The Bahamas (BCB) originated as a state-owned radio service in 1937 called ZNS (the call letters stand for Zephyr Nassau Sunshine). One of the main motivations for the service was to provide hurricane warnings to the far-flung out islands of the Bahamas and further initial services covered BBC news, local news culled from Nassau newspapers, and musical recordings from the BBC.

From 1937 to 1950 ZNS was entirely funded by the Government as a non-commercial service. But since then, the BCB has been partly funded by advertising revenues, in addition to a Government subsidy allocated annually. Responsibility for broadcasting was transferred to a new Government commission in 1955. The BCB replaced the Broadcasting Commission in 1972, and television service was introduced five years later. The Government allows the participation from private players in the sector and it has ~ 19 private radio stations and ~ 4 private TV stations.

12.1. Radio Cayman: Immediate Sale with Initial Government Contract

A sale should be immediately pursued to respond to reported interest but would likely require Government to enter into a 2 to 3 year contract for the provision of Community, Cultural and emergency services

Overview of the Opportunity/Option

- There is sufficient expertise in the private sector and sufficient competition such that Government does not need to be a player in the space.
- Given the majority of RC revenues flow from Government it is unlikely to be saleable without a Government contract for the provision of Community, Cultural and emergency services.

Potential Benefits

- Government is able to 'cap' the cost of the provision of community and cultural programming and would have certainty over these costs for the life of a services contract.
- At the end of the first contract Government would have the benefit of price competition as other commercial providers could bid for the right to provide these services.
- Improved quality of news and communality and social programming.

Risks and Issues

- Government would have to monitor the performance of an outsourced contract for community services.
- A privatised Radio Cayman would be subject to commercial risks and market competition but with multiple local commercial providers there are options for the contractual provision of community services.

Financial Analysis and Indicative Impact

- In the first instance Government would receive the benefit of capped fixed costs for the provision of community services for the period of the initial contract and over time would benefit from competition for the supply of community services.

Implications

- Government would have less direct control and contractual protection would need to be put in place to ensure adequate access and response times for emergency services and Government announcements.
- Shifting of staff to the private sector would require transition management but over time provide the potential for greater opportunities for staff.

Implementation Considerations

- Establishment of a contract management function.
- Preparation of EOI, sale and transition plan.

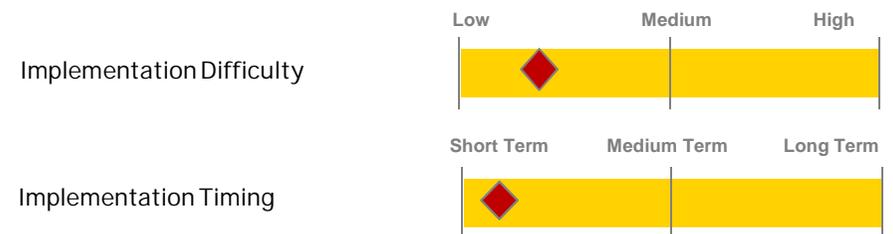
Estimated Value note:

- If Government is of the view that all current community and cultural services provided should continue to be paid for then recurring savings will be more modest but market forces could for example deliver up to 25% saving on the existing cost to Government of \$1m pa – perhaps higher over time. If these services are reduced then savings would be higher.

Initiative Profile

Estimated Value Upwards of \$250k reoccurring

Estimated Headcount Impact 18



12. Radio Cayman – Option Evaluation

Improving the commercial viability of the operation may improve prospects for sale and marginally improve price but there is no certainty that improvements could be obtained particularly given pre existing market competition

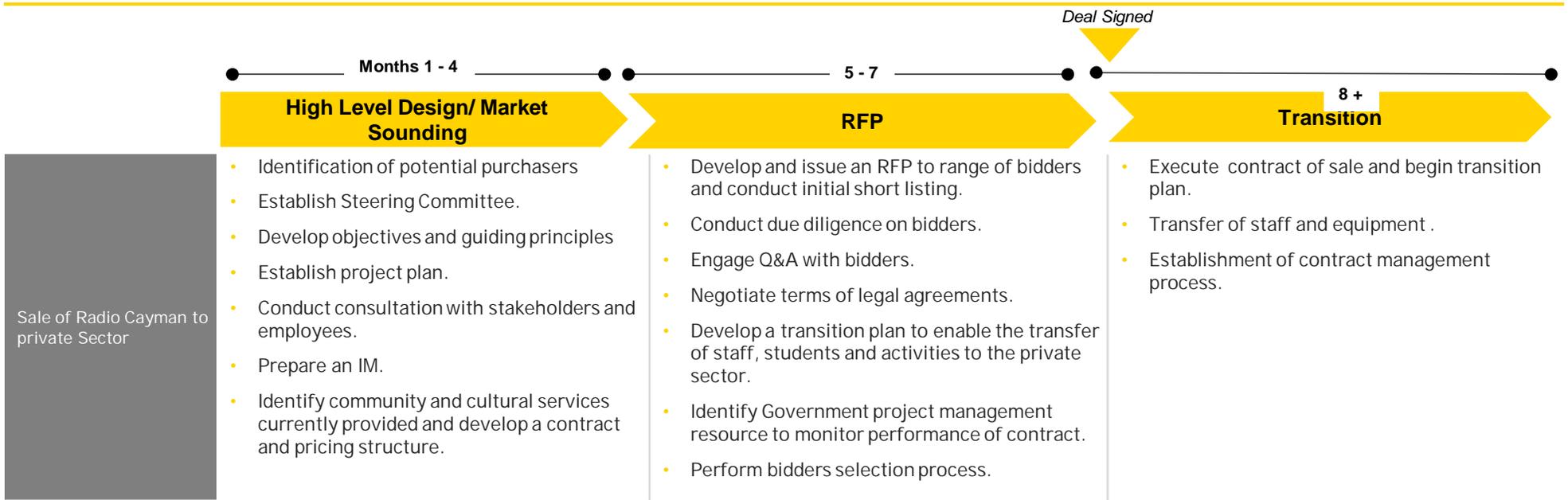
Criteria	12.1: Sell now		12.2: Improve commercial viability then sell	
	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Reduces CIG's focus on 'non-core' services. 	5	<ul style="list-style-type: none"> CIG maintains involvement and funding risk for a longer period. 	4
Financial	<ul style="list-style-type: none"> Provides benefit of fixed and competitively priced costs for community and cultural services in the long term and short term small capital realisation. 	5	<ul style="list-style-type: none"> Improving financial performance may make the operation more attractive but also carries operational risk. 	4
Ease of Implementation	<ul style="list-style-type: none"> It is reported that potential buyers have expressed interest. 	4	<ul style="list-style-type: none"> Will require considerable efforts to improvement performance and make the asset more commercially attractive. 	2
Local Economy /Sensitivity	<ul style="list-style-type: none"> Minimal impact on the local economy through a sale. 	4	<ul style="list-style-type: none"> Minimal impact on the local economy. 	4
Customer Service	<ul style="list-style-type: none"> Customer service unlikely to be impacted through a sale now. 	4	<ul style="list-style-type: none"> Unlikely to be impacted. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> Workforce will transition to the private sector Employee rights will need to be protected under appropriate contractual provisions. 	3	<ul style="list-style-type: none"> Impact on workforce will depend on the means applied to make the institution more commercially attractive – likely to mean growth in headcount to achieve improvements. 	4
Legislative and Regulatory	<ul style="list-style-type: none"> Consider issue of Alcohol advertising. 	4	<ul style="list-style-type: none"> Legislative change required. 	2
Market	<ul style="list-style-type: none"> There is an active domestic Radio market albeit it is reported that many local operators struggle to operate profitability. 	4	<ul style="list-style-type: none"> There is an active domestic Radio market albeit it is reported that many local operators struggle to operate profitability. 	3

Recommendation

We recommend pursuing a sale now with the benefit of a two to three year Government contract for the provision of defined community, cultural and emergency services at a fixed price. At the end of that initial contract Radio Cayman and other operators would be free to bid for subsequent contracts maintaining pricing benefits for Government and an ability to make more flexible decisions at to the level of investment into such services that is desired.

12. Radio Cayman: Implementation plan

The implementation plan for the sale of the licence and business including a contract with Government for the provision of community and cultural services



13. Service Outsourcing: Overview

CIG currently undertakes a range of activities that could be undertaken by the private sector. Outsourcing requires strong contract management and a competitive market for services to avoid becoming a price taker

13.1: Outsourcing of services to the private sector, including employee mutuals

	Government Exit with Appropriate Oversight	Private Sector Involvement with Contractual Controls	Retain within Government and pursue efficiencies or restructuring
1. Increasing Complexity	Trade Sale	Outsource (1 to 3 year contracts)	Retain/change to a Government Department and pursue improvement
	IPO - Partial Sell Down	Franchise/ Concession (5 to 30 Year exclusive contracts)	Retain/change to a Statutory Authority or Government Corporation and pursue commercialisation
	IPO - Full Exit	Public Private Partnership (PPP) or JV (requires investment commitments)	Merge or Abolish
	2. Need for Government Involvement and Oversight		

13.1: Outsourcing & Employee Mutuals

- This option would involve increasing private sector involvement in service delivery by outsourcing some selected existing services to the private sector.
- This option allows for the possibility that some staff may be transitioned to the private sector as part of the outsourcing process. However, this may not be possible in all scenarios due to the significant differential in costs and associated benefits.
- This option assumes 1 to 3 year contracts are provided to the successful bidders, with a pilot of more 'quick win' services followed by more fulsome rollout of outsourcing.
- Assumes that some retained capabilities are required to manage contracts or deliver services that are considered uncommercial or too risky to outsource.
- This option involves the formation of employee-led mutuals and co-operatives to provide public services.
- Civil service workers are given a contract and a right to provide services, meaning they set up new organisations outside of the public sector and take on full responsibility for the services they deliver and the delivery of specified services levels.

13.1. Service Outsourcing: Proposed Services

Outsourcing to the private sector has been considered for services across Departments as shown below. Additional services were reviewed, but were considered too sensitive /critical to outsource at this stage

Department	Services considered suitable for outsourcing	Description	Current Estimated Headcount	Market Assessment and Comments
Home Affairs	1. Custodial/Prisoner Transport	The secure transport of prisoners from prison to the court, and back, for hearings	Varies by day, but approximately 5 from Prisons	<ul style="list-style-type: none"> Active market for security services in Grand Cayman, including Knight Security, The Security Centre and others who already provide security services. Estimate of \$18 per hour versus current loaded costs of \$33 per hour for these services.
Home Affairs	2. Prison catering	Provision of nutritional meals for inmates at Fairbanks and Northward	4.5 from Prisons	<ul style="list-style-type: none"> Active catering market in Grand Cayman exists, including Island Supply and Mise en Place (used by Education).
HSA	3. Hospital catering and linen services	Provision of nutritional meals and linen services for patients in Grand Cayman Hospital	Estimated 15 from HSA related to cooks and laundry	
RCIPS / Judicial Administration	4. Security at Court, Governor's House and Police Cells	RCIPS services currently provided without charge to guard Courts, the Governor's House and Police Cells	Approximately 10 from RCIPS	<ul style="list-style-type: none"> Active market for security services in Grand Cayman, including Knight Security, The Security Centre and others who already provide security services. Warrants and summons are currently carried out by the private sector for civil cases. Estimated savings of approximately \$10 per hour for these services.
	5. Warrants and Summons	Delivery of criminal Warrants and Summons	Approximately 5 from RCIPS	
Home Affairs – Computer Services	6. Application Services 7. Technical Operations Services 8. Printing/Distribution Services	Applications Services: IT Consulting, IT project management, software/website development/support, application support/assistance and eGovernment. Technical and Operation Services: Network Management, Design and Security, IT Infrastructure System Management and Installation, IT Infrastructure Project Management. PC support and maintenance services, installation of standard end user desktop software/applications, IT Helpdesk. Distribution Services: printing/binding services.	54 Total 17 Support Administrators 13 Analyst/Programmers 6 Business Analysts 7 System Admin/Managers 9 others	<ul style="list-style-type: none"> There is no reason why Government should continue to provide IT services in-house (other than IT Strategy, CIO and IT Procurement and contract management functions). Many Governments around the world are selling or winding up centralised IT departments and outsourcing. Active IT market in Grand Cayman or the greater Caribbean market exists. Many departments already outsource their IT to the private sector.

¹ Source: Discussions in meeting with Prisons

² Source: Discussions in meetings with RCIPS

13.1. Service Outsourcing: Proposed Services (Continued)

Outsourcing to the private sector has been considered for services across Departments as shown below. Additional services were reviewed, but were considered too sensitive /critical to outsource at this stage

Department	Services considered suitable for outsourcing	Description	Current Estimated Headcount	Market Assessment and Comments
Finance & Economic Development	9. Debt Collection	Pursuit of aged debtors, with a fee based on recovery (particularly with reference to HSA).	4 Debt Recovery Officers	<ul style="list-style-type: none"> Outsourcing of debt collection is common practice in most jurisdictions. Service providers exist in the Cayman Islands, including many local firms and specialists such as Omni Cayman and Stenning & Associates. Private sector debt recovery are provided with specific types and scales of debt to pursue and are motivated and rewarded by securing repayment.
PLAH&I – Planning	10. Plan Examinations 11. Building Inspections	Processing of development applications, reviewing applications for building permits and inspecting the structural, plumbing, electrical and mechanical components of buildings and structures to ensure that approved developments comply with all the codes	4 Plan Examiners 10 Building /Combination Inspectors	<ul style="list-style-type: none"> Active market for plan examinations and building inspections. Participants include Cayman Home Inspector's Ltd, SEL Consulting, Westpoint Inspections, as well as several architectural and building construction firms – conflict of interest would need to be managed and licencing and oversight improved.
PLAH&I – Public Works	12. Operations and Works services 13. Parks, Recreation & Cemeteries (PR&C) services	Provision of project management, construction oversight and execution, architectural, quantity surveying and MEP consultancy services for building related projects Provision of repair and maintenance services to Government properties including the maintenance of public buildings, parks, cemeteries and recreational areas	PW Ops and Works – 67. Assumes some services must remain in Government, only 50 FTEs considered in scope for outsourcing PR&C - 22. Assumes 80% of these services can be outsourced, leading to 18 FTEs in scope	<ul style="list-style-type: none"> Many activities are already outsourced to the private sector. An active market exists, including providers such as Phoenix Construction, NCB Group, Robson Construction and Arch and Godfrey Cayman. There would be a need to develop a model for a retained capability within Government, and to determine where that capability best sits – either centrally in a residual Public Works division or nested within Departments to manage public works related to their assets.
PLAH&I – Lands and Surveys	14. Surveying services	Surveying of land parcels	5 Surveyors, 5 Field Assistants	<ul style="list-style-type: none"> Again, an active market for surveyors exists in the Cayman Islands and the broader Caribbean region, including Cayman Survey Associates, BCQS, Barnards, Charterland, Evans & Associates, most of whom are accredited by the CIG.

13.1. Service Outsourcing: Proposed Services (Continued)

Outsourcing to the private sector has been considered for services across Departments as shown below. Additional services were reviewed, but were considered too sensitive /critical to outsource at this stage

Department	Services considered suitable for outsourcing	Description	Current Estimated Headcount	Market Assessment and Comments
PLAH&I – Vehicle and Drivers Licencing (DVDL) Services	15. Vehicle safety inspections and examiners	All inspections and testing vehicle safety for cars over 3 years old. Conducting driving tests to enable provision of driving licence in accordance with the Traffic Law	2 Vehicle Inspectors	<ul style="list-style-type: none"> Currently, four private companies are certified to provide vehicle inspections: Andy's Auto; Car City; Tony's Toys; and Prestige Motors. DVDL's facility continues to inspect all vehicle types, including heavy equipment and public transport vehicles. However, the fee for this service is not payable to the garages themselves – customers must pay to DVDL in person at one of their locations. This appears to demotivate garages from performing this activity which is required under the Traffic Laws. It is proposed that the garage receives a percentage of this fee and collects it directly, passing on part to DVDL.
	16. Driving tests		3 Vehicle Examiners	
		2 Driver Examiner		
PLAH&I – Vehicle and Equipment Services (DVES)	17. Light vehicle maintenance	Maintenance of Government's light vehicles	10 Mechanics total in DVES (21 total in heavy, medium & light maintenance)	<ul style="list-style-type: none"> Market exists for light vehicle maintenance from local mechanics or support centres associated with Vehicle Sales Centres e.g. Advance Automotive, Prestige Motors, Andy's Auto, etc. RCIPS currently purchase light vehicle maintenance as part of the new vehicle package, and are looking to leverage and share this model more broadly Will require centralised procurement of vehicles, along with maintenance contracts, to be negotiated for all of Government .
		Some of the medium and heavy vehicle maintenance is highly specialised	6 support staff (12 total for all DVES)	
NRA	18. Road maintenance	Carrying out of construction improvements and maintenance works on national roads	<p>Total employee numbers are 85 as (at June 30 2014)</p> <p>Those dedicated to road maintenance is estimated to be 15 FTEs, based on a Road Maintenance actuals forecast of \$1.3m out of a budget of \$9.5 min FY14</p>	<ul style="list-style-type: none"> Limited market currently exists for road maintenance services. Currently there are only two road construction and maintenance companies on Islands, Island Paving and ARCP. There are relatively low barriers to entry to this market however. Services are necessarily geographically constrained and specific roads must be maintained by the one party to enable accountability for road quality. Uncertainty over future funding capacity is limiting the ability and appetite to use long-term PFI style maintenance contracting models in the UK. Commercial arrangements for any contract for road maintenance are complex and there have been difficulties in Western Australia and Victoria in Australia, mostly due to redirection of funding, lack of specification and poor contractual frameworks. Recent successes in Australia have seen road maintenance packages concessioned for 10 years for specific geographical regions. there is a much broader and deep market in the UK and Australia than in the Cayman Islands. Employee mutuals may need to be considered to enable the creation of a market. This requires up skilling in small business management for public service employees looking to establish a business to fulfil a road maintenance contract.

¹ National Educational Data Report FY13

² Updated briefing on the proposals for amalgamation of schools on Cayman Brac.doc

13.1. Detailed Analysis of Outsourcing – Benefits, Risks and Issues

The outsourcing of some services to the private sector reduces the size of Government and may provide service delivery improvements. It will require careful design, contract management and monitoring by departments

Potential Benefits

- Departments will need to pay vendors for the services from the outsourced service provider, so the financial impact is not significant. However, there is evidence that civil service employees come with a higher cost base than utilising private sector contractors. For example, private security is \$12 to \$18 per hour, versus the hourly cost of \$28 to \$33 for an RCIPS or Prison Officer.
- However, this is dependent on the competitiveness of the market, and there could be some bids that are similar to current costs. It is important in the next phase of market testing and bid comparison that fully loaded costs, including any required capital spend, are considered in the public sector comparison financials as well as any risks of fluctuation in service delivery factored in.
- Reduces the size of the Government civil service and related health and pension liabilities.
- Frees up resources for critical service delivery which is currently under-resourced – e.g. RCIPS.
- Some of these resources may be able to transition to the private sector providers.
- Allows for private sector participation in Government service delivery, focusing Government on policy, regulation and evaluation of service delivery and outcomes. Discussions with the Cayman Islands Chamber of Commerce appear to indicate high levels of interest in participating in Government outsourcing service provision.

Risks and Issues

- There is a risk that comparison of private sector costs appear higher than public sector comparators due to Government not including the full cost of the service delivery such as pensions, health benefits, on costs and other aspects related to the provision of service.
- Risk of public backlash and concern over use of the private sector in roles some might view as Government's responsibility.
- Inadequate definition of services and service levels leading to inability for private sector to deliver as expected.
- Lack of capability to manage the outsourced contracts – not a core Government capability at this point in time.
- Limited level of competition for outsource packages may limit financial savings
- Potential lack of sufficient volume of current providers in Cayman Islands.
- Potential for disruption to operations during transition of service.
- Potential for service failure, if the selected vendor becomes insolvent or does not perform as expected – need for Government to step in and take the service over if this occurs.
- Any outsourcing or shared service model carries risk in relation to implementation and data security.
- Any outsourcing or shared service project needs to consider IT implementation risks and costs.

13.1. Detailed Analysis of Outsourcing – Estimated Financial Impacts

There exists a significant number of areas where services and operations could benefit from being outsourced; be that in terms of head count reduction, cost savings and/or improvements in service provision

Service	Potential for Government Headcount Reduction	Potential for Government Cost Savings	Potential for Service Improvements
1. Custodial/Prisoner Transport	✓	✓	
2. Prison catering	✓	✓	✓
3. Hospital catering and linen services	✓	✓	
4. Security at Court, Governor's House and Police Cells	✓		✓
5. Warrants and Summons	✓		✓
6. Computer Services	✓	✓	✓
7. Debt Collection	✓		✓
8. Plan Examinations	✓	✓	
9. Building Inspections	✓	✓	✓
10. Operations and Works services	✓	✓	✓
11. Parks, Recreation & Cemeteries Services	✓	✓	
12. Surveying services	✓	✓	
13. Vehicle safety inspections and examiners and Driving tests	✓	✓	
14. Light vehicle maintenance	✓	✓	✓
15. Road maintenance	✓	✓	✓

It is estimated, in the event that all outsource opportunities are actioned, that annual cost savings of >\$2 million per annum and a head count reduction of > 200 FTE's could be achieved. There are additional opportunities for outsourcing not mentioned in this analysis. These include Government Travel which is an area we have been advised that the Government are already looking at outsourcing options.

Note: Where we have indicated that there are no cost savings we envisage that the cost will be equivalent and that the service offering will be improved. Additionally, where we have indicated that no service improvements we do envisage that existing service levels are maintained.

13.1. Detailed Analysis of Outsourcing

The outsourcing of some services to the private sector reduces the size of Government and may provide service delivery improvements. It will require careful design, contract management and monitoring by the departments

Costs

- There are likely to be implementation costs for legal and commercial advice to ensure that the contracts assign risk and liability in line with Government policy requirements.
- There could be one off transfer costs to facilitate the transition of staff to the private sector. Also, redundancy costs could be incurred for some roles. The estimate costs of redundancies is calculated based on 1.3 times base annual salary.
- There could be a cost to train Government employees in contract management
- There could be costs to facilitate training in small business for employees where employee mutuals are being considered.
- Consideration should be given to a phased outsourcing program over a 2 year period to minimise impact on the local economy.

Implications and Implementation Considerations

- For IT services, there is the potential to pursue Infrastructure as a Service (IaaS) and Software as a Service (SaaS) strategies to minimise capital outlay by Government, and to require a move to this model by the successful outsourced providers.
- The lack of a license regime to regulate the activities of industry service providers such as architects, engineers, and contractors results in increased turnaround times and decreased efficiency levels due to poor quality submissions and inadequate professional standards. There may need to be increased licencing requirements if outsourcing of plan examinations and building inspections is pursued.

Implications and Implementation Considerations

- Work required to define the service requirements and service levels, and then define the packages of work that will be taken to market. It is important that the current cost of service provision, including all employee benefits and potential capital expenses expected to be funded, is baselined and compared with bids.
- Work required to take outsourced packages to market, select vendors and transition services to the selected vendors. An outsourcing process is outlined on following pages. It may be beneficial to create a centralised outsourcing 'centre of excellence' that can either run the outsourcing process or advise heavily throughout the process. This may naturally sit within the Chief Procurement Officer's remit.
- May involve some redundancies in some areas, however this could be avoided if these roles were moved elsewhere to perform critical front line activities.

Initiative Profile

Estimated Value Potentially > \$2 million p.a.

Estimated Headcount Impact Potentially > 200 FTE reduction



13.1. Service Outsourcing: Option Evaluation

The table below evaluates the option against the Government's criteria – we recommend that Outsourcing be pursued

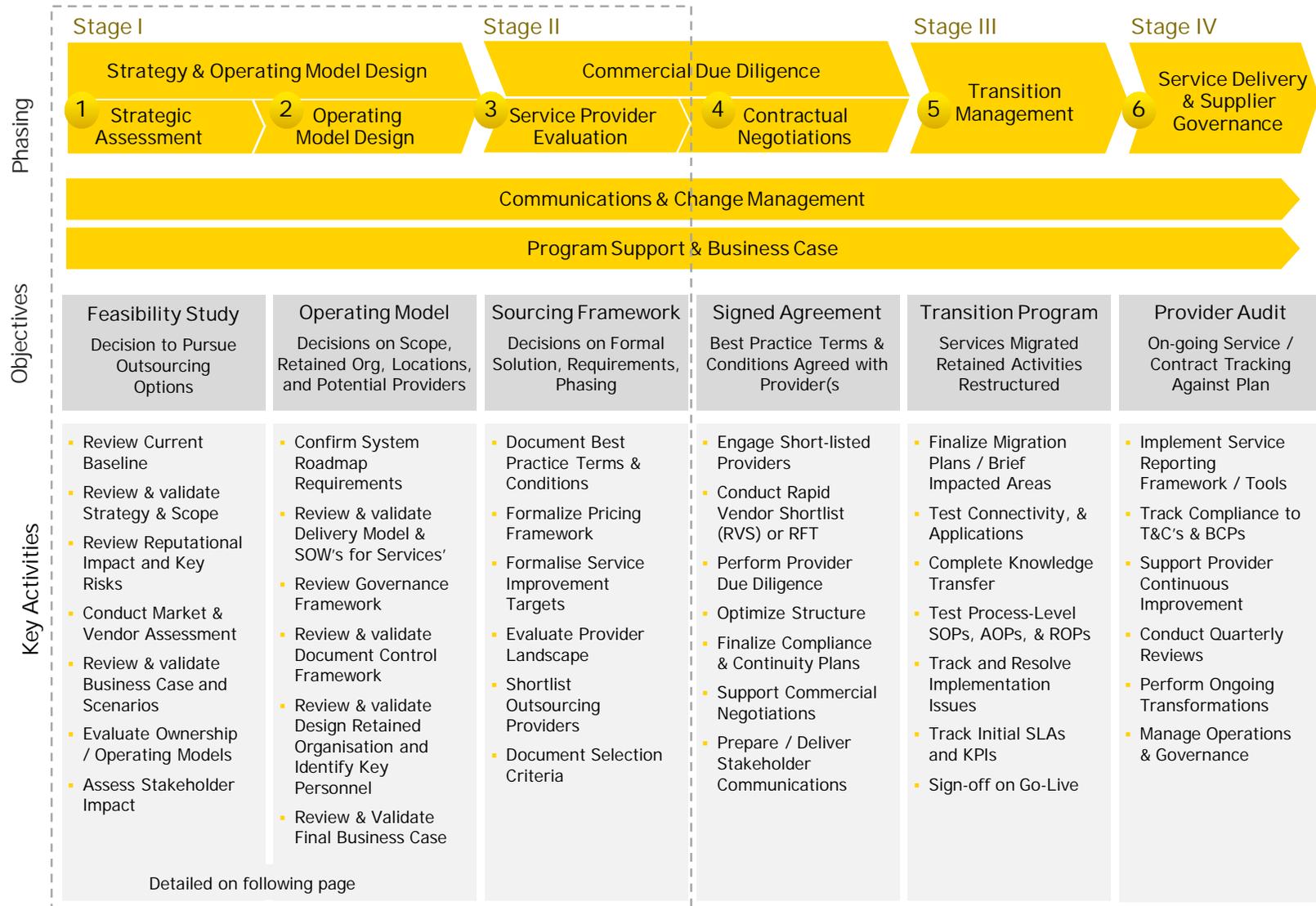
Criteria	13.1Option : Outsourcing	
	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Enables some non-core activities currently performed by the CIG to be performed by the private sector, reducing Government headcount and stimulating local businesses. 	4
Financial	<ul style="list-style-type: none"> Potential savings in cost of services through lower unit costs negotiated through scale There could be a cost to implement the required changes, including assistance with the tender process and potential redundancy costs. Also, training in contract management may be required for dedicated contract manager/s in each Department. 	4
Ease of Implementation	<ul style="list-style-type: none"> The outsourcing of each service will require a dedicated team of resources to facilitate it. The changes will impact upon CIG employees. There could be some resistance from employees to outsourcing of services. They will need to be engaged throughout the process to manage this. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> This option could enable the transition of employees to the outsource provider. This option could also involve the creation of employee mutuals who are provided a contract for services for a 3 year period subject to performance standards. 	3
Customer Service	<ul style="list-style-type: none"> There is potential for this initiative to improve services provided to the public. However, careful contract preparation and management, as well as monitoring and oversight of services, is required to ensure high standards maintained. 	4
Workforce Impact and Capability	<ul style="list-style-type: none"> There is the potential for redundancies, if employees are not transitioned to selected vendors or involved in employee mutuals. 	2
Legislative and Regulatory	<ul style="list-style-type: none"> No legislative or regulatory changes are required to facilitate this option, and no other legislative or regulatory barriers exist to its implementation. Potential need for increased licencing and oversight of service providers. 	5
Market	<ul style="list-style-type: none"> Based on our desktop analysis, an active private sector market exists for most services – there is minimal risk of a private sector monopoly, and capability exists to undertake the services (although existing capacity may need to be grown) There are numerous examples of successful outsourcing of these services in the UK, US, Australia and New Zealand There are indications from the Chamber of Commerce that these services would be pursued by private sector companies in the Cayman Islands. 	3

Recommendation

We recommend that all services considered are outsourced but that this is done over a 2 year period to best manage the process and only moderately impacts on the local economy. The only service that may require further analysis is road maintenance services, where employee mutuals may need to be considered due to a shallow market. Employee mutuals will require significant capability development within the current employee base and the development of new and innovative commercial models.

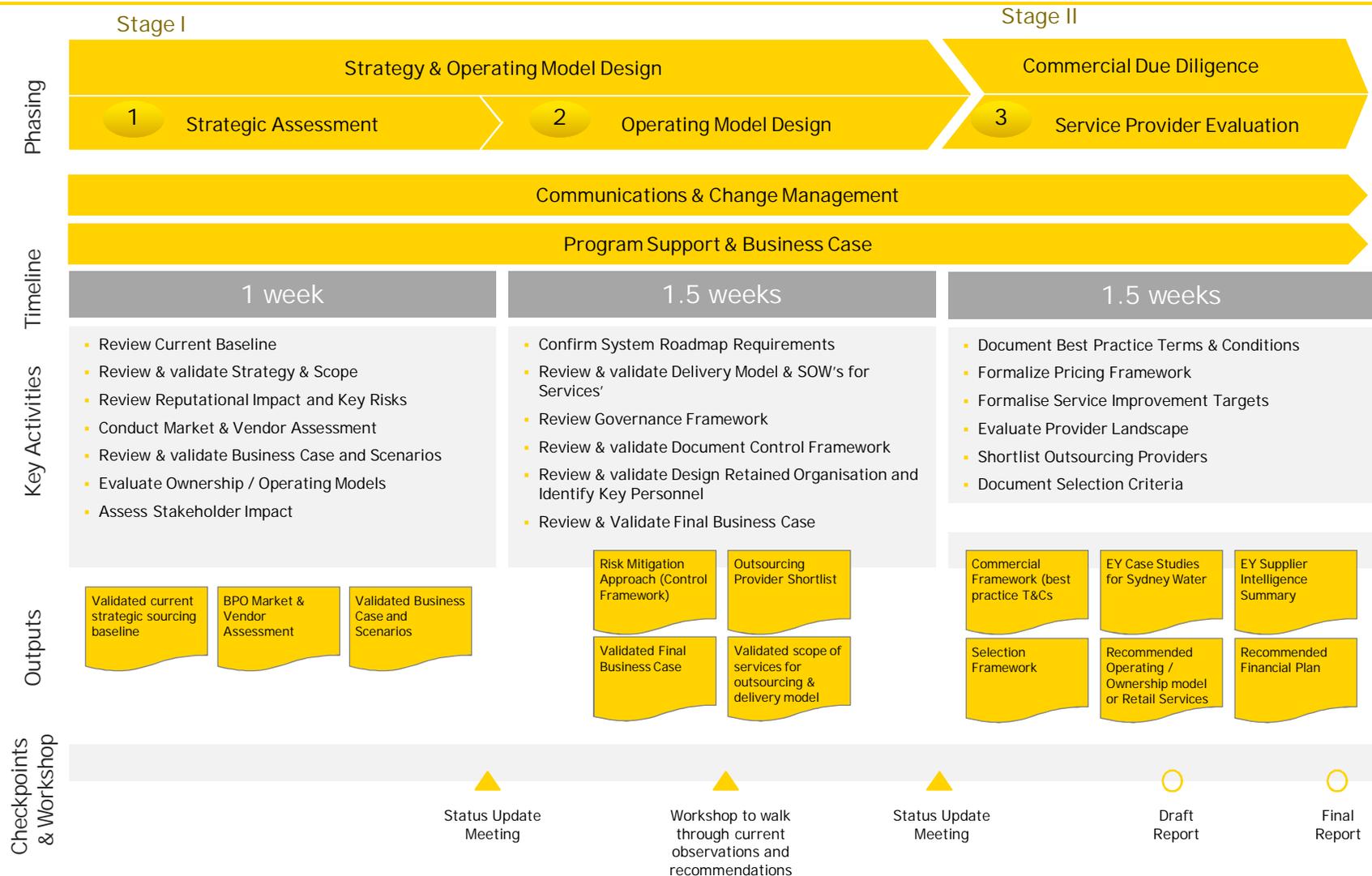
13. Service Outsourcing: Implementation Roadmap

Below is a “six-step process” for identifying, evaluating, selecting, and launching a successful outsourcing agreement with appropriate “go/no-go” decision points and stakeholder engagement throughout



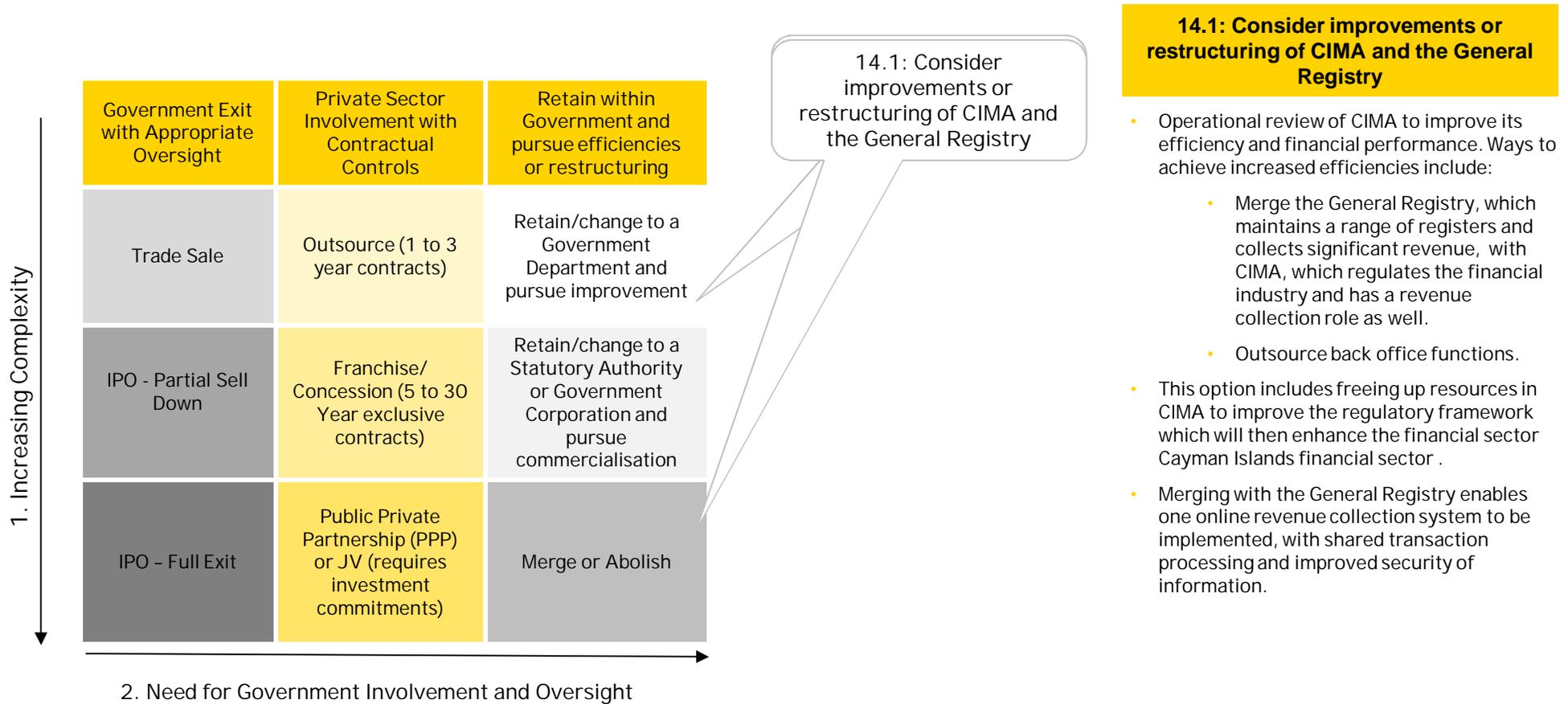
13. Service Outsourcing: Implementation Roadmap – Stages I and II

Below is a detailed stage I and II from the previous page



14. Cayman Islands Monetary Authority (CIMA) and the General Registry

Efficiency improvements or a merger with the General Registry could be pursued for CIMA, freeing up resources to work on improving the regulatory framework which will enhance the financial sector to the Cayman Islands



14. CIMA and the General Registry: Overview

The General Registry maintains a range of registers and collects revenue and CIMA regulates the financial industry and collects a large portion of Government revenue role.

General Registry Overview

- The General Registry is one of the largest revenue collection departments in CI Government
- The Register is quite broad-reaching, and covers 13 registers:
 - Births, Deaths and Marriages (BDM).
 - Companies, Partnerships and Trusts.
 - Patents and Trademarks.
 - Public Records.
 - Cooperatives Register.
 - Trade Unions, Friendly Societies and Building Societies
- The primary function of the General Registry is to develop and implement policies and systems for all registers under its administration to:
 - ensure continued effective contribution to the financial services industry and the public.
 - maintain and improve storage mediums and facilities for records .
 - ensure that vital statistics and other information is readily available now and in the future.
 - deliver service to its customers courteously and efficiently.
- Services include:
 - Maintain the registers for Companies, Partnerships, Trusts, Birth, Deaths, Marriages, Public Records, Patents, Trademarks, Friendly Societies, Building Societies, and Trade Unions in accordance with the relevant Laws, Regulations and policies.
 - Assess market trends and changes in technology. Develop strategic plans and policies for the General Registry in order to meet the demands of the industry.
 - Provide Cabinet with policy advice on General Registry matters.
 - Provide information and advice on policies and legislations to the local private sector, (Law firms, corporate firms, accountants, auditors, banks & trust companies), as well as many potential overseas clients making enquiries.
 - Provide statistical data on the various Registers which will allow Government and the public to measure and compare our results with previous years, budgets and with other offshore jurisdictions.
 - Review legislations and propose changes, where needed to meet industry demands.
 - Ensure the preservation of records to prevent the disruption of services to clients and the general public in the event of a disaster.
 - Provide online support and services to subscribers of Companies Online Registry Information System (CORIS).
- Financial and Employment Information:
 - Revenues of \$27.1m, with operating expenses of \$2.7m, leading to an EBITDA of \$24.4m in FY13
 - The General Registry has 42 employees, located within the Government Administration Building online improvements.
 - The management of the General Registry, with the support of Government, has concluded that it would be in the best interest of the Financial Services Sector to provide online services of all registers. Upgrades to online services are being introduced in phases. The Companies Register, as the highest revenue earner, has been given priority. Partnerships and LLC's went go live on 8 July 2014.
 - Modernised patent and trademark legislation will allow direct registration of trademarks.

CIMA Overview

- As the primary financial services regulator, the mission of the Cayman Islands Monetary Authority is to enhance the economic wealth and reputation of the Cayman Islands by fostering a thriving and growing, competitive, and internationally recognised financial services industry, through appropriate, responsive, cost-effective and efficient supervision and a stable currency.
- Services include:
 - Supervise banks, insurance companies, trust and corporate services providers, money services businesses, mutual funds, mutual fund administrators, and securities and investment businesses.
 - Apply a risk-based approach to financial supervision, leverages technology in the supervision of regulated entities, and adheres to international principles and standards for financial supervision.
 - Issue guidance relating to money laundering, and monitors compliance with money laundering regulations.
 - Cooperate with overseas regulatory authorities on a worldwide basis; CIMA does not require the establishment of a memorandum of understanding prior to providing assistance.
 - As a currency board, CIMA issues and redeems Cayman currency and manages the currency reserves.
 - The Monetary Authority Law, the Regulatory Laws, and rules, guidance and regulatory policies issued by CIMA comprise the regulatory framework for financial services.
 - Process licence/authorisation applications; conduct due diligence on all persons applying to act as directors, shareholders, managers, officers and controllers; make decisions on the issue or non-issue of licences and approvals.
 - Carry out onsite and offsite supervision of regulated entities, investigates breaches of laws and regulations and takes enforcement action where necessary.
- Financials
- CIMA collects significant revenues but has operating expenses of \$19.7m, leading to a budgeted small positive EBITDA of \$500k in FY14. A contribution from CIG of \$8m is made to support regulatory activities and the rest comes from the financial services sector. CIMA has 170 employees.
- Challenges:
 - The Cayman Islands will be subjected to two major assessments with respect to the supervision of financial services over the next three years, namely the IMF's Financial Sector Assessment Program (FSAP) and the Caribbean Financial Action Task Force (CFATF) Mutual Evaluation on Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT). This will require significant resources
 - Current improvement initiatives and activities:
 - Onsite inspection coordination division.
 - Pension supervision.
 - Negotiations with EU regulators for memoranda of understanding in response to the European Union's Alternative Investment Fund Managers Directive (AIFMD).
 - Preparation for the 4th Round CFATF Mutual Evaluation, based on the new FATF 40 Recommendations.
 - Review of corporate governance framework for CIMA-regulated entities.
 - Pillars 2&3 of Basel II framework for capital adequacy framework for banks (the supervisory review process and market discipline).
 - Macro-prudential surveillance and financial stability analysis by the authorities to monitor the impact of potential macroeconomic and institutional factors (both domestic and external) on the soundness (risks and vulnerabilities) and stability of financial systems.

14.1. CIMA and the General Registry: Analysis

There a number of benefits that could be achieved through improving the efficiency of CIMA, merging the General Registry with it and directing resources towards improved regulation

Benefits to Government

- Creates a one-stop online shop for businesses when either dealing with Government registers or the financial services regulator.
- Improvement in regulatory processes, practices and systems.
- Reduced duplication in systems, resources and effort between General Registry and CIMA.
- Potential for financial savings through increased process efficiency.

Implications and Implementation Considerations

- The design of the new operating model for CIMA will need to occur.
- Requires a review of CIMA’s customer facing websites and revenue collection processes. General Register is likely to have more advanced online transaction processing capabilities.
- Requires integration planning and execution to be undertaken and significant change management effort.
- No significant headcount implications, as any resources that are freed up from outsourcing or duplication need to be applied to a renewed focus on improving the regulatory environment and encouraging the global financial services sector to use the Cayman Islands.

Risks

- Integration and alignment of systems, processes and people will take careful planning.
- Resistance from employees.
- Legislation changes may be required.

Initiative Profile

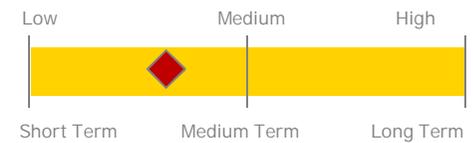
Estimated Total Benefit

Non-financial benefits

Estimated Headcount Impact

None

Implementation Difficulty



Implementation Timing

14. CIMA and the General Registry: Option Evaluation

We recommend that a full operational efficiency review is undertaken as well as outsourcing of back office functions and a review of the merits of combining elements of CIMA and the General Registry

Criteria	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> This option aligns with Government's role of improved regulation and registration. 	5
Financial	<ul style="list-style-type: none"> Potential to increase Government revenues and the broader economy through increased investment and business dealings with the Cayman Islands. 	4
Ease of Implementation	<ul style="list-style-type: none"> A merger would need significant effort to implement, and the design of a new future operating model Outsourcing of some functions, potentially to the central Government shared services unit once established, should be fairly straightforward. 	4
Local Economy /Sensitivity	<ul style="list-style-type: none"> This option will have a positive impact on the local economy. 	4
Customer Service	<ul style="list-style-type: none"> This option improves service for both the business community and CI citizens. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> No impact on workforce numbers, however some employees would move from a Government Department to a Statutory Authority. Some increase in capability may be required of CIMA employees to lift the level of regulatory capability. 	4
Legislative and Regulatory	<ul style="list-style-type: none"> There may be some legislative changes that may need to be introduced. 	4
Market	<ul style="list-style-type: none"> n/a 	n/a

Recommendation

We recommend that a full operational efficiency review is undertaken, outsourcing of back office functions and a review of the merits of combining elements of CIMA and the General Registry.

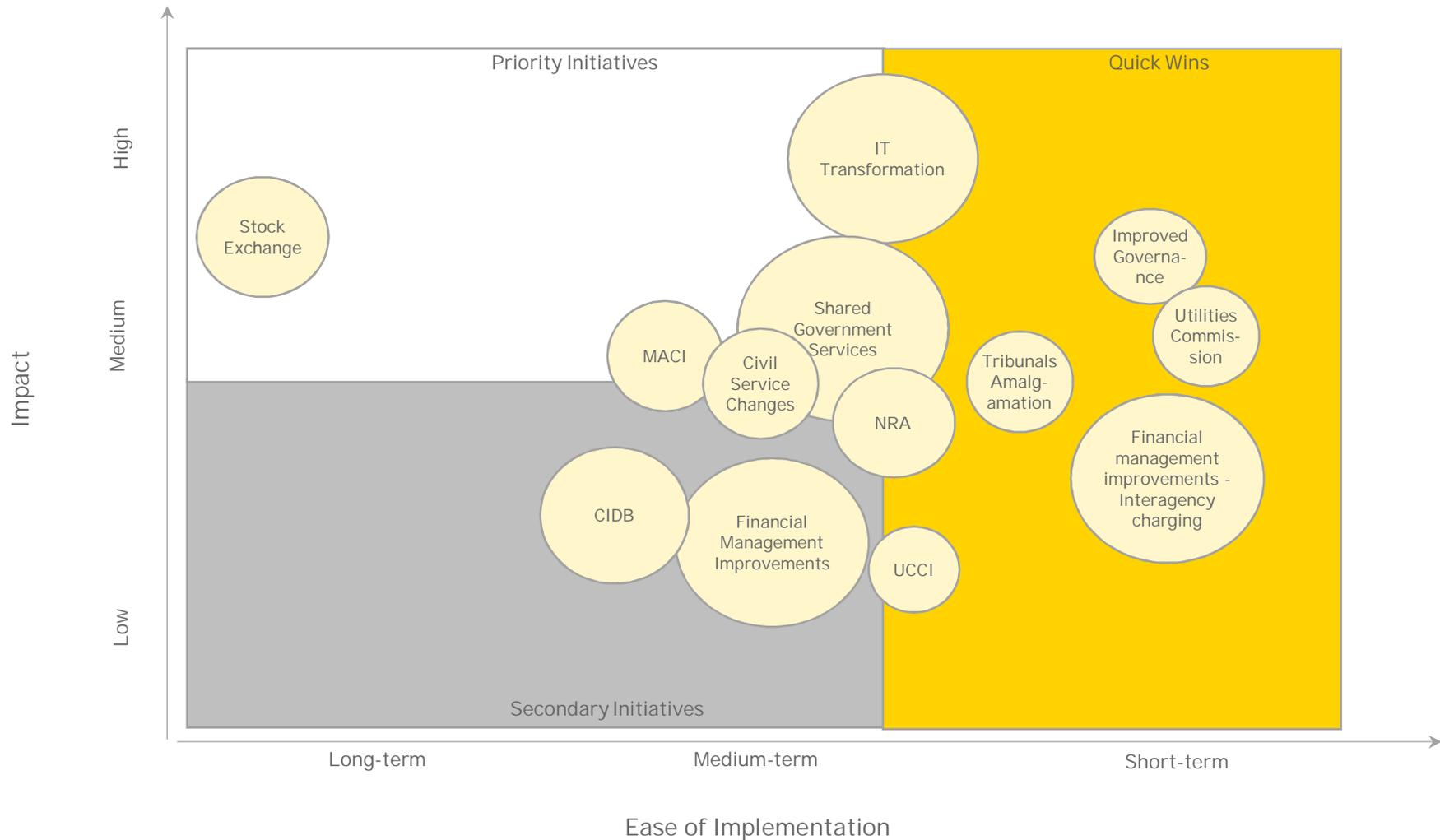
Priority 2 recommendations

Priority 2 recommendations

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Mapping of Options: Priority 2

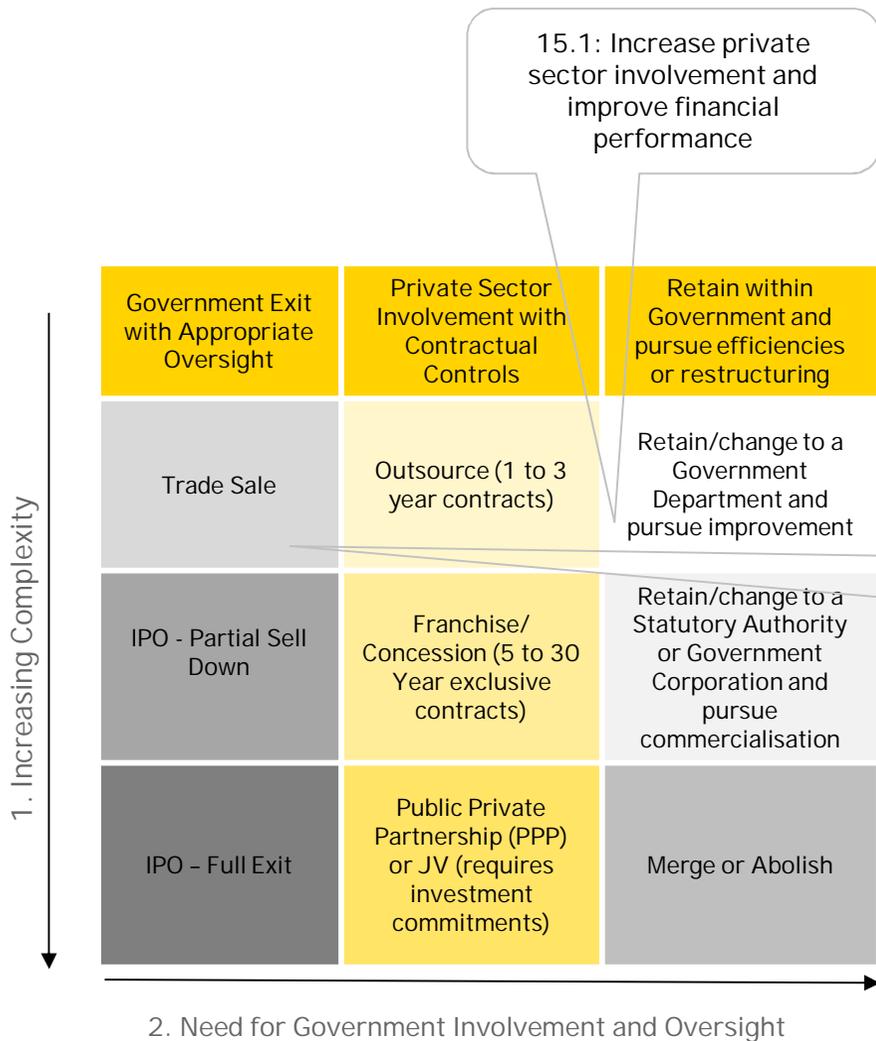
Each recommendation has been mapped against potential value and ease of implementation to identify quick wins as well as the priority initiatives that should be pursued. The representation of Options is subjective however we believe that by taking into account factors such as the option's potential financial contribution, the potential for reducing the size of government and the ease of implementation that this provides a fair illustration of the potential positive attributes of each option.



The size of the circle aims to illustrate the \$ value of the option in terms of cash saving/ability to generate capital or existing CIG financial support. It does not illustrate the potential \$ benefit as a result of capital injection, restructuring or implementation of an option. This chart is illustrative only and can be subject to many timing variables.

15. UCCI: Option Overview

The following options have been analysed for UCCI; increasing private sector involvement and financial performance and selling UCCI



15.1: Increase Private Sector Involvement

- This option involves implementing a range of initiatives to improve the financial, educational and reputational performance of UCCI.
- Pursue partnership with accredited university to obtain recognition for courses, rather than pursue standalone accreditation.
- Implement sponsorship, endowment and grant program from the private sector or wealthy alumni.
- Selling the naming rights of buildings which could yield value funds that can be used for capital improvements particularly to deteriorating buildings.
- Rationalise courses to only provide those courses that are profitable or contribute to critical needs in the Cayman Islands economy that can't be provided elsewhere.
- Increase fees to better cover the costs of course provision.

15.2: Sell UCCI

- To sell UCCI to a reputable private education provider.
- There could be international interest by large players like Kaplan, Laureate who have bought universities in many different jurisdictions.

15. UCCI

The University College of the Cayman Islands ('UCCI') has over 1,000 students and a range of different vocational academic and professional courses

Overview

- Government sponsored tertiary education that began with a part time institution in 1975.
- This developed over time and in 1987 the Legislative Assembly established a semi-autonomous post secondary educational institution.
- UCCI now has over 1,000 students and a range of different vocation, academic and professional courses.

Functions

- UCCI provides educational solutions, academic and vocational, to over 1,000 students from certificate and pre-college to baccalaureate and post graduate programs.
- UCCI offers a wide variety of programmes in the Associate, Bachelor and Master's levels as well as professional education and workforce training.
- The majority of students enrolled are Cayman permanent residents or citizens. UCCI enables a number of students to benefit from further and continued education, students who might otherwise not be able to if facilities were not located in Cayman.
- UCCI is a important socio-cultural landmark through its contribution to nation building. It offers a series of conferences that has brought thinkers and influencers from various fields of expertise to the Cayman Islands.

People and Governance

- UCCI is a statutory authority and fully owned by the Government under the Ministry of Education.
- 63 employees, 39 academic and 24 administrative, 8 student interns. Board of 10 members, a secretary and ex-officio member.
- Under new leadership, the UCCI Board of Governors is committed to working towards a strategic alignment of UCCI programmes, course and services which will position them to successfully participate in and contribute to the Cayman Islands economy.
- The Chairman has established a number of board sub-committees charged with the responsibility of assessing and making recommendations that will lead to the re-engineering of the UCCI to ensure that it is positioned to meet its newly identified strategic objectives:
 - Adhere to high standards of governance and management.
 - Deliver internationally recognised educational programmes.
 - Deliver programmes that meet the social /economic needs of the country and its workforce, and engage the private sector.
 - Make education accessible through enhanced use of technology, facilities, scheduling and special needs accommodation.
 - Ensure the financial stability and long term viability of the UCCI.

Key Issues and Risks

- Financial Performance: Revenue flows are inadequate to meet the costs of delivery. Cabinet purchases (Government subsidies) represent the primary revenue stream.
- Financing: Insufficient funds exist for capital projects including improvements to the campus.
- Operational: UCCI does not have an accreditation or institutional tie in. As such it faces challenges in respect of recognition, be that employers not valuing or accepting the degrees and/or other universities not giving credit for studies at UCCI.
- Strategic: Certain non-cost effective and by association low participation courses are being examined and there is a plan for some to be discontinued.
- Marketing: There is a concern surrounding the marketing direction, effectiveness and efficiency, which could be improved.

Key financials (KY\$)

Y/E 30 June (KY\$'000)	FY13A	FY12A
Revenue	6,678	7,391
Operating Expenses	(6,924)	(6,946)
Net Deficit (Loss)	(246)	445
Depreciation and Interest	454	452
EBITDA	208	897
Cabinet Purchases/Funding	3,906	4,231
Net Deficit (Loss) without Cabinet Purchases (Government Support)	(4,152)	(3,786)
Debt	(2,499)	(2,522)

Financial Comments

- UCCI made a loss of \$246,000 in FY13, having made a profit of \$445,000 in FY12. This loss was a result of reduced revenue from Cabinet.
- The Cabinet purchase in FY13 amounted to \$3.9 million down from \$4.2 million in FY12. UCCI is heavily reliant on this Government support.
- The Cabinet purchase of \$3.9 million represents 58% of UCCI's revenue. Without the Cabinet purchase, the shortfall would have been \$4.2 million in FY13.
- CIG has recently granted UCCI, at their request, the conversion of their Vested and EEC loans from debt to equity, by CIG now taking on this responsibility. This will have the positive effect of:
 - Eliminating future interest expense.
 - Elimination of long term debt of the UCCI.

15. UCCI: Option Evaluation

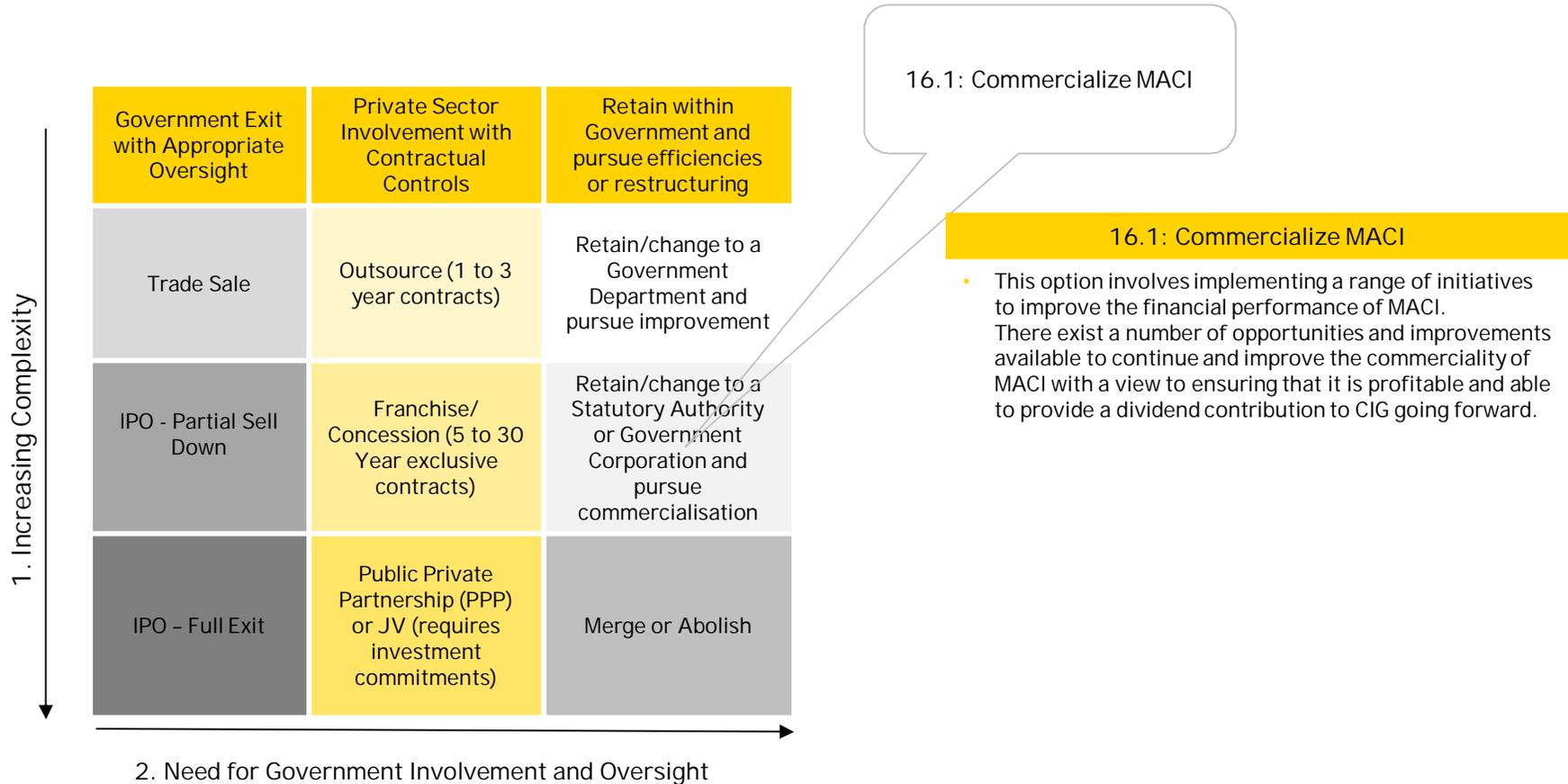
The table below evaluates the two potential options against the Government’s criteria – we recommend that only performance improvement is pursued in the short term, with the option to sell reconsidered in 2 to 3 years

Criteria	15.1: Increase private sector involvement and improve financial performance		15.2: Sell UCCI	
	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)
Alignment to Government’s Role	<ul style="list-style-type: none"> This option retains UCCI in Government ownership and contributes to creating educational services that contribute to the Cayman Islands economy. 	4	<ul style="list-style-type: none"> Government is often seen as needing to provide a university option on the Cayman Islands – exiting the provision of higher education completely may not be well received by the community. 	3
Financial	<ul style="list-style-type: none"> Potential to improve financial performance and reduce Government subsidy. This option avoids a costly accreditation process. 	4	<ul style="list-style-type: none"> There is likely to be little financial gain by selling UCCI due to low EBITDA and reliance on Govt subsidies. Potential to reduce the need for Government support/subsidy. 	3
Ease of Implementation	<ul style="list-style-type: none"> Minimal implementation issues or difficulties – requires a robust project plan. 	4	<ul style="list-style-type: none"> A trade sale would involve significant effort. 	2
Local Economy /Sensitivity	<ul style="list-style-type: none"> This option may result in increased cost reflective prices. 	3	<ul style="list-style-type: none"> Stakeholders are likely to be supportive of a sale of UCCI to an overseas educational institution. 	4
Customer Service	<ul style="list-style-type: none"> There is likely to be a material improvement in customer service due to accreditation. 	5	<ul style="list-style-type: none"> There could be an improvement in service to students with international capability. 	4
Workforce Impact and Capability	<ul style="list-style-type: none"> Minimal impact. Potential for redundancies if unprofitable courses dropped and/or expansion if new operator is able to grow student numbers. 	5	<ul style="list-style-type: none"> Would impact on all 87 staff members, meaning a transition to the private sector. 	2
Legislative and Regulatory	<ul style="list-style-type: none"> No changes required. 	5	<ul style="list-style-type: none"> There may be a need for legislative to regulate the sold institution. 	3
Market	<ul style="list-style-type: none"> The private sector market would need to be tested to understand the level of interest in partnering with UCCI. 	4	<ul style="list-style-type: none"> There is a market for private sector university on the island already, and However there is likely to be minimal interest due to current financial performance and small size. 	5

Recommendation
 We recommend that Ministry of Education pursue 15.1, and reviews the option for a sale of UCCI in 2 to 3 years following the successful implementation of performance and financial improvements.

16. MACI: Option Overview

The following option has been analysed relating to MACI



16. Maritime Authority of the Cayman Islands

Fact Sheet for the Maritime Authority of the Cayman Islands ('MACI')

Overview

- MACI's vision is; 'To be the leading maritime administration in the provision of exceptional service to the global shipping community'.
- MACI will facilitate the development of the Cayman Islands as an international maritime centre and help foster a dynamic environment that supports its clients' efforts to maximise their growth opportunities and returns, whilst promoting compliance with international standards, regional agreements and domestic legislation in the areas of maritime safety and security, pollution prevention, and social responsibility.
- MACI's path to growth is based on the two parallel and simultaneous strategies of subtle partnership and alliance building strategy twinned with market-driven expansion in established and new markets.
- The services provided by MACI are provided to the following Customers both locally and internationally:
 - Vessel Owners/Operators and their Representatives
 - Vessel Builders
 - Yacht Designers and related Consultants
 - Seafarers on Cayman flagged Vessels.
 - Cayman Islands Government
- The Maritime Authority of the Cayman Islands is able to offer its services to its Customers from thirteen locations, the head office in George Town, the European Regional Office - United Kingdom, representative in Greece, United States of America, France, Japan, Singapore, Netherlands, Australia, Brazil, Philippines, Hong Kong and the Cayman Islands Government Office in the United Kingdom.

People and Governance

- MACI is a wholly owned Statutory Authority which came into effect on 1 July 2005. The Authority serves as a Regulatory Body and as such does not have a list of "core services" per se.
- MACI oversees the Maritime Authority Law, Merchant Shipping Law, Marine Pollution Law and Subordinate Regulation.
- MACI Board of Directors, which is subject to the Maritime Authority Law (2008 Revision) are responsible for the governance and performance of MACI and the general conduct of its affairs and business, having regard to the Public Management and Finance Law (2005 Revision).
- Total employee numbers are 50 (31 in Georgetown and 19 in the UK). Both locations are under lease arrangements.
- There are 26 contractors or representatives.
- There are 4 main departments:
 - Registration
 - Global Safety and Compliance, including yacht construction advisory and crew compliance advisory
 - Maritime Policy, Quality and Casualty Investigation
 - MACI Consulting
 - Finance and Global Operations
 - CEO, HR, IT and Business Development sections.

Key financials (KY\$'000)

Y/E 30 June (KY\$'000) Stat Accounts	FY13A	FY14B
Revenue from Government	394	309
Revenue from Others	8,466	8,692
Total Revenues	8,860	9,001
Operating Expenses	9,237	9,138
<i>Surplus/Deficit</i>	<i>(377)</i>	<i>(139)</i>
Depreciation Charge	160	155
Interest	0	0
<i>EBITDA</i>	<i>(217)</i>	<i>16</i>

Source: FY13 Stat Accounts and FY14 Budget

Financial Comments

- MACI recorded a loss of \$377,00 for the year ended 30 June 2013. The FY14 budget anticipates MACI posting reduced losses of \$139,000 albeit the EBITDA will be positive at \$16,000.
- MACI has recorded relatively modest losses in every year since 2008. These losses have been funded by CIG's original equity contribution. MACI has in this period not sought any further equity injections from CIG and does not have any loan or borrowing facilities.
- Revenue from Government fell significantly in FY13. In FY12 it amounted to \$1.1 million and in FY13 only \$394,000.
- MACI's balance sheet is relatively strong and cash reserves of circa \$1 million exist

15. Maritime Authority of the Cayman Islands

Fact Sheet for the MACI continued

Functions

MACI is a service-driven organisation primarily built around 2 basic activity groupings being registration/regulation services and consulting/advisory services. Activities include;

- The CISR's vessel and mortgage registration, advisory, and marine survey and audit services.
- The overall responsibility for implementing Cayman's maritime safety and security, marine pollution prevention and social responsibility obligations under international Conventions and Codes, and under Cayman legislation for Cayman-flagged vessels.
- The Cayman Islands Government (CIG) delegated responsibility for the implementation of Cayman's obligations under the Caribbean Memorandum of Understanding on Port State Control (CMOU PSC) for foreign-flagged vessels entering Cayman ports.
- The CIG delegated responsibility for marine Casualty Investigation activities in relation to Cayman-flagged vessels.
- The CIG delegated responsibility for national maritime policy formulation, the provision of advice on maritime-related matters, and the development of Cayman's maritime-related legislation.
- The CIG delegated responsibility to represent Cayman at international forums and to protect its maritime interests.
- The CIG delegated responsibility to help facilitate the development of the Cayman Islands as an international maritime centre.

Key Issues and Risks

- **Competition:** Staying competitive and viable in globally competitive market and becoming a source of revenue for the CIG.
- **Growth:** Growing the flag at a sustainable rate in line with the Vision and Mission.
- **IT:** Need to invest in IT eg. Information system, web based crew applications.
- **Plethora of Laws:** MACI oversees 3 local laws, each with multiple regulations, as well as being subject to maritime laws of the UK. It is currently undertaking a complete revision of all maritime legislation aimed at updating and simplifying both the legislation itself and the administrative burden involved in giving effect to the frequent amendments to the International Instruments extended to the Cayman Islands.
- **Non-commercial activities:** MACI does the following non-revenue generating activities on behalf of Government:
 - Port State Control
 - Casualty Investigations
 - Formulation of National Maritime Policy
 - Protect Cayman's maritime interests
 - Help facilitate the development of the Cayman Islands as an international maritime center

Y/E 30 June (KY\$'000) Stat Accounts	FY13A	FY12A
Revenue from Government	394	1,094
Revenue from Others	8,466	7,890
Total Revenues	8,860	8,983
Operating Expenses	9,237	9,141
Surplus/Deficit	(377)	(156)
Depreciation Charge	160	140
Interest	0	0
EBITDA	(217)	(16)

Source: FY13 Stat Accounts and FY14 Budget

Financial Comments

- Revenue from Government fell significantly in FY13, by 64%. In FY12 it amounted to \$1.1 million and in FY13 only \$394,000.
- Despite this significant loss in revenue of \$700,000 MACI were able to generate increases in other revenue to mitigate this loss. As such the bottom line impact was only an additional loss of \$221,000 from FY12 to FY13.
- As highlighted in the figure on the previous slide the budgeted FY14 Revenue from Government remains at the reduced level, however, losses are expected to be lower at \$139,000.
- As indicated, MACI provides a number of unfunded services to Government.

16.1. Maritime Authority of the Cayman Islands

Options Analysis: commercialize

Initiative Overview

- MACI is as a commercial entity built around two activity groupings; 1) registration and regulation; and, 2) consulting and advisory services, however, it continues to report moderate annual losses. Whilst these reported annual losses have been financed using equity they are not sustainable and result in MACI being the focus of CIG and public attention.
- It is noted that the revenue contribution from CIG for the services it requires from MACI was significantly reduced in FY13, whilst the service provision was maintained. The onward impact on profitability was effectively mitigated and managed demonstrating a commercial focus and adaptability.
- There exist a number of opportunities available to improve the commerciality of MACI with a view to ensuring that it is profitable and able to provide a dividend contribution to CIG going forward including:
 - Alignment of interests, accountability and incentives of CIG and MACI to ensure a commercial focus.
 - Revision of existing fees.
 - Establishment of a Cruise ship registry.
 - Domestic commercial craft registration and inspection.
 - Ability to issue Radio Licences.

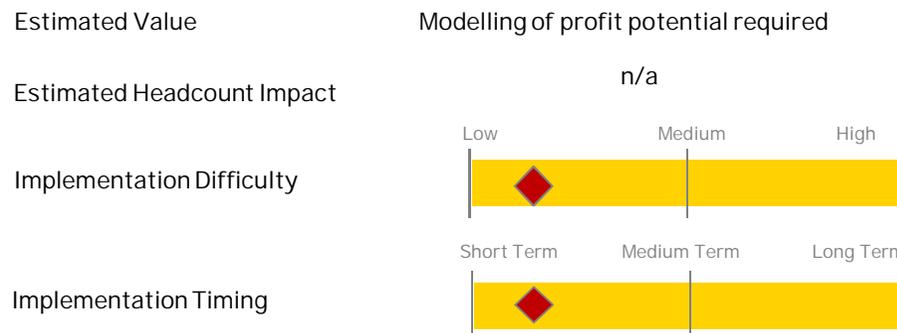
Risks to Implementation

- Minimal risks exist to CIG. It may be necessary to assist the board of MACI with discussions in and around alignment of interest and ensuring the management of MACI is correctly incentivised and accountable for delivery of service and performance.
- MACI is not far from being a commercially focused and profitable entity. It has adapted well to the reduced revenue from Government and is able to identify opportunities and put into place strategies to capture and grow revenue.
- In light of the above the next phase in the businesses development is strong governance and leadership with strong commercial and profit driven focus to ensure profitability going forward.

Benefits to Government

- The alignment of interests, accountability and incentives between CIG and MACI with a view to ensuring a commercial focus leading to profitability has an obvious benefit to CIG.
- Whilst MACI has posted losses in the period 2008 to date it hasn't sought any additional financing or equity from CIG in the period. Through the development of existing and additional commercial activities MACI should be able to generate profit and make dividend contributions back to CIG.
- The establishment of a Cruise ship registry will continue to improve the Cayman Islands status as a shipping flag state leader. This remains the only vessel type that Cayman is currently unable to flag and a demand is present for this lucrative business. Existing skills and resource exist within MACI to provide this service.
- Domestic commercial craft registration and inspection represents an area that can generate additional revenue and could also provide health and safety benefits. Currently domestic commercial vessels are not required to participate in any inspection or quality standards – an issue that represents a risk to health and safety and the tourism industry.
- MACI have identified the customer desire for a one stop shop in terms of vessel related registry and would be prepared to absorb this service to improve the customer experience.

Initiative Profile



16. Maritime Authority of the Cayman Islands

Evaluation: commercialize

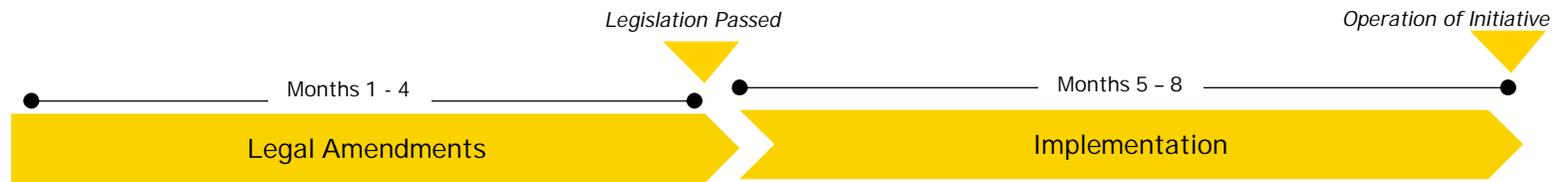
Criteria	16.1: Commercialize	
	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> MACI facilitates the development of the Cayman Islands as an international maritime centre and promoting compliance with international standards, regional agreements and domestic legislation. MACI effectively and efficiently performs this function for CIG at a low cost. 	5
Financial	<ul style="list-style-type: none"> Potential exists for MACI to generate profits and make positive contributions via dividends to CIG. 	5
Ease of Implementation	<ul style="list-style-type: none"> The commercialisation via improved governance and alignment of performance goals and incentives can be relatively easily achieved and steps/actions are already in place achieve this. 	4
Local Economy /Sensitivity	<ul style="list-style-type: none"> None identified. Domestic commercial vehicle owners may be resistant to registration fees but means exist of shifting the cost of the registration and inspection to other parties such as cruise ship passengers/operators. 	5
Customer Service	<ul style="list-style-type: none"> No negative impact, potential improvements with regard to cruise ship registry and the positive health and safety benefits to the domestic commercial vessel registry. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> None – potential for MACI to absorb Radio License capability. 	5
Legislative and Regulatory	<ul style="list-style-type: none"> Some legislation change will be required to enable the Cruise ship registry and some may be necessary with regard to the domestic commercial vessel registry and inspection. 	3

Recommendation:

We recommend that the opportunities available to continue and improve the commerciality of MACI with a view to ensuring that it is profitable are pursued with immediate effect.

16. Maritime Authority of the Cayman Islands

Implementation plan: commercialize



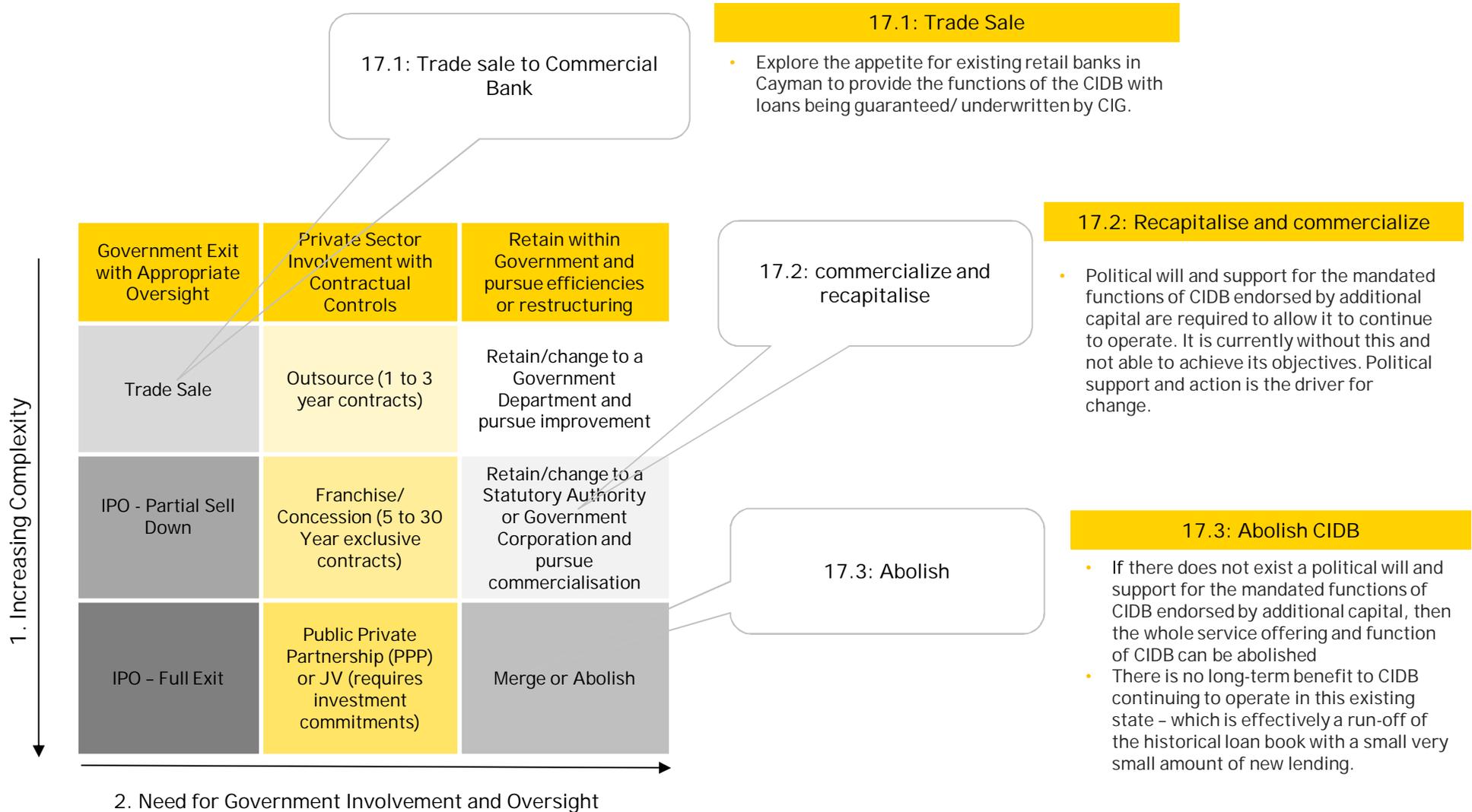
- Alignment of interests and commercial focus
- Cruise Ship Registry
- Domestic Commercial Vessel Registry & Inspection
- Ability to Issue Radio Licenses

- Commence the legal process necessary to ensure that the legislation is amended to allow MACI to expand and develop into this market.
- Conduct consultation and review and development of legal and regulatory requirements in this area.
- Draft and agree legislation to create legal framework for domestic commercial registry and inspection.
- Consultation on funding of registry and inspection - be that direct to the commercial vessel operators or a cruise ship levy or other.
- Make the necessary minimal legal amendments to allow MACI to issue radio licenses.

- Develop a robust framework to ensure the commercial focus of MACI management and alignment of goals and incentives to achieve profitability.
- Develop and implement policies and targets that ensure the accountability of staff.
- Establishment of registry.
- Training of staff to monitor and inspect vessels.
- Establishment registry.
- Training of staff to monitor and inspect vessels.
- Transfer of Staff.

17. Cayman Islands Development Bank

The following options have been analysed for the CIDB:



17. Cayman Islands Development Bank

Fact Sheet for the Cayman Islands Development Bank ('CIDB')

Overview

- The Cayman Island Development Bank (CIDB) is a statutory authority founded in March 2002 by CIG as an independent financial institution.
- The CIDB was established pursuant to the Cayman Islands Development Bank Law (2004 Revision).
- The CIDB primary function is to facilitate and provide financing for the expansion and strengthening of the economic and social development of the Cayman Islands through lending.

Functions

- CIDB is mandated to support entrepreneurship, economic and social development through the provision of loans, equity financing and forms of assistance for tertiary education, first home buyers and the development of small business.
- As a result of CIDB's limited capital it only currently provides new loans in relation to tertiary education and has done so since FY11. No new business or homeowner loans have taken place in this period. As such the CIDB is not able to fulfil all of its mandated support functions.
- CIDB's functions extends to all three islands namely; Grand Cayman, Cayman Brac and Little Cayman.
- CIDB's customer base/target are those unable to obtain credit elsewhere – higher risk borrowers. Commercial banks in Cayman, like elsewhere in the western world, are very credit risk adverse. On this basis it is unlikely that an existing commercial bank would be interested in providing loans to these customers (without the support of Government or other guarantees). Once customers of CIDB gain 'creditworthiness' they move to commercial banks as rates are lower. As a result CIDB find it difficult to retain 'good' customers.
- CIDB provides a 'social welfare' function, they can assist Government with certain initiatives – initiatives that commercial banks would never get through their various committees; credit, risk etc. In the event of an emergency such as a hurricane then the CIDB could be used as a vehicle to direct funds to assist the needy post event.

People and Governance

- CIDB's board has been without a chairman since May 2013 and as such hasn't functioned since that date.
- The CIDB is regulated by the Cayman Islands Monetary Authority in accordance with the Cayman Islands Development Bank Law (2004 Revision).

Key Issues and Risks

- Maturing debt: Five separate bullet bonds totalling KY\$34.7 million will mature and become payable in the next 2 years. Three of these totalling KY\$30.5 million will mature in FY15, with the balance due in early 2016. The CIDB will use funds on hand to satisfy approximately KY\$5 million due on 30 June 2015, however, it is expected that the remaining \$30 million will be refinanced.
- Limited lending: CIDB has restricted its lending to low value tertiary loans in the face of a lack of capital funds. It currently has no capital to lend.
- Political will: In order for CIDB to fulfil its mandated functions it requires capital. If the Government of the day wish to pursue and encourage initiatives to develop and grow entrepreneurship and small businesses and start ups via a development bank the political support through capital injection will be required in the short to medium term to increase the capitalisation. CIDB is able to obtain third party capital funding but requires Government support to meet interest payments on new capital.
- Doubtful loan book: CIDB recently admitted that between 60% and 70% of business loans are delinquent, while 30% to 32% of tertiary and home loans are delinquent. Further, legal activity has hit a record high with 100 accounts subject to litigation by CIDB.

17. Cayman Islands Development Bank

Fact Sheet for the CIDB continued

Key financials (KYD\$)

Y/E 30 Jun (KY\$'000)	FY13A	FY12A
Third Party Revenue	2,423	2,490
Government Revenue	567	578
Total Revenue	2,990	3,068
Operating Expenses	(3,447)	(3,835)
Net Surplus / (Deficit)	(487)	(767)
Depreciation Charge	(55)	(95)

Source: FY13 Statutory Accounts

Financial Comments

- Total revenue fell marginally from \$3.1 million in FY12 to \$3 million in FY13.
- The trading performance in the period, however, improved by \$280,000 with the annual loss reducing from \$767,000 to \$487,000. This was driven primarily by a reduction in the bad debt provision and operational efficiency improvements.
- The financial performance for the year ended June FY14 is forecast to be significantly better, with the potential for a net surplus. This is largely driven by a reduction in the bad debt provision.
- Whilst CIDB has reported annual losses it has not sought any additional funding from the CIG to cover these losses. Losses have been financed through rolling up debt. This is not sustainable long term.
- Annual losses are driven primarily by delinquent and non performing loans. Historically CIDB did not have as robust a set of policies and procedures when agreeing loans as it does now. In FY12 the CIDB developed and implemented a much more professional, commercial and strict set of polies which should ensure that incidents of delinquency are significantly reduced and are within acceptable levels going forward. CIDB are, however, left with the legacy loans within their portfolio that negatively impact their results and performance.
- Revenue growth opportunities are limited due to capital constraints. CIDB has very finite capital that only allows them to make tertiary loans. Revenue growth is not possible without further additional capital.

17.1. Cayman Islands Development Bank Overview

Options Analysis: Trade Sale of CIDB

Initiative Overview

- This option would see the movement of the CIDB operations into the private sector through the sale of the loan book and transfer of operational pursuits to an existing commercial bank with a footprint in Cayman. CIDB would then effectively become a unit within a commercial bank.
- CIDB currently sources the majority of its capital loans from commercial banks in Cayman. These loans are guaranteed/underwritten by CIG. There exists scope to absorb the operations, mandate and functions of CIDB into a commercial bank to benefit from the increased access to capital and efficiencies of process.
- The structure of any deal would need to ensure that development bank initiatives are maintained.

Risks to Implementation

- The goals and objectives of a development bank may not be aligned with that of a commercial operator. A development bank is likely to support more speculative and higher risk pursuits than that of a commercial bank. A key is to structure mutually agreeable contractual arrangements which would probably still require Government support via guarantees if the social support nature of the banks original mandate are to be continued.
- Identifying a suitable and willing operator may be difficult. The operations in their existing form are loss making. Any third party would be motivated by profit and CIDB appears some way from achieving this in the short term and it is not traditionally a role of a development bank to generate significant profit. Development banks are created to try and cover costs and keep rates to customers as low as possible to stimulate economic growth. CIDB management do not think that any commercial bank is likely to be willing or able to enter into the a development bank space or model, particularly as there is no obvious benefit to them to do so.
- CIDB currently has a high delinquency rate, as such a commercial bank is likely to seek a significant discount when purchasing the loan book. This will lead to a large write off.
- Commercial banks may not be able to fulfil the higher risk functionality and flexibility of a development bank within their credit and risk panels and frameworks. Without new capital this initiative would not be successful. The introduction of a third party operator with a profit motive may lead to reduced accessibility to programs undermining the benefit of the bank, with an economic development focus.

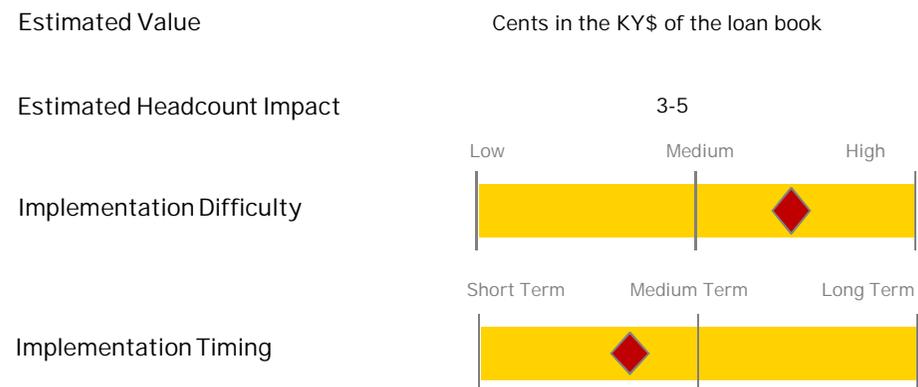
Risks to Implementation cont

- For a deal to be structured it is likely that the CIG will need to continue to guarantee loans. It will be necessary for CIG and/or CIDB to put into place capabilities to monitor and ensure repayments against guarantees are accurate and in line with agreements.

Benefits to Government

- A commercial bank will have greater access to capital. CIDB requires capital in order to for it to re-establish its lending facilities over and above the minimal tertiary education loans.
- A commercial bank through experience, commercial awareness, economies of scale and improved business focus will be able to improve the financial performance.
- Greater infrastructure in terms of marketing should enable a greater reach and targeting that can lead to increases in customers.

Initiative Profile



17.2. Cayman Islands Development Bank Overview

Options Analysis: Recapitalise and commercialize CIDB

Initiative Overview

- A National development bank is a finance institution, created by a country's Government, that provides financing for the purposes of economic development of the country.
- Economic development is the sustained, concerted actions of policy makers and communities that promote the standard of living and economic health of a specific area.
- Political willingness and financial support in terms of capital is required to reinvigorate the CIDB. CIDB is effectively in run off, it is only making small minimal tertiary education loans. It is only fulfilling a small element of its mandate.
- The Government of the day will need to determine its policy with regard to economic development and whether CIDB provides the mechanism for achieving this. This determination is the driver for change within the business. If this is the direction then CIDB's board will need to be reestablished.
- Management have indicated that an additional capital contribution from the CIG of approximately KY\$2 million per annum (for a period of 5 year to enable the bank to correctly capitalize) would enable them to source additional bonds and re-commence lending activities to fulfil its mandate to assist the economic development of the Cayman Islands.
- If there is a political willingness to support the CIDB then additional commercial initiatives can also be developed, these include taking deposits and the potential absorption of the National Housing Association amongst other things.

Risks to Implementation

- It will be necessary for CIG to invest capital funds of approximately KY\$2 million per year for 5 year to correct the capitalisation of the bank and to enable CIDB to obtain further significant third party funds. This will also increase the Governments exposure to contingent liabilities in that they underwrite/guarantee the loans.

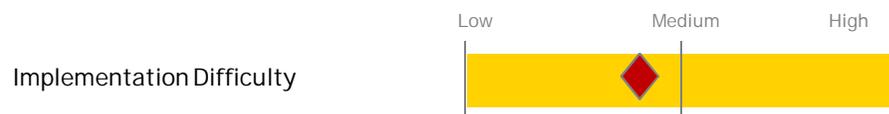
Benefits to Government

- The CIG has mandated CIDB to perform and fulfil development banking activities to aid and assist the economic growth of the Cayman Islands.
- If the Government of the day wish to pursue and make a political policy decision to support economic growth and stimulus via the CIDB then funding is required.
- This financed support to such businesses comes with a risk but the over arching objective and goal is to boost the economy of the Cayman Island, maintaining and increasing employment.
- CIDB also provides CIG with the flexibility and experience to allow it to provide funds to Government backed initiatives that commercial banks would not support, such as post event support in the event of a hurricane for example.

Initiative Profile

Estimated Value Short/Mid term cost to CIG and ongoing risk but potential economic benefits to the community

Estimated Headcount Impact n/a



17. Cayman Islands Development Bank Overview

Evaluation: Trade Sale vs Recapitalise and commercialize

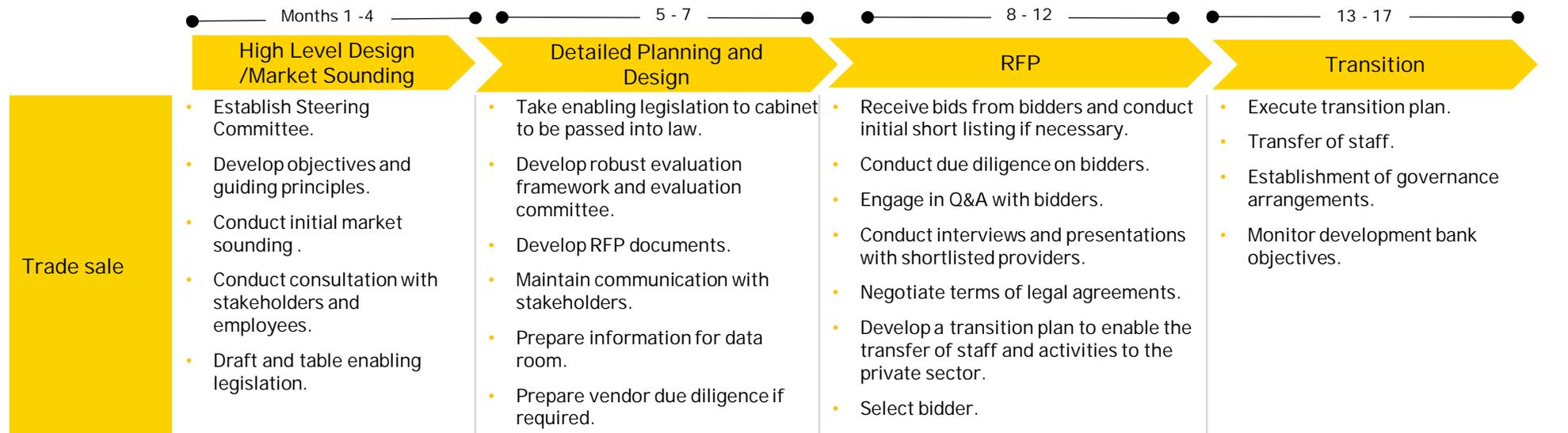
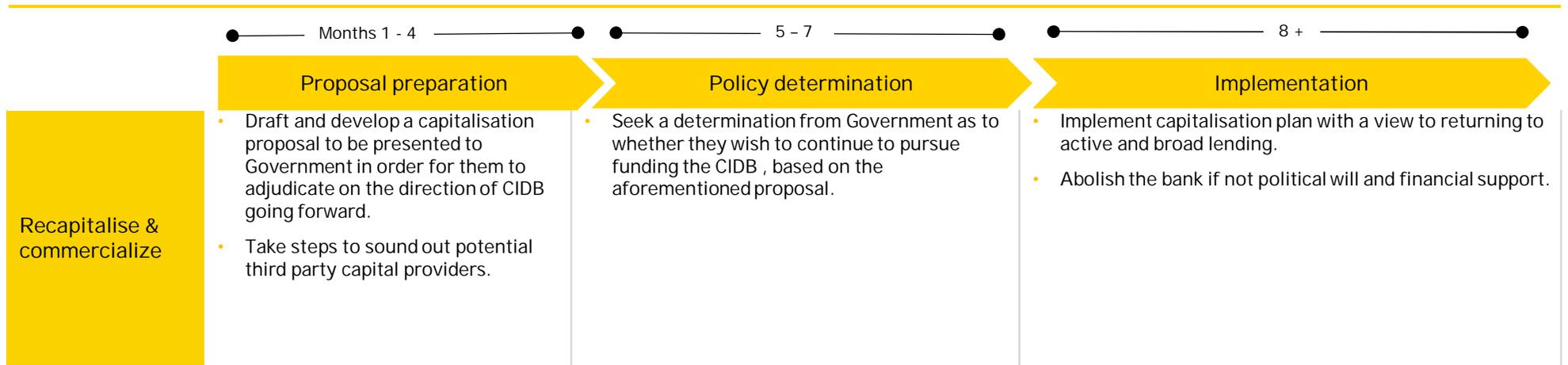
Criteria	17.1 Trade Sale		17.2 Recapitalise & Commercialise/Abolish	
	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Significant potential for the socio-cultural benefit of CIDB to be lost if a commercial banks takes on the function. A development bank is typically a Government function as it is designed to support economic growth. 	2	<ul style="list-style-type: none"> A development bank is typically a Government function as it is designed to support economic growth – retention and re-capitalisation allows this. 	5
Financial	<ul style="list-style-type: none"> Access to capital by commercial bank that CIG doesn't have. 	5	<ul style="list-style-type: none"> CIG will need to provide capital and guarantee additional third party debt. 	2
Ease of Implementation	<ul style="list-style-type: none"> Difficulty attracting a commercial bank to fulfil this role. Minimal examples of success elsewhere. 	1	<ul style="list-style-type: none"> It will require political and policy support as well as funding. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> Potential access to new capital to aid and support small businesses and start ups – subject to risk profile agreeable to commercial bank. 	3	<ul style="list-style-type: none"> Access to capital funding through CIDB will be a boost to the local economy, encourage business start up and entrepreneurs and support small businesses. 	5
Customer Service	<ul style="list-style-type: none"> Commercial banks are unlikely to have the same flexibility and risk tolerances as a traditional development bank. 	1	<ul style="list-style-type: none"> Recapitalisation will enable the bank to offer the full suit of loans and fulfil its mandate. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> Potential for redundancies . 	2	<ul style="list-style-type: none"> Sufficient capability exists and the business is run effectively and efficiently, it just lacks capital to fulfil its role. A functioning board will need to be established. 	5
Legislative and Regulatory	<ul style="list-style-type: none"> Some regulatory change required to allow a commercial bank to operate this function. 	3	<ul style="list-style-type: none"> n/a 	

Recommendation

We recommend that the direction and future of CIDB requires the establishment of a political position in this regard. We do not view a trade sale as a viable option for a range of reasons, particularly that commercial banks will not have an appetite or ability to absorb the functions. This leaves recapitalisation and commercialisation or abolishment as the alternatives. If there is no political imperative to support the functions of the CIDB then it should be abolished and its current loan book sold or run off.

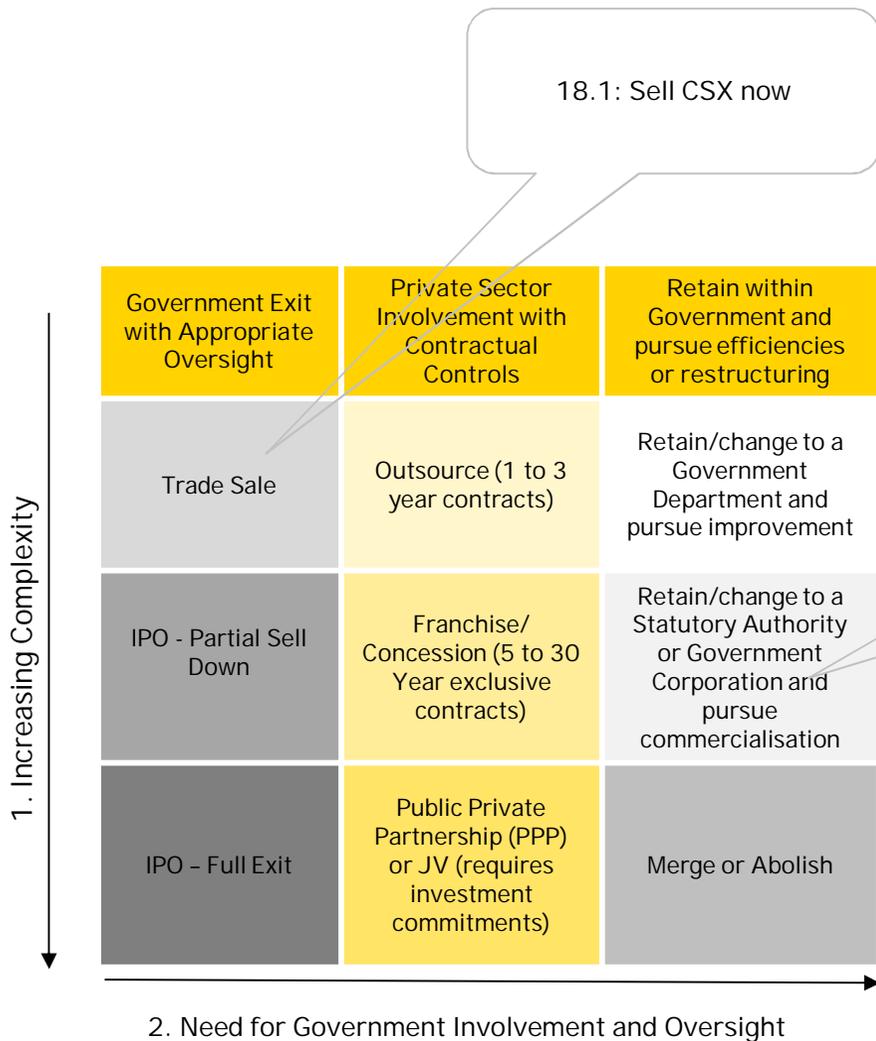
17. Cayman Islands Development Bank Overview

An implementation plan is outlined below for both options



18. Option Overview – Stock Exchange

The Stock Exchange is not a core Government function, and a sale option should be investigated, either in the short or longer term



18.1: Sell CSX now

- This option involves the immediate pursuit of a sale of CSX, either through trade sale or IPO. This would require CIMA to begin actively regulating the Stock Exchange.
- Based on current EBITDA figures and an estimated transaction multiple of 15x based on precedents, a sale at this time may only yield positive financial proceeds of circa. \$2 million.
- Due to the low value estimated to be achieved from a sale of CSX now, Option 17.2 has been analysed in detail on the following page.

18.2: Improve commercial viability then sell in 3 to 5 years

18.2: Improve commercial viability then sell in 3 to 5 years

- This options involves improving the financial and commercial viability of the Stock Exchange and then selling the business once value can be maximised.
- This option requires the CSX to focus on preparing for sale and maximising EBITDA.
- This option includes beginning to sound out potential future purchasers that could also provide a depository system, best practice access and additional reputational benefits.

18. Cayman Islands Stock Exchange Overview

The Cayman Islands Stock Exchange was established in 1997, and now has over 3500 securities listed. It is gradually building a portfolio of listed trading companies and has not relied on Government funding since 2008

Overview	Background context	Key Financials (CI\$)																														
<ul style="list-style-type: none"> The Cayman Islands Stock Exchange (CSX) began operations in July 1997 and is fully owned by the Cayman Islands Government and was recognized by the London Stock Exchange as an approved organization in July 1999. The CSX broke even in 2005. The Cayman Islands Stock Exchange has a market capitalisation of ~USD\$165 Billion (as at FY13). Over 3500 securities are currently listed and 3 to 4 trading companies. CSX was originally set up to provide a listing facility for specialist products (e.g. mutual funds and specialist debt securities). The CSX's capabilities now extend to sophisticated vehicles and structures, including the listing of derivative warrants, depositary receipts, Eurobonds, preferred shares and international equity. 	<ul style="list-style-type: none"> The CSX was established under The Cayman Islands Stock Exchange Company Law, 1996 (the "Law") as a private limited company. Under the Law, the CSX has the sole and exclusive right to operate one or more securities markets in the Cayman Islands. The purposes of the CSX, as defined in the Law, "...are to engage in and carry on the business of establishing and operating one or more securities markets for the listing and trading of securities". CSX is self-regulated, and not recognised by the UK Government. 	<table border="1"> <thead> <tr> <th>Y/E 30 June (\$'000)</th> <th>FY13A</th> <th>FY14B</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>1,446</td> <td>1,438</td> </tr> <tr> <td>Operating Expenses</td> <td>1,341</td> <td>1,407</td> </tr> <tr> <td>Net Surplus/Deficit/EBITDA</td> <td>105</td> <td>30</td> </tr> <tr> <td>Depreciation Charge</td> <td>9</td> <td>-</td> </tr> <tr> <td>Other non-cash items</td> <td>-</td> <td>-</td> </tr> <tr> <td>Net Worth</td> <td>1,851</td> <td>1,770</td> </tr> <tr> <td>Net cash flows from operating activities</td> <td>155</td> <td>227</td> </tr> <tr> <td>Net cash flows from investing activities</td> <td>(371)</td> <td>(5)</td> </tr> <tr> <td>Net cash flows from financing activities</td> <td>-</td> <td>-</td> </tr> </tbody> </table> <p>Source: CSX Annual Report FY12-13 & CSX Ownership Agreement Revised 0220FY14</p>	Y/E 30 June (\$'000)	FY13A	FY14B	Revenue	1,446	1,438	Operating Expenses	1,341	1,407	Net Surplus/Deficit/EBITDA	105	30	Depreciation Charge	9	-	Other non-cash items	-	-	Net Worth	1,851	1,770	Net cash flows from operating activities	155	227	Net cash flows from investing activities	(371)	(5)	Net cash flows from financing activities	-	-
Y/E 30 June (\$'000)	FY13A	FY14B																														
Revenue	1,446	1,438																														
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Net cash flows from investing activities	(371)	(5)																														
Net cash flows from financing activities	-	-																														
Functions	Key Issues and Risks	Financial Comments																														
<ul style="list-style-type: none"> Operate the Exchange for the trading of securities, including the operation of an electronic trading platform and related trading and clearance tracking processes and the operation of a crossing market. To admit persons (brokers) as Exchange members. To list securities on the Exchange and to appoint Listing Agents. To regulate listed issuers and broker members through the establishment and monitoring of Listing Rules and Membership Rules. To promote listing, membership and use of the Exchange. 	<ul style="list-style-type: none"> Low earnings and trading volumes: The business currently has relatively low trading volumes and earnings. Only four listed trading companies and growth of 2 to 3 a year expected. Value : Valuation of the CSX based on EBITDA multiple is fairly low unless a buyer can be found that will pay a premium. However, it has value to the Cayman Islands by providing a reputable trading entity and is more than other Caribbean states can offer financial markets. Board member time: The cost of Board members is not included in financials as Board members are volunteers. Central depository system: needed in a fully functioning stock exchange. Lack of interest by Broker Members: in other jurisdictions, broker members contribute funding. Government ownership: Government ownership does have some drawbacks for CSX, including tendering processes and FOI requirements which privatised stock exchanges do not have. 	<ul style="list-style-type: none"> EBITDA peaked in 2008 at approx. \$600,000. The current forecast EBITDA for FY14 is approx. \$250,000. Depending on the multiple obtained for a sale agreement, the purchase price might not actually be as large as expected as the organisation only makes a small profit annually. However, this depends on the financial synergies which an acquirer expects to create through a privatization process and whether a buyer is willing to pay a premium. Due to sufficient operational revenues, no funding is required from Cabinet, ministries or any other statutory authorities to maintain operations. FY14F EBITDA is expected to be \$250k. Only 10 trades a week occur. 																														

18. CI Stock Exchange Market review

Stock exchanges are typically not Government owned, although some have started off that way. Most stock exchanges originated as “for profit” mutual organisations which are then listed or sold off

Market overview

- Stock exchanges generally have originated as mutual organisations, owned by member stock brokers. There has been a recent trend for stock exchanges to demutualise, where the members sell their shares in an initial public offering. In this way the mutual organisation becomes a corporation, with shares that are listed on a stock exchange. Examples include the Australian Securities Exchange (1998), Euronext (merged with New York Stock Exchange), NASDAQ (2002), Bursa Malaysia (2004), the New York Stock Exchange (2005) and the Sao Paulo Stock Exchange (2007).
- Globally, the value of financial assets increased from around 120% of GDP in 1980 to 355% of GDP at the peak in 2007. By 2007, financial assets had grown to 417% of GDP in advanced economies and 199% of GDP in emerging markets. Four years after the financial crisis, the value of the world's financial assets reached USD\$225 trillion (as at 2Q FY12). Global financial assets have posted a 1.9% annual growth rate since 2007, compared with annual growth of 7.9% between 1990 and 2007.

Precedent transactions

- The Indonesian Stock Exchange (IDX) was reopened in 1977, after several closures during World I & II, and was under the management of the Government's Capital Market Supervisory Agency (CMSA), which answered to the Ministry of Finance. On July 13, 1992, the exchange was privatised under the ownership of Jakarta Exchange Inc. As a result, the functions of CMSA changed to become the regulator for the newly privatised entity. IDX has over 460 listed companies with a market capitalisation of ~ USD\$430 billion.

Jurisdictional comparison

- The Bermuda Stock Exchange (BSX) was established in 1971, primarily as a domestic equities market with a mutual ownership base. However as the Island's international financial sector grew so too did the Exchange and in 1992 the company was restructured into a de-mutualised, for profit entity (www.bsx.com/Overview.asp) Today, the BSX is the world's largest offshore, fully electronic securities market offering a full range of listing and trading opportunities for international and domestic issuers of equity, debt, depository receipts, insurance securitization and derivative warrants.
- The establishment of the Trinidad & Tobago Stock Exchange under the provisions of the Securities Industry Act 1981 was a natural extension of the policy to formalise the securities market in Trinidad and Tobago. This Act was proclaimed on the 23rd October, 1981 and the Stock Exchange was formally opened on the 26th October, 1981 under the auspices of the Ministry of Finance. This was a regulator and stock exchange in one, which was split into a Securities and Exchange Commission and an Exchange in 1995. The Commission has the authority to maintain surveillance over the securities market and ensure orderly, fair and equitable dealings in securities. The Exchange regulates trading on the secondary market, as well as the activities of the Members of the Exchange, subject of course to the oversight by the Commission (<http://www.stockex.co.tt>)
- The Channel Islands Stock Exchange (CISX) was a stock exchange operating in St. Peter Port, Guernsey, which was founded in 1998 as a private company limited both by guarantee and by shares. On 20 December 2013 it was restructured to become the Channel Islands Securities Exchange Limited and is regulated by its wholly owned subsidiary the Channel Islands Securities Exchange Authority Limited (independence maintained between the two boards).
- The Jamaica Stock Exchange (JSE) was incorporated as a private limited liability company in August 1968. The JSE is regulated by the Financial Services Commission, which has a Government mandate to regulate the securities, insurance and private pension industries.
- The Bahamas International Securities Exchange (BISX) was incorporated as a private company and is owned by 45 dedicated shareholders comprised of stockbrokers, banks, investment companies, pension funds, mutual fund administrators, corporations, and individuals. The Securities Commission of the Bahamas is the key Government regulatory body for the BISX under the Securities Industry Act, 1999. As at December 31, 2013 the market was comprised of 27 primary market listings with a market capitalisation of ~USD\$3 billion.

18.2. Stock Exchange – Improve commercial viability then sell in 3 – 5 years

A sale should be pursued only once certain financial and commercial growth parameters are achieved – this could take 3 years or more, however it should be a key focus of the Stock Exchange to ready itself for sale

Overview of the Opportunity/Option

- Improving the commercial viability of the Exchange over the next 3 to 5 years in order to attract more potential acquirers and achieve a larger sale price than currently attainable.
- Potential acquirers would need to be able to provide other services to increase the reputation of the institution.

Potential Benefits

- Higher sale price of the Exchange than could currently be attained (subject to earnings improvement).
- Funds received from a sale can be used for CIG 'core' functions.
- Improved perception and reputation among the global investment community from privatising the Exchange.
- Greater access to foreign capital markets through potential foreign partnerships / joint ventures.

Risks and Issues

- Unable to find a suitable partner over the next 3 to 5 years.
- Inability to attract new trading companies.
- Lack of central depository system may impede growth.
- Unable to improve the Exchange's service offerings and reputation sufficiently.
- Maintaining appropriate levels of transparency and oversight between a private owner / operator and CIMA.

Financial Analysis and Indicative Impact

- Additional costs of \$500k per year would be incurred to enable CIMA to properly regulate the Stock Exchange. Financial and Legal Advisor costs for the sale would likely outweigh any sale proceeds at the present time.
- Minimal OPEX savings as no contributions are currently made by Cabinet to the Exchange, as it currently makes a marginal profit from its current business model.
- A sale in the future after the Exchange has improved its commercial and financial viability, would result in a higher sale price. If the Stock Exchange can increase its EBITDA from \$250k to around \$2 million, then an estimated sale price of \$30 million would likely warrant a sale process being pursued.

Implications

- Higher sale price attained by CIG selling once earnings have improved.
- CIG can increase their focus on their 'core services' post-sale.
- An eventual sale will put CIG in line with OECD countries which have privatised their Stock Exchanges with an appropriate Government agency as the regulator.
- Positive signal sent to the global financial community of having a non-Government owned Stock Exchange, improving the institution's reputation.

Implementation Considerations

- A business improvement plan should be developed and agreed with Government, outlining the activities and timing required to increase earnings to those required for a sale to proceed.

Inter-jurisdictional Comparisons and Benchmarks

- The Channel Islands Stock Exchange is approximately one third of the size of the Cayman Islands Stock Exchange (USD\$50 billion vs. USD\$165 billion), however, it has more listed securities available (4000 vs. 3000). Both countries have a similar legislative environment, except that the CISX is a privately owned company versus the CSX being owned by the Government.
- Both the Jamaican and Bahamas Securities Exchanges are privately owned companies which are regulated by their respective Government agencies. Despite them being relatively smaller in both market capitalisation and the number of securities available, they are more aligned with OECD countries with regards to their stock exchange ownership structure.

18. CI Stock Exchange - Improve commercial viability then sell

Improving the commercial viability of the Stock Exchange before selling it will allow the Government to yield a higher sale price – this will still require considerable planning and focus to achieve higher earnings

Criteria	18.1: Sell now		18.2: Improve commercial viability then sell	
	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Reduces CIG's focus on 'non-core' services. 	5	<ul style="list-style-type: none"> Reduces CIG's focus on 'non-core' services. 	5
Financial	<ul style="list-style-type: none"> Transaction costs and costs of CIMA regulating will outweigh any sale proceeds at current EBITDA levels. 	2	<ul style="list-style-type: none"> Improving financial performance will aid the Government in the short term. Higher sale price after performance improved. 	5
Ease of Implementation	<ul style="list-style-type: none"> Will be difficult to find a potential acquirer given current financial performance and limited traded businesses. 	3	<ul style="list-style-type: none"> Will require considerable efforts to improvement performance and make the asset more commercially attractive. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> Minimal impact on the local economy through a sale. 	4	<ul style="list-style-type: none"> More viable exchange should provide benefits to the Cayman financial services industry. 	4
Customer Service	<ul style="list-style-type: none"> Customer service unlikely to be impacted through a sale now. 	4	<ul style="list-style-type: none"> Customer service should be improved as the institution adds capability and increases services. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> Workforce will transition to the private sector Employee rights will need to be protected under contract. 	3	<ul style="list-style-type: none"> Impact on workforce will depend on the means applied to make the institution more commercially attractive – likely to mean growth in headcount to achieve improvements. 	5
Legislative and Regulatory	<ul style="list-style-type: none"> Legislative impacts will be focussed on defining CIMA's regulatory role. This should align with other OECD countries Legislation also required for workforce transfer. 	3	<ul style="list-style-type: none"> Legislative impacts delayed under this option. 	4
Market	<ul style="list-style-type: none"> There is an active private sector market internationally and multiple examples of privatization of stock exchanges There is unlikely to be a high level of interest from potential purchasers at current levels of financial and commercial performance. 	3	<ul style="list-style-type: none"> Significant market interest improvements as the commerciality of the institution increases, as will its reputation and the market for potential acquirers. 	4

Recommendation

We recommend pursuing an improvement program over the next 3 to 5 years with the purpose of preparing the business for sale. Once financial performance has improved, with EBITDA approximately \$2 million, look to sell the asset at a favourable multiple.

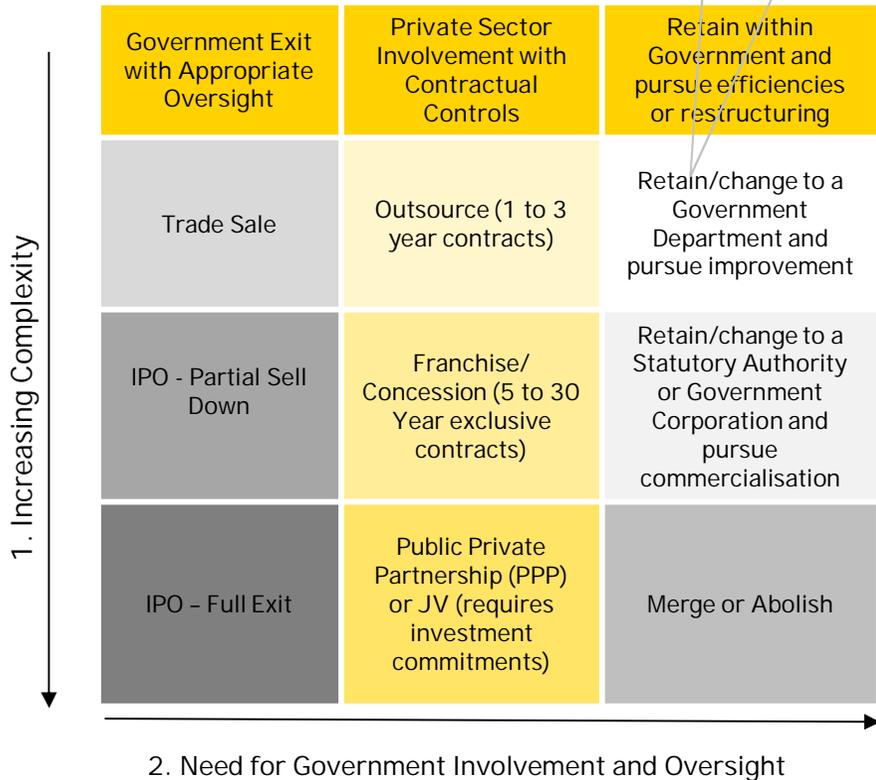
19. Developing a Long Term Strategy for the Cayman Islands

Develop 2025 Vision for Cayman Islands as a country. Allows improvements to strategic planning, budgeting, objective setting and performance appraisal of CIG employees. This section should be read in conjunction with section 20; Civil Service changes.

19.1 : Develop a long term vision for the Cayman Islands

19.1: Develop 2025 vision for Cayman

- Carry out an exercise with a view to establishing what is most important for the Cayman Islands as a whole and develop a long term vision projecting out to 2025 (or beyond) based on this.
- CIG to develop a strategic plan which aligns with this vision.
- Individual ministry's plans will have to align with this as will individual objectives which will be assessed as part of the performance appraisal process.
- As part of deriving the strategic plan to align to the overall vision, detailed descriptions of the different bodies and their responsibilities should be drawn up and communicated to the different Government bodies.
- The development of a long term strategy should give rise to the identification of various performance metrics for the various agencies and arms of Government.



19. Developing a Long Term Strategy for the Cayman Islands

Develop 2025 Vision for Cayman Islands as a country. Allows improvements to strategic planning, budgeting, objective setting and performance appraisal of CIG and employees

Strategic Overview for Cayman Islands

Current Situation

- The historic long term vision for the Cayman Islands warrants updating to provide a basis on which to set its objectives for the longer term.
- Currently the focus appears to be on the year to year financial budgetary process and the objectives of the individual ministries. Some individual departments, authorities and entities have produced longer term plans but there doesn't appear to be an agreed over-arching Government vision which all individual ministries are currently working towards.
- A 3 year interim strategic plan was adopted for the civil service in FY12 which is helpful but the strategic direction of the Government would be aided with a longer term strategic vision for the country.
- There currently appears to be some confusion in certain quarters about the individual roles and responsibilities of the different bodies such as Statutory Authorities, Departments and Entities. By coming up with a long term vision and strategic plan clarity can be provided on the different roles and objectives of these bodies and how they fit into the long term plan.

Option Overview

- A long term vision projected out to 2025 or even longer to 2030, should be developed for the Cayman Islands as a country. This will involve the Government making a decision on where it wants to be in 5/10 years. For example it may want to set standards for education achievements and the development of secondary and new industries.
- From this the Government can devise a longer term strategic plan based on the country's vision and individual ministry strategic plans should align with this. Individual ministries could then have individual goals which align with the overall strategic plan. The plan should consider the three key industries; financial services, tourism and development/construction, and ensure that alignment is made with all other areas of Government into this regard such as immigration and regulatory functions.
- Once the overall plan is agreed, consideration should be given to giving the public access to the business plans, annual performance management reports and quarterly dashboards which report on progress against the plan. Government could then be held directly accountable for its performance against these long terms strategic goals.

Market Overview and Jurisdictional Comparison

- A number of Governments, both national and state, have been attempting to improve their strategic planning and levels of accountability.
- The New York SAGE Commission highlighted the work of the Virginia and Washington state Governments as having "best practice" performance management systems.
- Virginia and Washington state have devised a long term strategic plan and have identified specific ministry goals which align with this. These are highlighted on their websites and members of the public can view these as well as regular updates on performance against these goals. The websites are listed below for reference:
 - Washington's Government Management Accountability and Performance system - (<http://www.accountability.wa.gov>)
 - Virginia Performs system - (<http://vaperforms.virginia.gov>)
- The Bermuda SAGE Commission also outlined the importance of the Bermuda Government in establishing a long term vision around which a performance management framework can be built.

¹ National Educational Data Report FY13

19.1. Developing a Long Term Strategy for the Cayman Islands

Develop 2025 Vision for Cayman Islands as a country. Allows improvements to strategic planning, budgeting, objective setting and performance appraisal of CIG and employees continued

Potential Benefits

- This would facilitate improvements to strategic planning, budgeting, objective setting and performance appraisal of Government employees.
 - Improvement in decision making and increased focus on key areas.
 - Will enable the introduction of stronger performance measures which will enable the Government to assess the progress towards the strategic plan and also allow for a greater degree of accountability. This should be achieved through the establishment of performance metric for the various agencies and arms of Government which in turn individual metrics for civil servants can be aligned to.
 - Resources allocated and procured in a more systematic fashion which should reduce costs and also the number of unnecessary purchases.
 - The people will be better informed on the performance of Government and able to hold the Government to account.
- Cultural change - this would be a significant change on the way that things are generally done so provision would have to be made for an appropriate level of training of Government staff.
 - Investment - a significant investment of time would need to be made to produce a long term vision and then to ensure that individual ministry goals align to the overall strategic vision.
 - Reporting systems - there is a risk that the CIG reporting systems may not be able to produce meaningful actual results against target. Reporting performance against plans has been a challenge for CIG in the past.
 - Achievable - if long term strategy is not achievable it will undermine the credibility of the whole exercise.
 - Changes in Government - there is a risk that if there is a change in Government then all of this will change. As it is democratic country then any vision would need some element of flexibility although at a high level most political parties want similar things. The main differences arise from how they think this should be achieved so any change in party should not change the overall vision drastically if there can be vi partisan agreement on 'big picture' community goals.

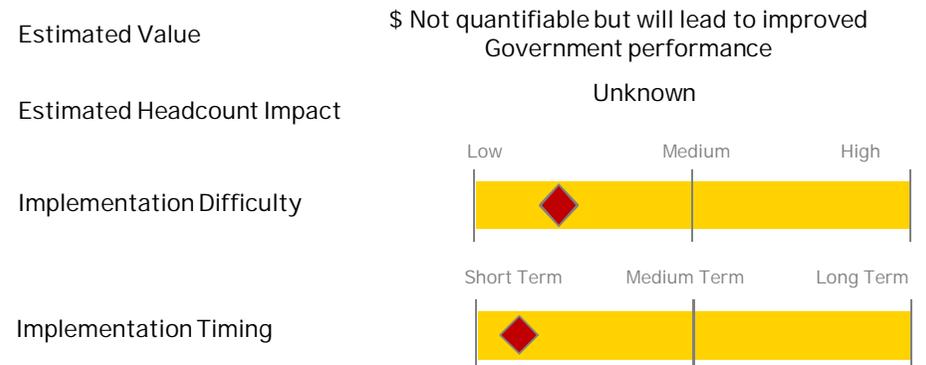
Costs

- If the Government opts to use private sector expertise in devising a long term strategy and potential reporting systems for the CIG, then there will be some costs associated with this. The precise cost of this would depend on the scope agreed.

Implications and Implementation Considerations

- The development of a long term vision and aligning the goals to this would require some investment of time upfront but there is no impediment to implementation and this is a key step to be taken to be able to make informed decisions on some of the other recommendations on this report.
- The most challenging aspect would be to the regular reporting against the plan and detailed planning would be required to work out the most efficient way for implementing this side.
- The long term strategy needs to be achievable for the Cayman Islands and this is a criteria which should be evaluated during the planning phase.

Initiative Profile



19. Developing a Long Term Strategy for the Cayman Islands: Option Evaluation

Develop 2025 Vision for Cayman Islands as a country. Allows improvements to strategic planning, budgeting, objective setting and performance appraisal of CIG and employees

Criteria	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> This would indirectly lead to an overall reduction in the size of entities within the Government and probably headcount as more informed decisions can be made on the key areas of Government. Government would be able to focus on its core functions to the benefit of the Cayman people. Citizens would benefit from increased knowledge on what the Government is trying to achieve and will be better placed to make the Government accountable for performance. 	5
Financial	<ul style="list-style-type: none"> Potential for financial savings through increased process efficiency and more focused procurement/strategic spend. There may be some implementation costs if private company expertise is used in devising the strategy and implementation of reporting around the strategy and the related objectives. 	4
Ease of Implementation	<ul style="list-style-type: none"> There are no significant impediments to implementation. Implementation will need to be well planned and managed, but it is not a difficult or complex process. There is no evidence of strong resistance from stakeholders to the concept and a number of Government employees have raised this as an important issue during our conversations. 	4
Local Economy /Sensitivity	<ul style="list-style-type: none"> There are no significant impacts on the local economy or pricing. 	5
Customer Service	<ul style="list-style-type: none"> There is the potential for this initiative to significantly improve service to the public as work will be focused on those areas which are key. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> There is no need for significant increases in Government or employee capability. A detailed vision could lead to redundancies in the future through increased efficiency in processes. 	4
Legislative and Regulatory	<ul style="list-style-type: none"> Some of the key steps identified during this process may lead to the need for legislative change. 	4
Market	<ul style="list-style-type: none"> n/a 	5

Recommendation

We recommend that this initiative is pursued as a near term opportunity to streamline Government and improve service delivery. This option must also be done in conjunction with improvements in performance management, financial budgeting and reporting.

20. Civil Service Changes

The following option has been analysed for the Civil Service. This recommendation should be read in conjunction with section 19 on a long term strategic vision.

20.1: Improve performance management of public service employees

20.1: Improve performance management of public service employees

	Government Exit with Appropriate Oversight	Private Sector Involvement with Contractual Controls	Retain within Government and pursue efficiencies or restructuring
1. Increasing Complexity	Trade Sale	Outsource (1 to 3 year contracts)	Retain/change to a Government Department and pursue improvement
	IPO - Partial Sell Down	Franchise/ Concession (5 to 30 Year exclusive contracts)	Retain/change to a Statutory Authority or Government Corporation and pursue commercialisation
	IPO - Full Exit	Public Private Partnership (PPP) or JV (requires investment commitments)	Merge or Abolish
	2. Need for Government Involvement and Oversight		

- In recent years substantial efforts have been made to redevelopment and enforce a performance management scheme amongst the public service. The introduction of a long term strategy should ensure the linkages between outcomes and the performance agreements are more closely aligned. The Portfolio of the Civil Service believe that the present scheme is increasing accountability, identifying personal training development needs and increasing dialogue between management and employee.
- This initiative ties in with the overall option of introducing an overarching Government strategy on which individual department objectives can be based. These elements only have any value if performance against the objectives can be measured accurately on a timely basis.
- Objectives need to be implemented which align with the overall strategy and which are Specific, Measurable, Achievable, Reliable and Time Scaled (SMART).
- The reporting of the achievement against these objectives is also critical to the success of the performance management framework so there should be regular reporting of performance against objectives.
- The concept of consequences depending on performance needs to be Implemented. These consequences could be either positive or negative. For example the law as it is drafted allows for Performance related pay for high performers but this is generally not applied.
- This option includes the implementation of Oracle time and attendance and employee self service modules to enable increased management of civil service employees.

20. Civil Service Changes

Improve performance management of public service employees

Portfolio of Civil Service Overview

Overview of Portfolio of the Civil Service

- The Portfolio of the Civil Service is comprised of the following internal Government departments and units:
 - Governor's Office
 - Office of the Deputy Governor
 - Legislative Assembly
 - Office of the Portfolio of the Civil Service
 - Internal Audit
 - HR Audit
 - National Archives
 - Commissions Secretariat
 - Elections Office
 - Civil Service College
- Some of the key roles of the Office of the Portfolio of the Civil Service are to :
 - Provide strategic HR advice to the Head of the Civil Service
 - Management of the IT system underpinning Government's corporate HR functions.
 - Promote and facilitate HR best practice within Civil Service entities and across the Civil Service.
 - Provide guidance on the Public Service Management Law and Personnel Regulations.
 - Provision of job evaluation services to Civil Service entities.
 - Job specification, recruitment and selection.
 - Electronic Management of HR records .
 - Undertake an ongoing programme of HR audits to provide an independent assessment of compliance by all Civil Service.

This a wide area of responsibility but we think that the main area for potential improvement here relates around performance management and this is where this section is mainly focused. The improvement should focus on the alignment of Government strategy with the personal goals of employees.

Portfolio of the Civil Service Overview (cont'd)

Performance Management

- There are currently a high number of measures which are reporting under the output reporting principle. According to HR Audit in FY13/14, Performance Management is actively occurring for 96% of the civil service. However, performance systems operate more effectively if there are some consequences for non performance as well as high performance.
- Staff are rated on a 5 point scale and there are various elements of performance related pay attributable to each level. If you achieve 5 you are entitled to 10% performance related pay and this reduces as you go down the scale. However this provision in the law has never been brought into effect.

Market Overview and Jurisdictional Comparison

Performance Management

- This is an issue which all Governments need to manage in order to get the best performance out of their staff.

20.1. Civil Service Changes

Improve performance management of public service employees

Potential Benefits

- This increases the chances of the Government being able to achieve its goals. This would be done in conjunction with developing a long term vision and strategy. The most effective way for Government to manage the long terms goals are to set department and employee level objectives which align to the overall strategy. Once the objectives have been set the CIG will need to have a robust level of performance management in place to ensure that the objectives are being achieved.
- The Government will operate more effectively. This option will ensure that staff are working towards the Governments overall goals and through regular communication, any problems with regards to a persons performance can be effectively addressed.
- Staff will generally be happier and more motivated, provided the system is implemented properly. If people are rewarded for good performance it is more likely to promote these behaviours in practice.
- Potential cost savings through the use of Oracle employee self service.
- Better ability to manage staff time sheets, leave, staff roster and other activities with Oracle time and attendance module.

Risks and Issues

- The options to improve financial reporting need to be in place for this to work. If the quality of financial or performance information is not produced accurately on a timely basis it will very unlikely that the Government will be able to operate on effective performance management processes.
- If objectives don't tie to the overall strategy then they could be promoting the wrong behaviours. It is imperative that high level strategies and objectives are rolled out and communicated appropriately to individual bodies to ensure the individual agency objectives can align with the high level goals.
- This would represent a change in culture for the public sector which workers may resist particularly with the consequences for non performance. However if this is introduced in conjunction with positive reward for good performance and the internal messaging is effective, this risk can be overcome.
- If managers and leaders are not appropriately trained in performance management the appraisal and review process will not operate effectively.
- If insufficient time is spent on planning a strategy and related objectives the process will not be effective.

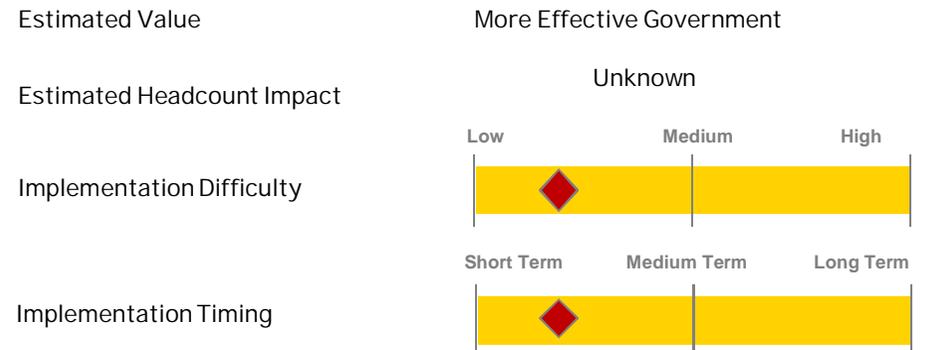
Risks and Issues (cont'd)

- Training will need to be provided to CIG employees which give clear details of how the enhanced performance management system will work.
- Performance metrics should be aligned to the overall Government performance objectives and aims as set out in its long term vision.

Implications and Implementation Considerations

- There may well be revisions required to employee contracts so early engagement with CIG employees and the legal team will need to be initiated.
- Any potential pushback from staff will need to be managed. Management and staff should be involved in dialogue at an early stage to manage expectations.
- To be successful this process needs to have full buy in from the senior management team.
- The management and oversight structure should be implemented so that leaders are held accountable for performance with meaningful consequences for poor performance.
- Communication of expectations needs to be clearly laid out and applied consistently for this to work effectively.

Initiative Profile



20. Civil Service Changes

Improve performance management of public service employees continued

Criteria	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> • Would enable to the Government to operate effectively and be more aligned to achieving their goals. • If performance of staff is well managed then this will enable Government to carry out their role more effectively. 	5
Financial	<ul style="list-style-type: none"> • Would be expected to lead to savings in the medium term by focusing the work of Government in key areas but no significant initial savings. • There may be initial set up costs in terms of commercial/legal advice on revising contracts. However this could be limited by the fact that the contracts/law already allow for things such as performance related pay so it could be a case of just implementing the existing terms. • There is a cost to invest in the additional Oracle modules. 	4
Ease of Implementation	<ul style="list-style-type: none"> • Whilst there could be some cultural obstacles to overcome and some changes to legislation this is relatively straightforward to implement and the benefits significantly outweigh the costs. 	4
Local Economy /Sensitivity	<ul style="list-style-type: none"> • No significant impact. 	5
Customer Service	<ul style="list-style-type: none"> • This should greatly improve the workings of Government and enable to them to offer better service. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> • No immediate impact on workers in terms of numbers. • Should enable workforce to operate more effectively. 	4
Legislative and Regulatory	<ul style="list-style-type: none"> • May be some changes required to legislation. 	4
Market	<ul style="list-style-type: none"> • N/A 	5

Recommendation

We recommend that performance improvement of the civil service is initiative is pursued as a near term opportunity to streamline Government and improve service delivery, including the investment in implementing the Oracle time and attendance and employee self service modules.

21. Shared Government Services

The following options have been analysed relating to shared services

21.1: Introduce shared services for whole of Government under the Finance Ministry

21.1: Introduce shared services for whole of Government for certain functions

	Government Exit with Appropriate Oversight	Private Sector Involvement with Contractual Controls	Retain within Government and pursue efficiencies or restructuring
	Trade Sale	Outsource (1 to 3 year contracts)	Retain/change to a Government Department and pursue improvement
	IPO - Partial Sell Down	Franchise/Concession (5 to 30 Year exclusive contracts)	Retain/change to a Statutory Authority or Government Corporation and pursue commercialisation
	IPO - Full Exit	Public Private Partnership (PPP) or JV (requires investment commitments)	Merge or Abolish

- Shared Services is a strategy which consolidates common administrative functions and processes previously performed by separate departments, If properly implemented, this tends to create cost savings by simplifying, standardising and scaling “back office” functions and the supporting IT systems used to deliver them.
- Shared Services is sometimes confused with centralisation. Whilst it typically involves consolidating processes and people, unlike centralisation, Shared Services is usually implemented on a purchaser/provider basis. This creates a fundamentally different dynamic between the service provider and the ‘customers’ who purchase the service.
- Cross-agency sharing tends to be the preferred model for Governments. The areas which are most suitable would be areas where there are a high volume of similar transactions. where acting as one body could increase bargaining power or where a specific skillset is required. The areas in the Cayman Government which we would recommend for this model would be Finance, Procurement, Treasury, Collections of revenue and IT.
- Centralising the procurement function is something that would provide quick wins to the Government and could be implemented quickly. CIG has already been looking into centralising procurement.

2. Need for Government Involvement and Oversight

21. Shared Government Services

Shared Services Overview

Shared Services Overview

- The Public Management and Finance Law (PMFL) came into place in 2004 to improve financial management in the Cayman Islands Government. The need for change came about after a number of failed attempts in the 1990's to improve financial performance.
- The PMFL delegated greater authority to Chief Officers in order for them to fulfil the duties that had been given under the PMFL. One consequence of this was to move away from centralised services and give Chief Officers more responsibility for recruiting their own team, managing the production of their financial statements and being held accountable for their entities performance. Most transactions are now processed at the ministerial, portfolio or department level.
- Since then, there has not been a strong central finance function to ensure that different areas are operating in a consistent fashion and differences in processes and procedures have emerged.
- Increasing the financial reporting burden and putting the responsibility back into different ministries and departments has led to significant increases in staff and then hence costs over recent years.
- In addition to finance and HR areas, procurement and IT services decisions have also been managed within different areas of Government. Individual ministries, departments have been purchasing IT systems, for example, with no thought to overall Government strategy.

Challenges and Issues

The way that current Government operations are set up has led to the following challenges and issues.

Loss of economies of scale

- There is likely to be significant levels of duplication of effort as well as a loss of bargaining power in areas such as procurement. The Government would be the most powerful buyer in Cayman and should be able to use this to negotiate terms favourable to them. The current system diminishes this buying power.

Challenges and Issues (cont.)

Inconsistency of process

- As evidenced from the Auditor General reports it would appear that inconsistent practices are in place in different Government departments. This leads to inefficiencies and a lack of trust that the financial information produced by Government is reliable.

Inconsistency in the quality of financial staff

- From conversations held with Government it would appear that there are great differences in the quality of financial staff across GIC. Without the strong oversight of a body with responsibility for the whole of Government, it is difficult to address these issues.

Key person dependency

- As individual functions manage their own financial processes differently there is limited support and cover for absence when the finance person is absent which can cause delays.

Duplication

- As each individual agency is managing their own operations there is likely to be a significant amount of duplication of effort.

Market Overview and Jurisdictional Comparison

- The practice of using Shared Services is something which is being implemented by Governments in many jurisdictions. Some implementations have been more successful than others and there are lots of lessons to be learned. These have been considered in forming the implementation plan at the back of this section.
- This has been suggested as an improvement to Government processes in the New York and Bermuda SAGE commission.
- Mature jurisdictions such as the US, Australia, New Zealand and the UK have introduced Shared Services in many areas. Since the current UK Government took office in FY10 they have mandated that different agencies use shared services and this has led to significant savings.

21.1. Shared Government Services

Shared services for whole of Government under the Finance Ministry, the Deputy Governor or a combination thereof (including transactional HR, procurement, treasury, IT, Collections of Revenue, AP/AR and others)

Potential Benefits

- Cost Savings - the most obvious driver for Governments looking to introduce this option is cost savings. By reducing the amount of duplication and standardising the processes, cost savings can be made. However care must be taken when assessing the costs savings at the outset of any project as if done properly there will be a significant level of initial costs. There are also a number of other benefits which the Government should also take into account which are listed below.
- Human resource efficiencies – by created a smaller team of specialised staff, it generally leads to improvement in work practices due to ability to share best practice and the repetition of doing more of a similar type of work, This also helps the public sector contend with current and emerging skill shortages in the areas such as HR, Finance and IT.
- Improved service for end user – another benefit is to improve a better managed service for the end user either through:-
 - Overarching benefits such as introducing better technology to consolidate commercial data to help improve decision making.
 - Direct benefits such as performing service more quickly or provide a better range of services due to greater expertise.
- Staff benefits – this model has the potential to expand the professional opportunities for staff, both informally with staff networking and working with more experienced people in the same field and formally through better professional development and more extensive career paths. This would be helpful to the Government in retaining better staff.

Risks and Issues

- If not planned appropriately by a suitably qualified team then there is a risk that this option will not deliver the required outcomes. Different agencies have different processes in place. If this situation is not resolved this will reduce the likelihood of success of the shared services option.
- In order to plan properly there will need be an initial investment which will need to be taken into consideration which could lead to higher set up costs than anticipated.

Risks and Issues (cont.)

- If staff don't buy in to the idea and the associated benefits there is potential for this option not to be successful. In the most significant cases, key staff could leave which is also a risk due the knowledge they may take with them.
- If current state not fully understood it could lead to important parts of the process not being taken into account. Different agencies have different processes in place. If this situation is not resolved this will reduce the likelihood of success of the shared services option.
- The technology platform may not be set up to fit with the desired state of processes.
- If there is no change in the methodology being followed in the individual departments it would defeat the object of moving to this model and could lead to an increase in costs.

Implications and Implementation Considerations

- Plan diligently – where jurisdictions have experienced problems with shared services is when the level of planning upfront hasn't been detailed enough and promises on cost savings have been made without understanding the underlying functions. To appropriately implement this there would need to be a full and detailed analysis of the processes currently being carried out in all of the functions to be impacted by the Shared Service. As a first step prior to full implementation of shared services processes should be standardised across Government where possible and appropriate.
- Realistic Implementation strategy – any strategy must be based on clear decision making criteria. Factors to consider when devising the project plan would be;
 - Where the shared services will sit; the Finance Ministry, the Deputy Governor or a combination thereof ?
 - Which benefits are most important?
 - How will we measure achievement?
 - What will enable benefits to be achieved?
 - What are the real costs and risks of implementation?

21.1. Shared Government Services

Shared services for whole of Government under the Finance Ministry, the Deputy Governor or a combination thereof (including transactional HR, procurement, treasury, IT, Collections of Revenue, AP/AR and others)

Implications and Implementation Considerations (cont'd)
<ul style="list-style-type: none"> Technology standardisation – this generally assists process standardisation so consideration should be given to whether the technology platform can cope with the suggested changes in processes. In particular the estimated costs of any required IT upgrade should be considered as part of the project plan. Access Shared Services specialists - without the right expertise involved in all aspects of the project, it will be more difficult to implement and would be very likely to fail. Use public sector networks and peer review – Some Shared Service projects are less successful as they repeat mistakes previously made. Research of previous implementations and lessons learned should be taken into account. Effective governance – is a key element to successfully implementing Shared Services. Effective monitoring and control needs to be in place for each phase of implementation to prevent issues. Shared Services requires a more sophisticated and challenging set of governance arrangements that those used for managing services within individual departments. Among the issues which need to be managed are: <ul style="list-style-type: none"> Conflicts of interest. Disputes between individual departments. Future investment management and whose budget it comes out of. Pricing arrangements. Standardisation of differing processes. Deciding on level of autonomy of service provider once delivery starts.

Initiative Profile	
Estimated Value	Better quality and more timely reporting
Estimated Headcount Impact	To be estimated in next phase of implementation
Implementation Difficulty	
Implementation Timing	

21. Shared Government Services

Shared services for whole of Government under the Finance Ministry, the Deputy Governor or a combination thereof (including transactional HR, procurement, treasury, IT, Collections of Revenue, AP/AR and others)

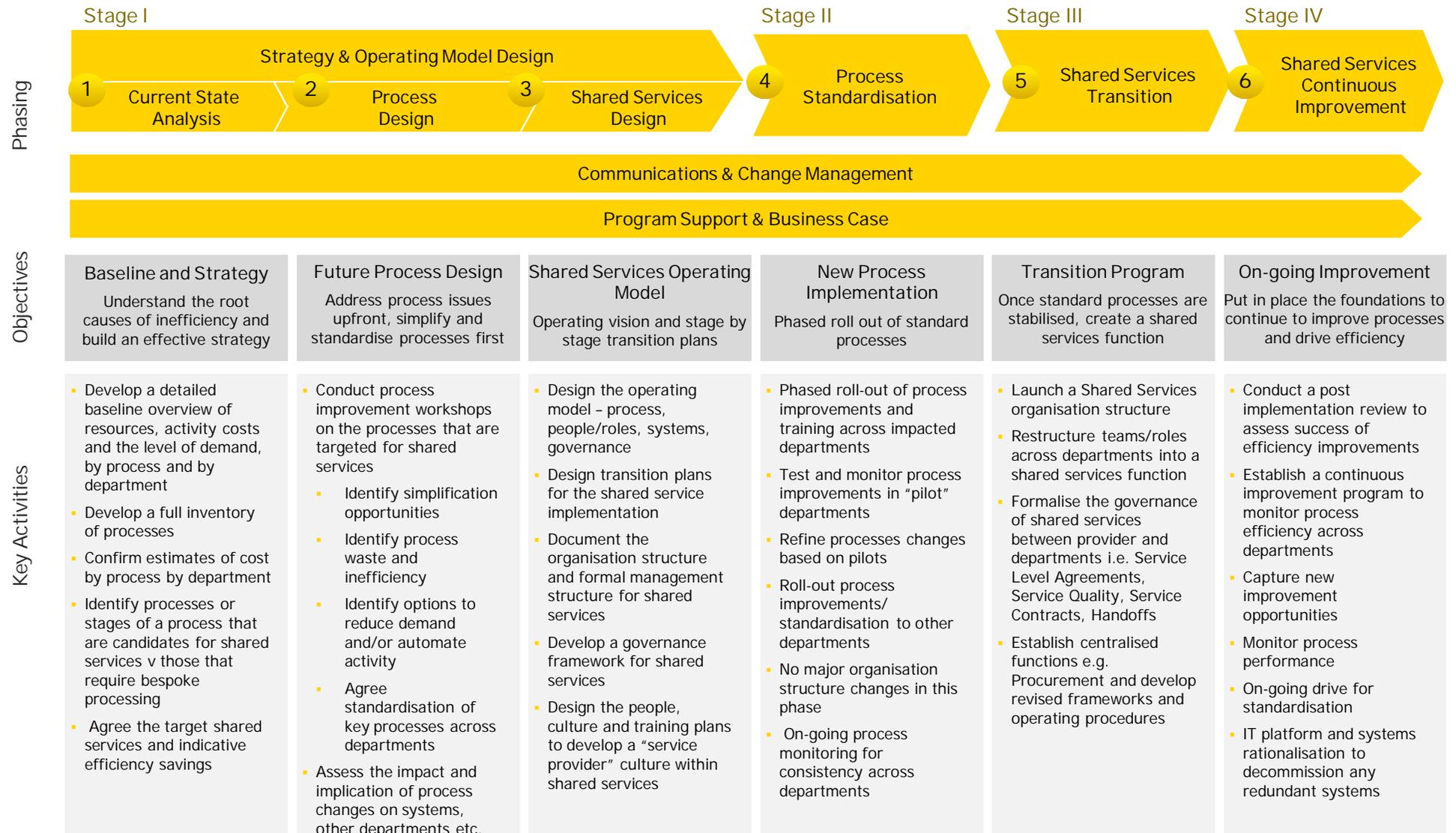
Criteria	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> If implemented properly this initiative would lead to more efficient operations and allow Government to spend more time on its core function of regulation and policy. 	5
Financial	<ul style="list-style-type: none"> Savings would be possible from reducing duplication and improving processes. Once embedded, this would lead to a reduction in staff across the Government and future cost savings. Without a full review of Government operations it is difficult to give an appropriate estimate of this cost savings. 	4
Ease of Implementation	<ul style="list-style-type: none"> There have been a number of examples where shared services have not been implemented appropriately but if planned properly, with teams with the right expertise, this risk would be mitigated and there is not significant reason why this could not be implemented successfully. There are many examples where Governments have set up successful share service centres. If using external firms with the expertise to introduce Shared Services, there would be some initiation costs. There could be some stakeholder concern over future job losses. 	4
Local Economy /Sensitivity	<ul style="list-style-type: none"> Future potential job losses and impact on the local economy make this a fairly sensitive option. 	3
Customer Service	<ul style="list-style-type: none"> This option should significantly raise service levels and efficiency across Government operations. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> There would likely to be some cuts in staff numbers over times as processes are streamlined and performed by central service centres. There would be benefits for remaining staff in terms of future career development. 	4
Legislative and Regulatory	<ul style="list-style-type: none"> Service Level Agreements would have to be drawn up and entered into with the individual agencies to ensure responsibilities are appropriately documented. 	3
Market	<ul style="list-style-type: none"> n/a 	5

Recommendation

We recommend that this initiative is pursued as a near term opportunity to streamline Government and improve quality of financial information. This would need to be carried out in various stages. Procurement could be done fairly quickly and Government have already taken measures to be able to implement this. IT is being considered in section 23 For areas such as Finance and HR processes, an initial exercise would need to be undertaken to review the processes in place throughout CIG and also consider the number of finance staff across Government to assess what role they fulfil. This centralisation should extent to all Government departments and statutory authorities.

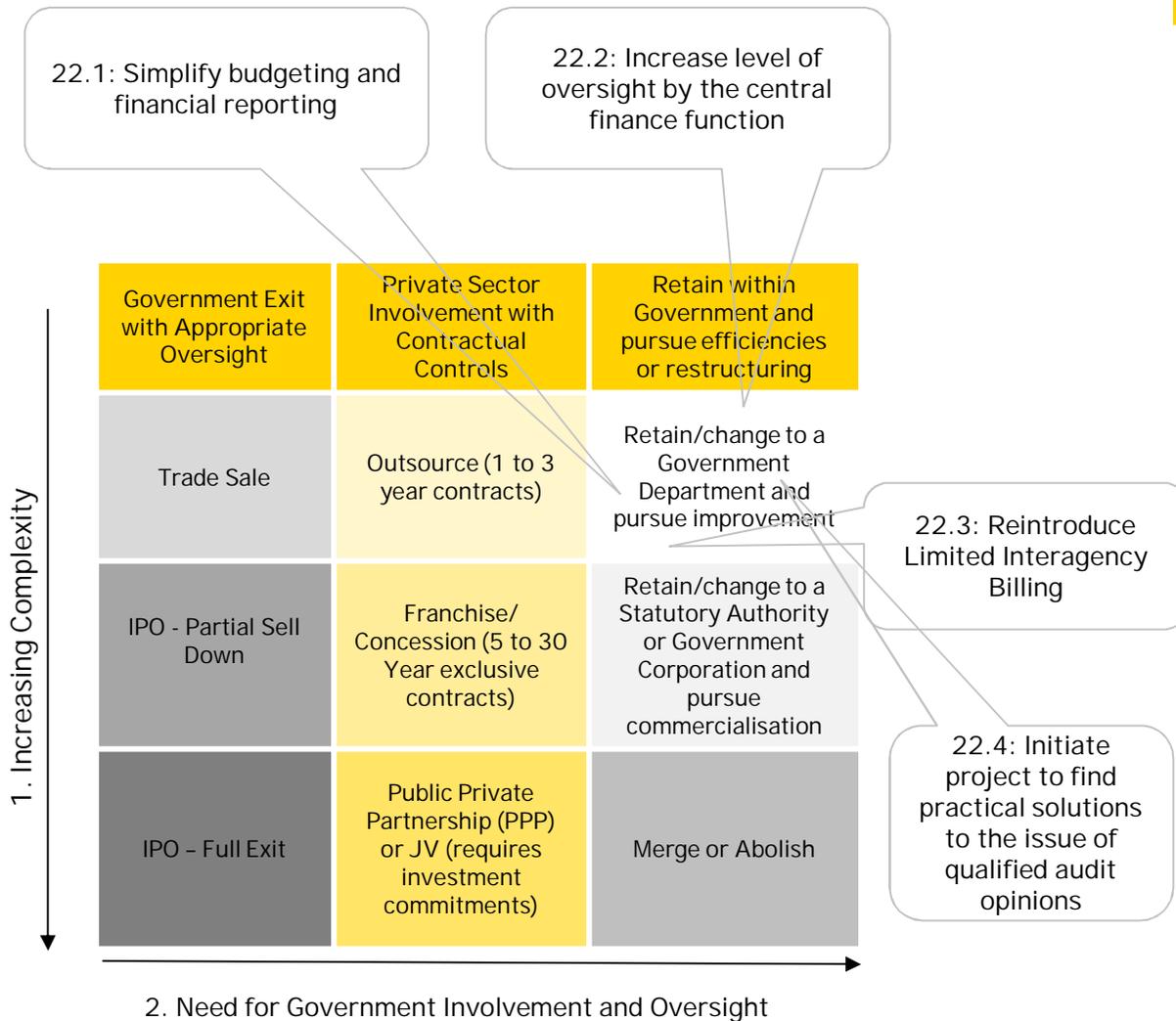
21. Shared Government Services: Implementation Roadmap

A phased approach to delivering Shared Services. Initial focus on delivering simplified, consistent and standardised processes before establishing a more formal shared services function, management and governance



22. Financial Management Improvements

The following options have been analysed relating to financial management



22.1: Simplify budgeting and financial reporting

- Reduce the level of output reporting requirements. In conjunction with developing a long term country vision and related strategy, an exercise should be carried out to rationalise the level of output/outcome budgeting to focus on the key areas which Government are interested in.
- The PMFL review needs to be completed to assess what changes are required to make it more suitable to Cayman's needs. Also a review needs to be completed to assess if the Government can reduce the need to produce 58 fully compliant sets of IPSA financial statements.

22.2: Increase the level of oversight by central finance function

- The central finance team should be given more oversight powers to ensure that consistent processes are in place throughout Government. For example a central accounting manual should be introduced which provides instruction and guidance about the processes which each department should have in place.

22.3: Reintroduce Interagency Billing

- A limited Interagency charging mechanism in relation to shared services should be reintroduced into the financial reporting process in order to increase accountability and encourage departments to use other Government services appropriately.

22.4: Initiate project to find practical solutions to the issue of qualified audit opinions

- Initiate a project to resolve the issues around qualified audit opinions to increase the credibility of Government.

22. Financial Management Improvements

Financial budgetary and reporting overview

Financial Management Overview

Overview of financial management

- The Public Management and Finance Law (“PMFL”) was introduced into Cayman in 2004 with intention of improving the management of public resources and accountability by introducing an improved budgetary and accounting framework.
- The four key objectives were to;
 - Redefine performance to focus on results.
 - Develop stronger strategic processes linked to budget.
 - Provide more clarity for different roles.
 - Establish effective accountability mechanisms.
- Among the key initiatives introduced by the PMFL were to introduce:
 - accrual accounting.
 - the requirement for each individual ministry/portfolio/office to produce annual financial statements to IPSA standards.
 - quarterly reporting to the Legislative Assembly .
 - budgeting/reporting based on output reporting.
- The effect of these measures was to increase the workload of the Governments finance staff significantly. In particular, output budgeting requirements were very detailed and onerous. Since introduction, Government have always struggled to produce accurate and timely reporting on outputs. Output reporting has now been stopped for the past couple of years.
- In a report in June FY13 the Office of the Auditor General issued a report stating that, whilst there had been some improvements to financial reporting in Government, the general objectives have not been met. Some of the issues with the current situation are highlighted in the next section.
- There is a review of the PMFL requirements which is ongoing at the moment which is reviewing the PMFL as it relates to the Cayman Islands and what changes area required to improve the Governments performance relating to financial reporting.

Financial Management Overview (cont'd)

Financial Statements

- Prior to 2004 the Government prepared 16 sets of financial statements. After the PML this figure had increased substantially. This greatly increased the requirement for more accountants in Government. The current number of Financial Statements required stands at 58.
- Many of the financial statements which are produced and audited receive qualified audit opinions. These seem to have become accepted as normal practice.
- The inability to produce unqualified financial statement is very damaging on the Governments credibility and also increases the risk that the Government is making decisions based on poor information.
- Under this option a project should be initiated to properly understand why statements are being qualified on a Government-wide basis and find solutions which can resolve this situation.
- Among the reasons we are seeing for qualifications are:
 - Valuation of Buildings
 - Impairment reviews not carried out
 - Poor controls around revenue

Interagency Charging

- There are currently no interagency charges between different Government departments when they use each others services which leads to a lack of accountability for costs incurred. There are no incentives to stop department using other Government services multiple times as the costs are not represented in their financial accounts.
- The Ministry of Finance and Economic Development have identified this as a strategic priority commencing with the start of the FY15/16 financial year. We will evaluate this as an option in this section to ensure that the challenges and implementation issues are fully evaluated.

22. Financial Management Improvements

Financial budgetary and reporting overview

Challenges and Issues

Financial Management

No audited consolidated financial statements.

- Since the PMFL was initiated it has not been possible to present audited consolidated financial statements, with a clean audit opinion, to the Legislative Assembly.

Qualified audit opinions

- Many sets of financial statements produced by ministries and departments have qualified audit opinions for a number of reasons which reduces their ability to be relied upon.

A lack of timely reliable financial information

- Based on the conversations we have been having and reviewing reports from the Auditor General, it seems that there have been significant delays in the production of some annual reports and financial information.

The lack of a strong central finance oversight function

- There is a lack of a strong central finance function with responsibility for reporting requirements across Government. This reduces the effectiveness of oversight of the process and increases the risk that different departments will have inconsistent approaches.
- The Auditor General has highlighted to us that there is no overall Government accounting manual which is consistently used across Government in the production of financial statements.

Workload

- All Government ministries/departments within core Government are required to produce annual financial statements in accordance with International Public Sector Accounting Standards (IPSA). This greatly increases the level of work needing to be carried out. According to the Finance and Economic Development team, 58 sets of IPSAS compliant financial statements are produced. This compares to 16 before the introduction of the PMFL.
- Producing the required output budgeting process appears to be a very time consuming and complex process.

Challenges and Issues (cont'd)

Use of budget to drive performance

- Due to the lack of reliably and timely output reporting this process is not being appropriately used in order to manage individuals within Government. In a system which is functioning appropriately individual departments would have objectives which tie in with the overall Government strategy and regular reporting of results against plan would be used to manage performance.

Market Overview and Jurisdictional Comparison

IPSAS financial reporting

- A number of different Governments have sought to implement IPSAS as this is widely considered best practice. Countries such as New Zealand, Australia and the UK have implemented this and have adopted the full accrual basis of accounting.
- A number of smaller jurisdictions have experienced difficulties with the implementation in changing from cash accounting to full accrual accounting and the requirement to produce full consolidated Government accounts which can be time consuming.

Interagency Charging

- The practice of using interagency is well established globally. The US Government use interagency charges and have interagency agreements in place between a number of federal entities. A similar practice is in place in the UK as well.

22.1. Financial Management Improvements

Simplify budgetary and financial reporting

Potential Benefits

- This simplification of budgetary and financial reporting will lead to a reduction in the workload of finance staff in Government and could ultimately lead to a reduced need for staff in the medium term.
- The quality and timeliness of financial information will improve significantly.
- Once the Government is able to produce appropriate information on a timely basis, the credibility and reputation of the Government would increase significantly.
- By simplifying the output reporting and linking it in to the long term vision for Cayman Islands, the Government will have more meaningful information on which to base decisions.
- Accountability would be increased across Government.
- If staff have a more effective process in place to produce good quality, there would probably be an increase in staff morale.

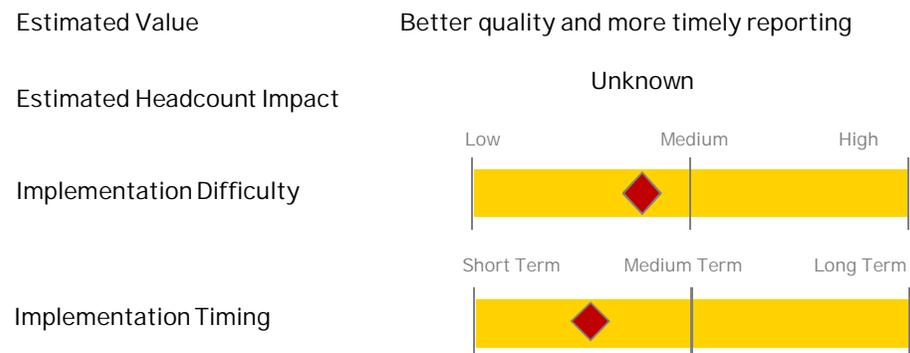
Risks and Issues

- Trying to scale back on the requirements of the PMFL reforms may send the wrong message and give the impression that Government is becoming less accountable.
- By taking away the requirement to produce financial statements you could lead to poor discipline and behaviours in the production of financial information.
- Reversing or changing elements of the PMFL would require changes in legislation.
- Initially there would be some costs and investment of time to devise a plan going forward. If insufficient time is allocated at the planning stage any changes could make the situation worse.
- Reducing the reporting requirements may lead to reduced focus on the best practices.

Implications and Implementation Considerations

- A change in PMFL legislation would be required for significant changes to be made.
- Following a reduction in the number of financial statements to be produced the plan should still to have a good level of scrutiny of management accounts produced by individual departments.
- The Government would need to communicate the benefits of this plan and why this will provide a better solution than existing requirements.
- The different elements of simplification will need to be well defined at the outset of the project and would need to consider the following requirements:
 - Budgetary
 - Rationalise the level of output reporting requirements so that only the key output measures are tracked
 - Consider the ability to measure the outputs being considered
 - Ensure measures tie back to the overall Government strategy
 - Ensure that actual reporting against budget can be produced on a timely basis
 - Financial Reporting
 - Ensure that standardised processes are in place throughout Government

Initiative Profile



22.1. Financial Management Improvements

Simplify budgetary and financial reporting

Criteria	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> • Would help Government be able to produce better financial information which would be then used to drive performance and improve efficiency. • Would increase the accountability of Government. 	5
Financial	<ul style="list-style-type: none"> • There may be some initial implementation effort and cost to re-organise the reporting processes and in conducting a full review over PMFL. • Over the medium/longer term there could be some savings caused by simplifying budgetary and reporting requirements. • By reducing the reporting requirements there would be reduced requirements for accountants. 	4
Ease of Implementation	<ul style="list-style-type: none"> • Would require a change in legislation but in terms of actually putting this option into place there is no overwhelming barrier to implementation. • Given the overall current situation with regards to the financial reporting function, it should be feasible to persuade stakeholders of the value of taking these steps. • Some staff will be concerned by redundancies if reporting requirements are reduced. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> • There are no significant impacts on the local economy or pricing. 	5
Customer Service	<ul style="list-style-type: none"> • If implemented properly this should enable Government financial reporting to improve significantly. • By reducing reporting requirements more time could be devoted to focusing on the key areas. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> • There is the potential for redundancies with this option once improved processes are introduced and embedded. • If there are less requirements for full financial statements there should be less requirements for financial staff. 	3
Legislative and Regulatory	<ul style="list-style-type: none"> • A change to the legislation would be required for this option. 	4

Recommendation

We recommend that this initiative is pursued as a near term opportunity to streamline Government and improve the quality of financial information.

22.2. Financial Improvements

Option 2: Increase Oversight Powers of the Central Financial Function

Potential Benefits

- This will reduce the inconsistency being seen in the procedures being adopted to produce the financial statements which will increase the efficiency in the production of the financial statements and also increase the likelihood that consolidated financial statements could be produced which will receive a clean audit opinion.
- By producing a central accounting manual central finance can ensure that the most up to date financial reporting requirements are reflected and that finance staff receive clear and consistent instruction as to how the financial statements are to be produced.
- By taking this step, the ability of certain aspects of the financial reporting functions to be transferred to a shared service function is increased. This could lead to significant future savings for Government and is considered in more detail in the share services section.

Risks and Issues

- There may be resistance from some individual agencies who may think that this is an attempt to reduce their ability to manage their own financial reporting function and be accountable for their performance.
- Many agencies will be comfortable with the methodologies applied in their individual agency and may resist change on this basis.
- There is a risk that once the accounting manual is produced that there is no process for keeping it up to date for future updates and cascading this message down to the individual agencies.
- Factors specific to individual agencies may not be appropriately taken into account which could lead to inefficiencies in certain cases.

Costs

- There may be some costs involved with getting advice on best practice to be included in an accounting manual.

Implications and Implementation Considerations

- Potential internal resistance to this step should be managed through a robust communication strategy and involving the agencies in dialogue at an early stage.
- A mechanism should be in place to keep a manual updated for any accounting updates and for this to be cascaded down to individual departments. The first step for the central finance team would be to assess any updates for its applicability to the CIG.
- In the planning phase, due consideration should be given to any requirements /issues which are specific to certain agencies within Government to ensure that they are reflected in the accounting manual.

Initiative Profile

Estimated Value

Improve financial reporting process and increase opportunity to get clean audit opinions

Estimated Headcount Impact

None

Implementation Difficulty



Implementation Timing



22.2. Financial Improvements

Option 2: Increase Oversight Powers of the Central Financial Function continued

Criteria	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Should improve the consistency and quality of the financial processes in place and allow Government to produce better quality information on a more timely basis. 	5
Financial	<ul style="list-style-type: none"> There may some costs involved with the production of a new accounting manual but ultimately this should save costs in the medium term as processes become more effective. This would also lay the foundation to be able to move some financial functions to a shared services function which will lead to significant savings. 	4
Ease of Implementation	<ul style="list-style-type: none"> There may be some internal issues to resolve with certain agencies who may be resistant to giving up the power to choose what processes they follow and also to making changes to established procedures. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> No effect on local economy. 	5
Customer Service	<ul style="list-style-type: none"> This should lead to financial reporting being of better quality and being produced on a more timely basis. This should also lead to a smoother audit process once processes have been standardised. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> The workforce will have to invest some time and effort in updating the existing processes but ultimately it should make their life easier once the processes are embedded and being applied consistently In the short term there will be no significant impact on the workforce but in the medium term there may be opportunity to make some savings. 	4
Legislative and Regulatory	<ul style="list-style-type: none"> Some change to legislation may be necessary to increase their oversight powers. 	3
Market	<ul style="list-style-type: none"> n/a 	5

Recommendation

We recommend that this initiative is pursued as a near term opportunity to improve the finance function in Government.

22.3. Financial Management Improvements

Re-introduce limited interagency transactions in financial reporting

Potential Benefits

- It introduces some discipline around cost accountability so will improve how Agencies manage and utilise their resources. Overall this should lead to Government achieving more efficient usage of resources and better value for money. For example without interagency charging agencies don't need to consider the cost of fuel so have no incentive to utilise their vehicle fleet in an efficient manner.
- Management will have better information of the usage of different Government departments so will be able to make better informed decisions about how to manage their resources.

Risks and Issues

- Significant investment of time is required in order to decide what the level of charge should be for interagency services to avoid the errors of the past where the level of interagency charging was overly onerous and time consuming to implement.
- Discipline would need to be applied over the financial reporting of these transactions to ensure that all interagency charges can be reconciled on consolidation. Problems with the booking of interagency transactions will reduce Governments ability to produce clean consolidated accounts.
- There may be some resistance to going back to an idea which the Government made a decision to stop a few years ago.

Implications and Implementation Considerations

- There may be some resistance to going back to an idea which the Government made a decision to stop a few years ago. Initially there will be an increase in the workload for different agencies to introduce this. Internally Government will need to make the case clearly as to why this change is necessary.
- A change in legislation will be required and interagency agreements will need to be in place.

Implications and Implementation Considerations

- Consideration should be given to the form of interagency charging. It should be done in a pragmatic basis so as to not unnecessarily increase the work load required. For example there should be no need to raise an invoice for every stamp purchased. The form of interagency charging should be appropriate and proportionate for the Government of the Cayman Islands. It may be sensible to concentrate the interagency charges on shared services .
- A high level of planning will need to go into the financial reporting of these transactions. Clear guidelines will need to be given around:
 - Which accounts to use to book the transactions. They will need to be in clearly defined and booked to separate interagency accounts which can be cancelled out during the consolidation phase.
 - When to book transactions. These will need to be booked on a timely basis by both sides otherwise this will lead to consolidation problems.
 - Regular reconciliations. Regular reconciliations will need to be performed to ensure that discipline around the booking of intercompany transactions is being maintained.

Initiative Profile



22.3. Financial Management Improvements

Option 3 Re-introduce interagency transactions in financial reporting

Criteria	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> This will encourage more discipline around the usage of Government assets, lead to costs savings and allow the Government to make decisions based on better information. 	5
Financial	<ul style="list-style-type: none"> Savings could be driven through increased focus on costs of doing interagency work and holding departments more accountable for these costs. Actual costs should net to 0 so no immediate cost savings provided the different agencies don't stop using Government services and go to the private sector. This risk is mitigated by the strengthening of the central procurement function. 	4
Ease of Implementation	<ul style="list-style-type: none"> There would need to be an investment of time to calculate appropriate interagency rates to charge and also a robust process around accounting for these transactions in a way which easily allows them to be eliminated on consolidation. The implementation of this is not overly complex however and we see no significant impediment to this being introduced. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> No significant impact. 	5
Customer Service	<ul style="list-style-type: none"> This option should not impact customer service levels significantly and should lead to an improvements in Government practices. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> No significant impact on employees although some more work will be involved in administration around the billing and recording of interagency transactions. 	4
Legislative and Regulatory	<ul style="list-style-type: none"> Interagency agreements would be required to implement this process properly. 	3
Market	<ul style="list-style-type: none"> n/a 	5

Recommendation

We recommend that this initiative is pursued as a near term opportunity to improve service delivery and accountability. At this stage detailed planning should be carried out around the form of the interagency charging and how it will be reflected in budgets and financial reporting. The budget is already prepared for this financial year so it would be sensible to make preparations for this to go live for the FY15/FY16 financial year.

22.4. Financial Improvements

Find practical solutions to the issue of qualified audit opinions

Potential Benefits

- The fact that the Cayman Government has so many financial statements which cannot receive clean audit opinions is well known on the island and damages the credibility of the Government in the view of many people/ institutions. By finding a solution to this problem the Government would greatly increase the confidence in the financial information reported by Government.
- The Government could also be more certain that decisions are based on good quality financial information.
- Once a resolution to the problems causing the qualified audit opinions has been found, it should be possible for the audit process to progress more.
- We understand that the primary issues giving rise to the qualification of opinions are related to governance and valuations. It may be that the introduction of consistent guidelines or policies designed to address these reoccurring issues can provide the solution required to restore order to this process. It appears that a more proactive dialogue is required between the Auditor General and relevant department/entities to resolve issues and provide practical solutions.

Risks and Issues

- There is a risk that this will be seen to be putting pressure on the Auditor General to give unqualified opinions when it is not appropriate. This would be as detrimental to the Governments reputation as the problem we are trying to resolved. This solution is not about putting pressure on the Auditor General, it is about finding workable and practical solutions to the problems raised by the Audit reports.
- Some of the solutions may be difficult and time consuming and this could reduce the motivation of parties involved to see the project through.

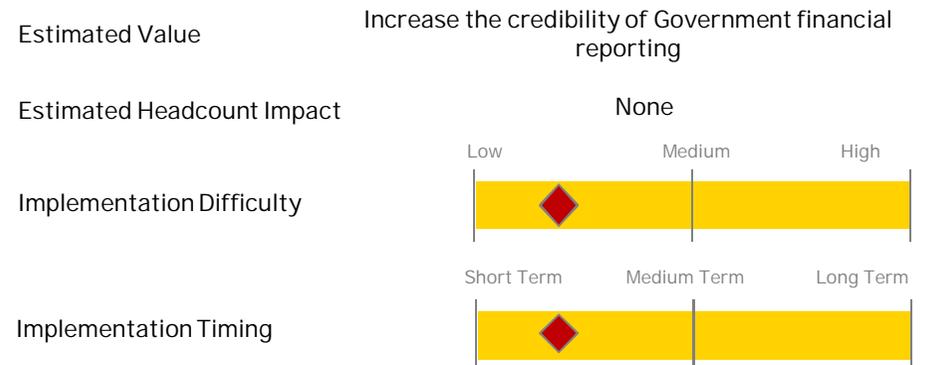
Costs

- The resolution of certain issues could be costly. For example where the qualification relates to the valuation of assets the solution would involve getting a more up to date valuation report. However many of the other qualifications relate to procedural matters such as the control environment in place.

Implications and Implementation Considerations

- There may be resistance in certain departments in terms of finding solutions as it could involve a significant investment in time and costs. To overcome this central Government needs to enter into dialogue with all parties to explain why this is so important.
- Planning will be required to ensure that there is enough resource which has the necessary skillset to resolve these issues.
- As part of the planning process central finance should meet with the Auditor General to discuss the qualifications and find out exactly what is required to solve the issue and come up with a detailed action plan. This action plan will then be owned and managed by Central Finance who will be responsible for its successful.

Initiative Profile



22.4. Financial Improvements

Find practical solutions to the issue of qualified audit opinions

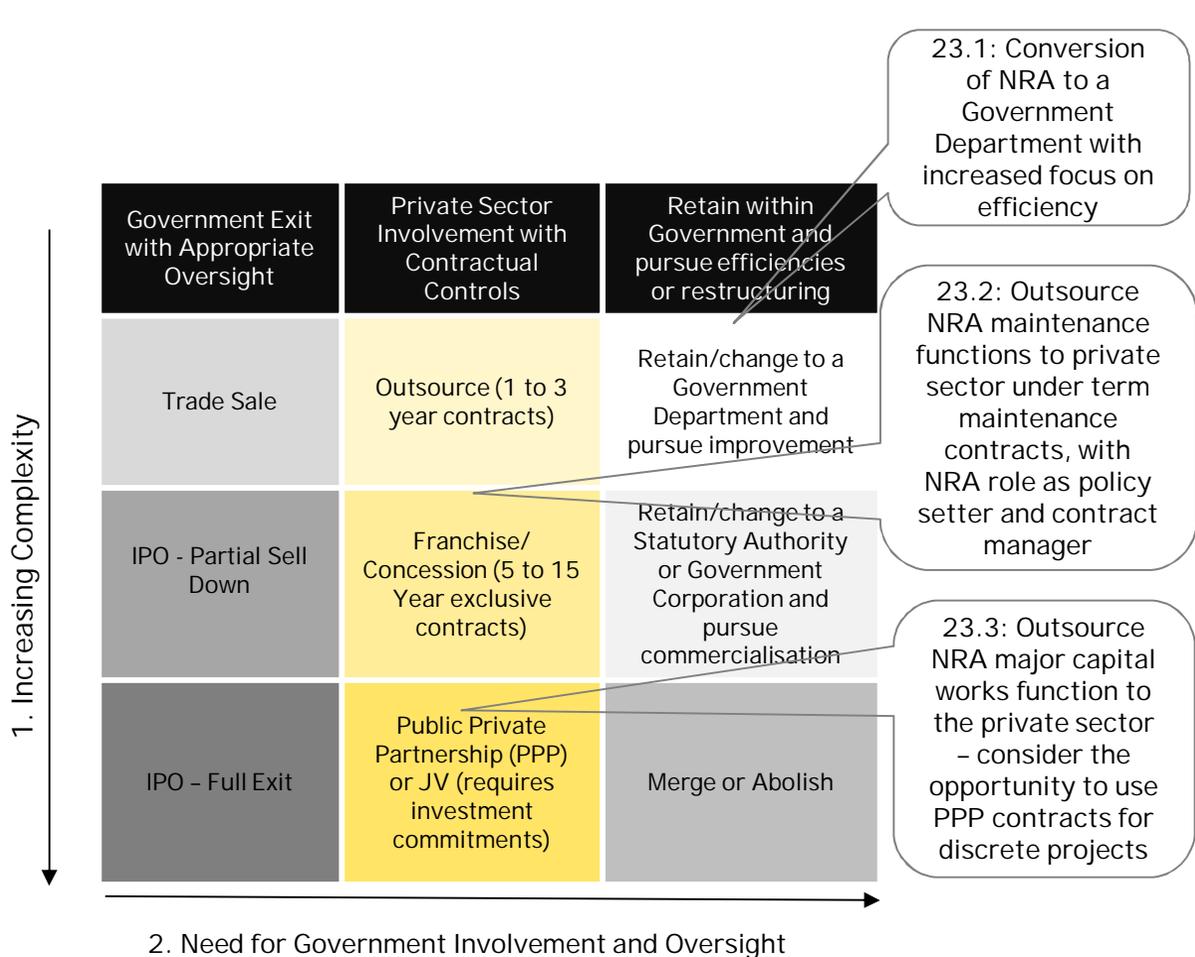
Criteria	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> This will increase the credibility of the Governments financial reporting functions. If some effort is spent resolving these issues now, it should make the future production of financial statements and the audit process more efficient. 	5
Financial	<ul style="list-style-type: none"> There may some costs involved with initial projects to resolve the issues causing qualifications relating to areas such as valuation issues. 	3
Ease of Implementation	<ul style="list-style-type: none"> Some of the issues may take an investment of time to resolve but this should be no impediment to solving this problem. There may be small pockets of resistance in certain agencies to the work required to resolve this problems. 	4
Local Economy /Sensitivity	<ul style="list-style-type: none"> No effect on local economy. 	5
Customer Service	<ul style="list-style-type: none"> This should be improve the process of producing financial information and the quality of information which Government are using to make decisions. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> No significant impact. 	5
Legislative and Regulatory	<ul style="list-style-type: none"> No significant impact. 	5
Market	<ul style="list-style-type: none"> n/a 	5

Recommendation

We recommend that this initiative is pursued as a near term opportunity to improve Governments credibility and improve the quality of financial reporting.

23. Improvements to NRA

Three main options have been examined for the NRA, mainly related to its entity structure and sourcing of services



23.1: Conversion of NRA to a Government Department

- There have been previous recommendations and suggestions that the NRA should be brought back into central Government. No rationale has been provided in these Reports, though it is understood the reasons are the lack of control over the actions of the NRA and the lack of action to reduce costs, despite having increased employment flexibility and ability to manage costs. Potential to pursue increased outsourcing alongside this option.

23.2: Conversion of NRA to a Government Department

- NRA outsources maintenance functions to the private sector under term maintenance contracts. NRA retains roles as policy setter, network planner, major capital works and manager of maintenance contracts.
 - Market for road maintenance services will need to develop - consider shorter term maintenance contracts (say up to 3 years) to build market capability/capacity then embark on longer term contracts (say between 5 to 7 years with extension options).
 - Payments linked to road network condition and improvements through KPIs.
 - Will need to determine how many discrete maintenance contracts are let to drive competition and efficiency of local resources.

23.3: Outsource NRA major capital works function to the private sector

- NRA outsources major capital works project to the private sector, potentially under PPP depending upon the nature of the works, scale and risk allocation. PPP models include availability based model or economic PPP which may include the use of tolls. This will need to be determined on a project by project basis.
- NRA retains roles as policy setter, network planner and manager of PPP contract(s).

23. Improvements to NRA: Overview of NRA

The National Roads Authority was created in 2004 by legislation to deliver on a long-term roads plan, and to effectively and efficiently plan, construct and maintain the roads required to support the Cayman Islands

Overview

- The National Roads Authority was created on 1 July 2004 by the National Roads Authority Law (2004).
- The NRA was created to administer, manage, control, develop and maintain the Islands' public roads and related facilities, such as signals, stormwater facilities, roadway lighting, roadway directional signage, etc.
- The NRA publishes a long-term National Roads Plan (NRP) every four years, updated annually. The Plan is the provision on which medium to long-term plans for road development are identified. It is also used to seek approval for funding of NRP projects that will be implemented according to the objectives of this long-term plan.

People and Governance

- NRA is a wholly owned Statutory Authority
- NRA is governed under the National Roads Authority Law (2006 Revision)
- A Board of Directors governs the NRA. Members of the Board are appointed by the Governor in Cabinet.
- The Minister responsible for the authority may give general policy directions to the Board, but the Board is responsible for enacting NRA policy and the general affairs /business of the authority.
- The NRA's Managing Director oversee daily operations, supported by the Deputy Managing Director.
- Total employee numbers are 85 as (at June 30 2014).

Functions

- Provision of medium to long term plans for road development referred to as a National Roads Plan (updated every four years).
- Implementation of a management system for planning, organizing, directing and controlling routine and periodic maintenance activities performed by employees of the Authority or through independent contractors.
- Carrying out of construction improvements and maintenance works on national roads.
- The NRA is able to perform services for approved private sector companies.

Functions (Continued)

- Carrying out necessary engineering, traffic, and economic studies that it may consider necessary for the maintenance and improvement of public roads.
- Training, research, or testing activities in relation to any of its functions.
- Additionally, the National Roads Authority provides services to:
 - Public Works Department to enable that Department to provide an appropriate response to Hurricanes and other national emergencies, and
 - Planning Department for the review of planning applications involving storm water and road related matters and site inspections of constructed projects.
 - Vehicle Licensing & Traffic Department for the reviews and industry/market research research for matters relating to the revision of the CI Traffic Law and the Traffic Code.
 - Explosives Industry by regulating all aspects of the use, importation, transport, storage, and operations of explosives in the Cayman Islands.
- Currently the NRA outsource some maintenance activities and all Hot Mix Asphalt Paving functions to the private sector.

Key Issues, Risks and Challenges

- PPPs: Determining the commercial arrangements that might facilitate PPP arrangements for road construction and maintenance in the Cayman Islands is a challenge.
- Hot Mix Asphalt Paving: Potential failure of one of the 2 local private companies means that fair open market competitiveness and pricing are very difficult to achieve. We do not consider there to exist significantly high barrier to entry in this market.
- Paving Equipment transferred to Brac: The fact that all paving equipment has been transferred to the Brac means that the NRA has limited ability to do paving activities without not purchasing/leasing new equipment for Grand Cayman.
- Long Range Capacity Planning: Limited work currently being done on the capacity of the roads, traffic issues and analytical analysis of potential new road requirements or the impact on roads of potential property developments. This should be a central focus going forward.

23. Improvements to NRA: Overview of NRA continued

The NRA has struggled to right-size its workforce, particularly its management team, based on fluctuating levels of in-house projects. The Roads Fund ensures funding is directly applied to Cayman Islands roads

Key Issues, Risks and Challenges (continued)

- **Funding:** Funding is limited by the amount of duty and coercive revenue collected and earmarked for the Road Fund, and additional capital funds have to come from central Government. The pressure to apply funds to 'visible' road maintenance versus analytical or other activities means the analytical/planning activities don't get prioritised or funded appropriately.
- **Human Resources:** There are some resources within the NRA that have skills that are currently being underutilized. A reduction in capital road construction projects in addition to the paving equipment being deployed to the Sister Islands have contributed to this development. Any right sizing exercises envisaged would have to consider the social implications/disadvantages presented and also consider the competitive nature of the private sector market. Any right sizing initiatives relative to this issue have not been approved as a policy directive at this stage.
- **Tolls:** The Cayman Islands has no user pays toll roads which are often part of a robust traffic management strategy and which facilitate PPP frameworks to be implemented as they provide a revenue stream and financial return for road funders.
- **Safety Cameras:** The Cayman Islands currently has no camera monitoring of speeding or other traffic infringements. The use of ticketing using cameras in other jurisdictions has greatly improved safety and increased revenues.

Jurisdictional Comparison

- Most other countries have created Road Authorities and Companies (e.g. RTA¹, Highways Agencies²) to try to separate funding decisions from excessive political influences and create a focus on efficiency in project delivery.
- However, in Australia and the UK, the authorities still have a formal service agreement with a centralised Department of Transport. Such a Department may need to be introduced to direct and align activities across Transport modes, although it is unclear where this would sit in CIG.

Funding

To finance the authority, Government has created a "Road Fund," with four categories of revenue. This ensures funds are put aside for roads and are not able to be appropriated for other purposes. This would not be possible if the NRA was a Department of PLAH&I.

These are:

- 20% of the duty collected from motor gasoline imported into the Islands.
- 16 2/3% of the duty collected upon diesel oil imported into the Islands, (Excluding diesel used by Caribbean Utilities).

Key financials

Y/E 30 June (KY\$'000) Stat Accounts	FY13A	FY12A
Revenue	10,712	11,267
Operating Expenses	10,078	11,273
<i>Direct Labour</i>	2,138	2,523
<i>Indirect Labour</i>	3,046	3,345
<i>Materials</i>	1,490	1,428
<i>Subcontractors</i>	575	766
<i>Other Operating Expenses</i>	2,829	3,211
EBITDA	958	485
Depreciation Charge	321	471
Interest Charges (Bank Charges)	3	6

Source: FY13 Audited Financial Statements

Funding (continued)

- 100% of the fees paid to the infrastructure fund, as outlined in the Development and Planning Law (2003 Revision).
- 80% of the fees paid in respect of the registration of motor vehicles under Part II of the Traffic Law (2003 Revision).

Financial Comments

- A steady decrease in direct labour costs have been achieved by the NRA. There were 109 employees in FY11 down to 100 employees in FY12.
- However, the level of indirect labour is extremely high in comparison and has not decreased at the same pace. This points to inefficiencies in management structure and roles.
- Use of subcontractors has decreased rather than increased. However, there exists a limited pool of local road construction and maintenance providers, making it more difficult to achieve competitive prices.

¹ <http://www.rms.nsw.gov.au>

² <http://www.highways.gov.uk/about-us/what-we-do/roads-reform/>

23. NRA Improvements: Option Evaluation

The evaluation of each option is provided below, with there being no significant rationale to convert the NRA to a Department. Outsourcing of maintenance functions should be pursued

	Option 23.1: Conversion of NRA to a Government Department, while pursuing outsourcing and private sector involvement		Option 23.2: Outsource NRA maintenance functions to employee mutuals under term maintenance contracts, with NRA role as policy setter and contract manager	
Criteria	Comments	Rating (1 to 5)	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Creates an increase in core Government employees Government still able to pursue outsourcing and focus on policy and regulation if NRA is a Government department 	4	<ul style="list-style-type: none"> Allows continued and increased use of flexibility in employment Retains Government focus on regulation, road standards and contract management versus service delivery 	5
Financial	<ul style="list-style-type: none"> Leads to increase in core Government headcount and provision of better pension and health benefits to more individuals Potential for road funding to decrease as funds are diverted elsewhere instead of being sequestered 	2	<ul style="list-style-type: none"> May lead to reduction in labour costs and headcount in Government, if implemented well Retains Roads Fund and funds sequestering Enables competitive process for road maintenance, and opportunities for private sector efficiencies 	4
Ease of Implementation	<ul style="list-style-type: none"> Would require legislative change and the transition of staff back into Core Government 	3	<ul style="list-style-type: none"> Requires detailed planning and procurement of maintenance services, including specification, performance standards/KPIs and payment arrangements 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> If employee mutuals are pursued, this option enables employees to bid for contracts 	4	<ul style="list-style-type: none"> If employee mutuals are pursued, this option enables employees to bid for contracts 	4
Customer Service	<ul style="list-style-type: none"> Does not allow the flow of funding to be sequestered, potentially leading to a reduction in funding for roads and a deterioration of road conditions 	3	<ul style="list-style-type: none"> Should not negatively impact continuity of service levels and standards, but transition to new maintenance services providers will need careful management 	4
Workforce Impact and Capability	<ul style="list-style-type: none"> Staff are moved into central Government or if employee mutuals are pursued, into newly formed companies No impact on capability requirements 	4	<ul style="list-style-type: none"> There is the potential for some redundancies to reduce workforce size or for the movement of staff into employee mutuals 	3
Legislative and Regulatory	<ul style="list-style-type: none"> Requires legislative change to the National Roads Authority Law (2004) or its abolition 	2	<ul style="list-style-type: none"> No legislative change required [may need to be verified] 	5
Market	<ul style="list-style-type: none"> This option does not align as closely to other jurisdictions There is a shallow pool of road servicing companies. Road maintenance activities form a geographic natural monopoly if outsourced and mitigations needs to be put in place 	2	<ul style="list-style-type: none"> Term maintenance contracts are common for road maintenance and have increased in sophistication in recent years to better align performance requirements to payment and improve overall commerciality Scale of local market may inhibit new market participants 	4

23. NRA Improvements: Option Evaluation continued

There are opportunities to develop PPP contracts for discrete projects

Option 23.3: Outsource NRA major capital works function to private sector – consider the opportunity to use PPP contracts for discrete projects		
Criteria	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> Government focuses on regulation, road standards and contract management versus direct service delivery 	5
Financial	<ul style="list-style-type: none"> Significant advisor costs to facilitate PPP Scale of capital project, risk allocation and market capacity will dictate value for money 	3
Ease of Implementation	<ul style="list-style-type: none"> This option would require complex commercial arrangements to be developed for long term PPPs Requirement to develop detailed forecasts of potential road developments required and Government vs private sector funding in order to provide confidence to bidders that their investments will achieve an adequate return. PPPs are typically project specific and require significant upfront capital requirement – where access to private financing is desired 	2
Local Economy /Sensitivity	<ul style="list-style-type: none"> May lead to increased investment by the private sector in Cayman Islands roads, leading to faster development of new roads It is unlikely that any PPP operation would utilize only Caymanians in the workforce. There is likely to be a need to bring in international expertise and/or ownership of the PPP vehicle May require the application of tolls to achieve significant capital investment in roads 	3
Customer Service	<ul style="list-style-type: none"> May increase the quality of roads due to the application of private sector expertise 	4
Workforce Impact and Capability	<ul style="list-style-type: none"> Staff are transitioned, where possible, into the private sector PPP Significant improvements in contract management capabilities are required 	3
Legislative and Regulatory	<ul style="list-style-type: none"> Minimal to no legislation change required. 	4
Market	<ul style="list-style-type: none"> There is a current market for road construction on the island. 	4

Recommendation

We recommend that Option 23.2 and 23.3 are pursued, with the outsourcing of road maintenance by shorter term contracts considered first, including employee mutuals option, with the aim of building capacity and expertise in the local market before considering longer term maintenance contracts. Maintenance contracts will be performance based with KPIs and payments lined to achievement of maintenance outcomes. PPPs can be considered for discrete greenfield road projects. In addition, the implementation of speed cameras could be introduced for safety and revenue collection reasons.

24. IT Transformation: Option Overview

A wholesale re-visioning and restructuring of IT within the Cayman Islands Government is recommended – development of a Chief Information Officer (CIO) role responsible for IT strategy and centralised IT procurement

	Government Exit with Appropriate Oversight	Private Sector Involvement with Contractual Controls	Retain within Government and pursue efficiency or restructuring
Trade Sale		Outsource (1 to 3 year contracts)	Retain/change to a Government Department and pursue improvement
IPO - Partial Sell Down		Franchise/ Concession (5 to 30 Year exclusive contracts)	Retain/change to a Statutory Authority or Government Corporation and pursue commercialisation
IPO - Full Exit		Public Private Partnership (PPP) or JV (requires investment commitments)	Merge or Abolish

24.1: Option 1: IT Transformation

Creation of centralised CIO and federated IT model

- We believe there is a need to create a function within Government that works with Ministries to develop and align the IT strategy and architecture of the Cayman Islands Government. This function would also develop and implement a clearly defined IT development and support model across CIG (i.e. a proper federated model with clear roles and responsibilities, good governance and the implementation of an IT Steering committee).
- The CIO should contribute to Ministerial budgeting. Ministries should own the applications, however they must fit into the over arching IT strategy and framework as set out by CIO.
- This includes setting up the proper Government-wide IT Governance structures and processes and a review of all ongoing projects related to IT to prioritize and or put on hold. A review of the way in which these projects are managed and implemented should also be recommended to ensure there is a proper business case for each.
- This group should be moved into the Department of the Deputy Governor to provide guidance, IT policy and standards to all Ministries.

Centralised Procurement

- Procurement of all IT related goods and services should be overseen by a centralised Procurement office with IT expertise. This group could be located within the CIO office or it could be part of the new Central Procurement Office group within Finance and Economic Development.
- This recommendations is aligned with the Procurement Sub-Committee on Government Procurement, but recommends that either specific IT procurement expertise is recruited into the CPO team, or that the centralised CIO function leads all IT procurement from a 'category' perspective.

Asset Management and Asset Rationalisation

- In addition, improved IT asset management should be pursued, including the development of IT asset registers. Rationalisation of servers should also be pursued.

24. IT Transformation

Computer services, and IT more broadly, has a number of challenges and issues that need to be addressed to contribute to better outcomes and service for Cayman Islands citizens

Computer Services Overview

Computer Services has four functional service areas:

Applications and Database Administration Services

- Computer Services applications staff members perform the services of IT Consulting, IT project management, business process review and redesign, software/website development/support, application support/assistance, database administration and eGovernment. Support 41 In-house applications, 6 third party applications and 71 websites.

Technical, Helpdesk, and Operation Services

- Computer Services Operations Services staff provide Network Management, Design and Security, IT Infrastructure System Management and Installation (Email, Servers, Firewalls, Virus Protection, Internet, IT Security, Backups/Restores, Storage, and VOIP) and CCTV support. The team is also responsible for IT Infrastructure Project Management.
- Manage 457 Servers and 248 TB of data, and provide networking in 72 Government and private Buildings/locations for Government agencies.
- The Technical Services Team also provide expert PC support and maintenance services to Government computer and desktop users, the installation of standard end user desktop software/applications, and provide IT Helpdesk support, managing approximately 2586 PC's.

Distribution Services

- Distribution Services offers limited services for the four main Budget documents with top quality high volume photocopying, printing and binding services.

Administration

- Computer Services administration fills the role of general accounting and administration services.

- Computer Services employs 54 posts, and has an overall budget in FY FY14/15 of CI\$6.6 million, however spend CI\$1.8 million per annum on direct IT and IT related services from external third parties, with Oracle being the main supplier.

- Ministries and agency outsource some IT to external third parties e.g. Customs

Challenges and Issues

No Overarching IT Strategy or Architecture

- There appears to be an ad-hoc and reactive approach to IT within Government, other than the selection and implementation of Oracle, which provides a solid base for the future. There is no evidence of a Government IT Strategy or plan for the future state architecture of IT for Government.

No Interagency charging

- As Ministries and Departments do not pay Computer Services for any services directly through inter agency billing, there is no 'user pays' principle or deterrent to request services. Demand for services and resources far exceeds that available.
- Agencies come to CSD for services when they do not want to spend their own resources or money.

No Service Level Agreements (SLAs) with Ministries or Agencies

- Due to dropping of interagency charging, CSD is no longer documenting and agreeing formal SLAs with Government customers, leading to confusion on service levels, terms and priorities.

Lack of alignment or prioritisation on IT projects or IT spend

- Computer Services finds it difficult to determine where to allocate its budget and resources.
- There is no record of how much is spent on IT across Cayman Islands Government
- Computer Services is not provided with any higher level forum or governance body within which to review and prioritise proposed IT projects or determine where to allocate limited budget and resources of CIG. Multiagency or CIG solutions reviews of IT on a value for money or shared agency funding basis are rare or non-existent.
- Agencies can go to market for software solutions, with Computer Services bidding, and current Computer Services vendors are able to withhold consents from CS to access functionality and bid directly, leading to increased costs for whole of Government.

24. IT Transformation (cont'd)

Computer services, and IT more broadly, has a number of challenges and issues that need to be addressed to contribute to better outcomes and service for Cayman Islands citizens

Challenges and Issues (continued)

Applications not being updated and demands far exceeds resources

- Computer Services has 2-5 man years of effort in outstanding work requests for each of the three teams.
- Multiple IT applications are supported by Computer Services staff who have various levels of training and limited resources, causing backlog in maintenance and support issues.

Poor IT Security and Risk Management

- There are significant vendor risk management and security concerns. There is a minimal cyber security program in place.

Decentralised Procurement and Contract Management

- There is no synchronised and usable overall Government IT asset register, or record of IT licences, software, hardware etc.
- There is no evidence of leveraging the significant scale benefits that the CIG would have in purchasing IT: licences, computers, servers or other IT assets, consulting, maintenance/support, etc.
- There is no ability for CSD to assist Ministries or Departments to manage their outsourced contracts through providing IT contract management expertise.

Aging Infrastructure, no capital budget and no Government wide IT asset register

- There is a significant amount of IT infrastructure and assets that are well past assets' life spans or unsupported by vendors. This has resulted in poor user performance, reoccurring unavailability of services/systems, and security issues. The highest priority infrastructure request was replacing the backup/restore infrastructure; however the CSD FY12-13 and FY14-15 capital budget was cut to zero.

Lack of appropriate business analysis resources

- No dedicated business analysts or centralised or strategic business process engineering or project management resources to assist with system implementation or process improvements related to system performance. All potential resources already support project team managers or are implementing applications e.g. Mgt Support Unit .
- Almost all agencies have business analysts, however these staff are rarely doing this for applications so CSD ends up having to do this work along with application development. Where CSD does some review/engineering of business processes for application solutions, it often doesn't happen as CSD isn't given the authority to do so.

IT Market Overview in Cayman Islands and the Caribbean

- IT services are a competitive activity performed by a large number of global companies around the world.
- There are currently a number of smaller Cayman Islands based IT service providers as well as some larger IT companies who are based in Miami and serve the Caribbean market.
- The table below outlines a number of these, some of whom already currently provide outsourced services to the Cayman Islands Government.

Company		Service Type
Kirk ISS		IT services, support and software reseller
Oracle Caribbean		Applications, Operating Systems, Servers and IT solutions
Metalogix		Document storage
CVISION TECHNOLOGIES, INC.		Document management
IBM (Miami)		General IT services
Microsoft (Miami)		Software products
Solarwinds		Infrastructure services
Caribbean Solutions Lab		IT security

24.1. IT Transformation: Detailed Analysis

There are financial benefits to better IT procurement across Government, as well as a reduction in duplication, poor IT decisions and improvements in customer service through technology

Option Overview

- Outsourcing of IT services (also covered within the outsourcing section of this Report).
- The provision of IT services should be outsourced to the private sector. This could be in a number of packages to encourage competition e.g. IT support services offered separately to application support.
 - Contract management should be done by the centralised procurement team.

It is noted by EY that Deloitte is currently reviewing the strategy for Computer Services, and that this work may provide a different view on the best path forward. We note that eGovernment, both external and internal, should play a central role. (i.e. an infrastructure strategy, and application architecture strategy, a data strategy, a identity and access management strategy etc).

Benefits to Government

- The creation of a centralised CIO will lead to improved IT outcomes and a flow on effect to better customer service for Cayman Islands citizens. The CIO function would establish minimum standards for IT across Government and set IT policies for security, sourcing and other aspects.
- Significant financial savings could be achieved through centralisation of IT procurement. This includes synergies in group licences, removing rate differences between service providers and negotiating bulk discounts, reducing wastage and obsolescence. Outsourcing benefits are captured elsewhere in this report.
- Financial benefits from procurement are in the order of 5 - 7% of total IT spend. It is difficult to estimate the total IT spend across CI Government, however, we believe that it is as least over \$10m per annum, meaning a potential saving of \$500 - \$700k per annum.

Risks

- Lack of capability to develop overarching IT strategy within existing capability set.
- Inability to work with Ministries to understand IT strategy and requirements.
- Scale and quality of the providers for outsourced packages may be insufficient.
- Ministries going to market separately outside of the centralised IT procurement, thus minimising the benefits of scale purchases.
- Ministries not wanting to align to overall CIG IT strategies and directives e.g. purchasing completely difference computer types and requiring support be provided for this hardware.

Risks (cont..)

- Discussions with CIG have uncovered that an 'eGovernment' initiative is underway, with the recruitment of an eGovernment role under Cabinet Office. We believe this should be reviewed and brought under the Deputy Governor's Office - or a clarification of the difference between the two offices sought so that one is designated as the central services provider. The eGovernment initiative should be put on hold until a CIO and central IT strategy can be completed.

Implications and Implementation Considerations

- Significant work required to define the new operating model for IT across Government, as well as define IT services requirements for each Ministry.
- Work required to take outsourced packages to market, select vendors and transition services to the selected vendors (covered in outsourcing section).
- It may be that some of the existing Computer Services staff do not have the relevant skills to be part of the strategic IT central team - additional training may be required.
- There is the potential to pursue Infrastructure as a Service (IaaS) and Software as a Service (SaaS) strategies to minimise upfront capital outlay by Government and provide increased flexibility. This has been pursued in Queensland recently, with the Commission of Audit Report¹ recommending the exit of ownership of all IT systems and hardware and the move to IaaS and SaaS.

Initiative Profile

Estimated Total Benefit Over \$500 - 700k in procurement savings

Estimated Headcount Impact Minimal to none



¹ <http://www.commissionofaudit.qld.gov.au/reports/final-report.php> - Volume 3, Section E7

24. IT Transformation: Evaluation

Although a body of work is required to execute the recommendation, we believe it will provide significant improvement to all aspects of the Cayman Islands Government and should be pursued with urgency

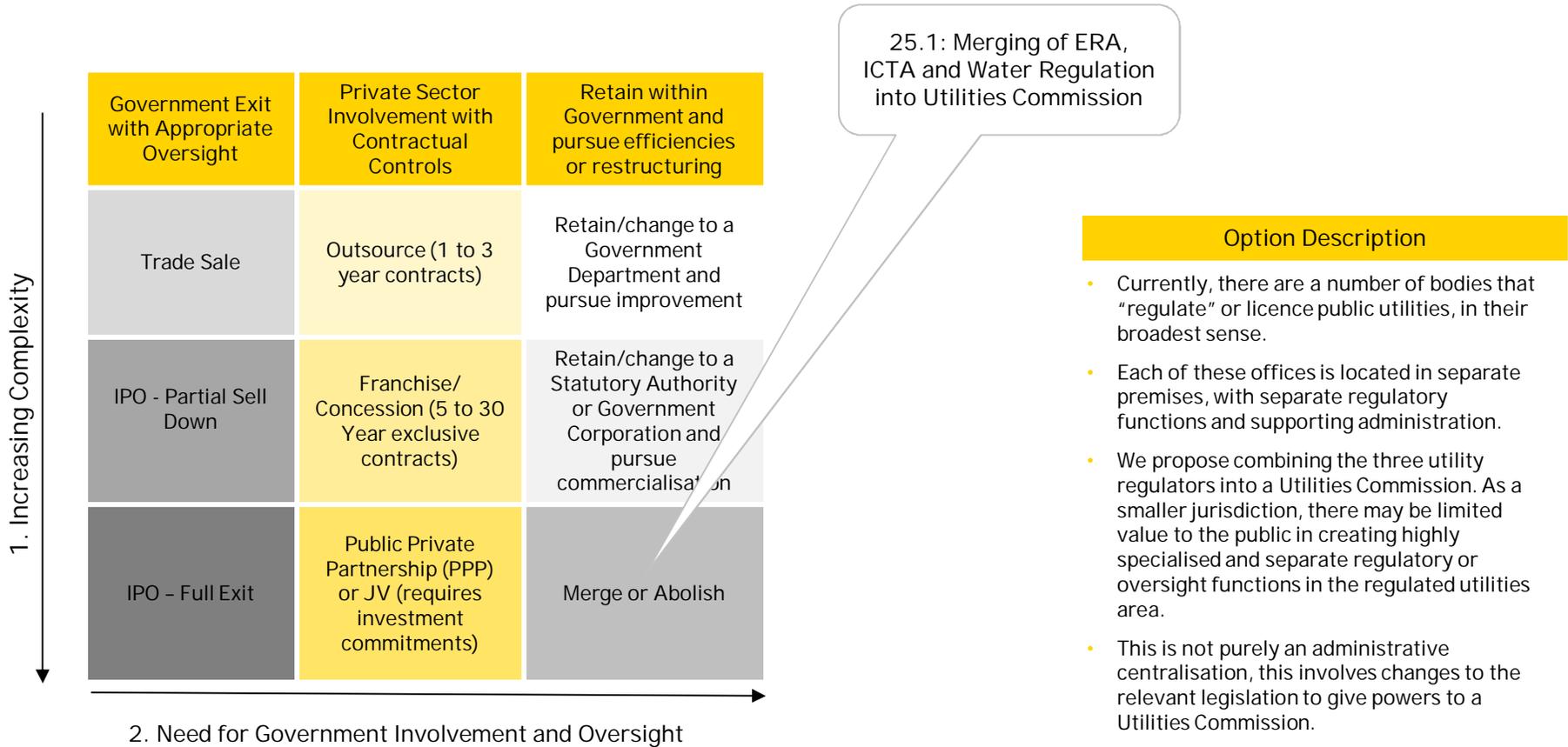
Criteria	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> This initiative enables Government to focus on its core functions of IT policy and standards setting and delivering this in a more efficient and effective manner. 	5
Financial	<ul style="list-style-type: none"> Potential savings in cost of IT products and services through lower unit costs negotiated through scale. There will be minimal costs to implement the recommendation. There is the potential to avoid future large capital spend through contracting infrastructure or software 'as a service'. 	4
Ease of Implementation	<ul style="list-style-type: none"> The recommendation involves significant change for Home Affairs, the Department of Deputy Governor, as well as Ministries and impacted employees. A change management program will need to be planned and executed Implementation will be potentially difficult and require a dedicated team of resources to facilitate it. However, the situation requires urgent and immediate attention. 	4
Local Economy /Sensitivity	<ul style="list-style-type: none"> This option enables the potential for some resources with appropriate and suitable skills to transition to the CIO function This is not an 'essential' service and has no negative impact on the local economy. 	3
Customer Service	<ul style="list-style-type: none"> There is potential for this initiative to greatly improve the IT landscape within Ministries and Government. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> There is the potential for redundancies if employees are not transitioned to either the CIO office or selected vendors as part of the outsourcing. There is the potential for an increase in capability of Government employees in the CIO function through increased training. 	3
Legislative and Regulatory	<ul style="list-style-type: none"> No legislative or regulatory changes are required to facilitate this option, and minimal barriers exist to its implementation 	5
Market	<ul style="list-style-type: none"> There is evidence of many other jurisdictions centralising their strategic IT police and standards setting function within a Department of Government e.g. Department of Science, Information Technology, Innovation and the Arts in Queensland¹. 	4

Recommendation

We recommend that this initiative is pursued with urgency, with a project formed to begin planning and executing the implementation alongside an outsourcing program. The eGovernment initiative should be put on hold until a CIO and central IT strategy can be completed.

25. Creation of Utilities Commission

Currently, there are a number of bodies that “regulate” or licence public utilities, in their broadest sense. We propose merging these entities into a Utilities Commission



25. Creation of Utilities Commission: Detailed Analysis

The ICTA, ERA and Water Authority all regulate private sector entities, negotiating the terms of licences, promoting competition and monitoring compliance.

Entity Overviews

ICTA (Information and Communications Technology Authority):

- An independent statutory Authority which was created by the enactment of the Information & Communications Technology Authority Law (2002), responsible for the regulation and licensing of Telecommunications, Broadcasting, and all forms of radio which includes ship, aircraft, mobile and amateur radio.
- The Authority provides regulatory services to the industry and the public in relation to applications for licences and licence amendments, assignment and use of electromagnetic spectrum, FOI requests, Dispute Resolutions, complaints, services to CIG - Drafting Instructions for the Development of Legislation, Management of KY Internet Domain, Collection and Verification of Licence Fees, Policy Advice, Education of Local Businesses and the General Public on ICT Issues and Regional and International Representation.
- Employee details: 8 employees.
- Annual Budget: \$1.7 million, with an EBITDA of \$200k
- Board: 7 Board members, plus Chief Office and Managing Director on the Board.

ERA (Electricity Regulatory Authority):

- The ERA began in May 2005 under the Electricity Regulatory Authority Law 2005.
- The ERA activities include the negotiation, issuing and management of Licenses granted to Caribbean Utilities Company Ltd (CUC). ERA continues to monitor the Cayman Brac Power & Light (CBPL) licence granted in 2003.
- Primary goals are to continue to monitor these licences during the financial year, promote renewable energy sources, and negotiate new licences with new entrants to the electricity industry within the Cayman Islands, to ensure the continued supply of dependable electricity in the Cayman Islands.
- Employee details: 3 staff.
- Annual Budget: Revenue of \$1.1 million, costs of \$697,000 and EBITDA of \$383,000 in FY13k. Licencing fees received from CUC. No fees received from Cayman Brac Power & Light.
- Board: 8 Board members, plus Chief Officer and Managing Director on the Board (non-voting).

Entity Overviews

Water Authority (Regulation)

- The CI Water Authority has a regulatory and licencing function within the operating business, which regulates Cayman Water /Consolidated Water, a private sector company, as well as numerous water related companies. Cayman Water operates under a 20 year License Agreement granted by the Cayman Islands Government to manufacture potable water from seawater and distribute it by pipes for reward directly to end users.
- The Water Authority operates under the Water Authority Law (18 of 1982) (FY11 Revision) and the Water Authority Regulations (FY12 Revision). Under the (Water Production and Supply) Law 2011 the Authority advises the Governor-in-Cabinet on the issuance of concessions for the production and supply of water and grants licences for such concessions.
- Under the Wastewater Collection and Treatment Law, 2011, the Authority advises the Governor-in-Cabinet on the issuance of concessions for the collection and treatment of wastewater and grants licences for such concessions.
- Cabinet relies on the technical expertise of the Authority as regulator of water and wastewater utilities to determine the specific conditions of the licences of concessionaires.
- The number of staff dedicated to Water Regulation is 12.
- The costs of this department were \$1.4 million (would expect it to be similar in FY14) for the period ending 30 June FY13.

25. Creation of Utilities Commission: Detailed Analysis continued

Smaller jurisdictions and states within countries have tended to merge regulatory functions, whereas larger national jurisdictions have separated electricity, telecommunications and other regulators

Inter-jurisdictional Comparisons and Benchmarks

Australia:

- As a larger country with over 24 million people, federal level regulators are separated e.g. Australian Energy Regulator, Australian Communications and Media Authority etc.
- NSW, as a state of 6 million people, has an Independent Pricing and Regulatory Tribunal whose role it is to review prices for water, electricity, gas, public transport and taxi services in NSW, and decide how they can increase over a certain time (usually the next 3 or 4 years)¹.
- In smaller states such as the Northern Territory, a Utilities Commission² has been established and separated from the delivery arms of regulated industries. The NT Utilities Commission is responsible for the regulation of prices for certain monopoly services, licensing of regulated industry participants, and monitoring the performance of regulated operators. In performing these functions, the Commission has regard to the need to promote competitive and fair market conduct and to prevent the misuse of monopoly or market power, as well as to facilitate entry into the market and to promote economic efficiency.

US:

- In California, a large state, they have consolidated all utility regulation. The California Public Utilities Commission² regulates privately owned electric, natural gas, telecommunications, water, railroad, rail transit, and passenger transportation companies. They regulate utility services, stimulate innovation, and promote competitive markets, where possible.

UK:

- There are four separate bodies to regulate water, gas, telecommunications and water. The regulatory framework put in place following privatization was designed to look after the interests of consumers and to ensure that the privatised utilities did not exploit their dominant market position. Price capping regulation was introduced for most utilities, rather than rate of return regulation.

NZ:

- There are separate regulatory bodies in NZ. The Electricity Authority promotes competition in, reliable supply by, and the efficient operation of, the New Zealand electricity industry for the long-term benefit of consumers. Water is regulated in each local council region, there is no national water regulator.

Barbados, Jamaica, and Trinidad & Tobago have existing multi-sector regulators covering the power sector.

Jamaica

- Jamaica has an integrated Utility Commission. The Office of Utilities Regulation (OUR) was established by an Act of Parliament in 1995 to regulate the operations of utility companies. Operations began in January 1997.
- The Office of Utilities Regulation is responsible for the regulation of Electricity, Water and Sewerage, and Telecommunication sectors as well as economic assessment of the Transportation sector in Jamaica. The OUR has also been recognized internationally for the pioneering role it has played in the regional development of independent utility regulation and the liberalization of the telecommunications sector.

Trinidad and Tobago:

- A Regulated Industries Commission (RIC) was established by the RIC Act of 26 of 1998 and is the economic regulator for the Water and Sewerage Authority and Trinidad and Tobago Electricity Commission. The RIC succeeded the Public Utilities Commission (PUC) and is a consumer-oriented entity with strong regulatory powers and responsibilities.

Bahamas:

- The Utilities Regulation and Competition Authority (URCA) is the regulatory authority with responsibility for the electronic communications sector (ECS) in The Bahamas. The sector comprises fixed and mobile telephone services, spectrum and numbering, Internet services and broadcasting including pay television.
- URCA was established under the Utilities Regulation and Competition Authority (URCA) Act, 2009. URCA replaced the Public Utilities Commission (PUC) and the Television Regulatory Authority (TRA).
- Although URCA currently regulates the ECS only, it may regulate other sectors over time (such as energy and water), if given specific responsibilities to do so under other sector specific legislation.
- Regulation of electricity still sits within the state owned corporation, the Bahamas Electricity Corporation (BEC).

¹ <http://www.ipart.nsw.gov.au/Home>

² <http://www.utilicom.nt.gov.au/Pages/default.aspx>

25.1. Creation of Utilities Commission: Detailed Analysis continued

Merging the ICTA, ERA and Water Authority regulatory functions could save \$250,000 a year. However, the real benefits are in the sharing of regulatory best practices, systems and resources creating flexibility and efficiency

Benefits to Government

- There are 23 FTEs within the three entities. 1 to 2 of these FTEs may not be required in an amalgamated Utilities Commission leading to estimated savings in employee wages and on-costs of \$150,000. There are likely to be property savings by combining offices in the order of \$100,000 p.a. Therefore, a relatively low level of financial cost savings could be achieved.
- The conflict of interest where the Water Authority delivers services and self-regulates would be removed.
- Reduced duplication in systems, resources and effort between regulatory style offices.
- Potential for sharing of best practices in similar regulatory style functions and processes e.g. licencing, pricing oversight, monitoring.
- Maximise flexibility and reallocation of resources and allows for future regulatory development.

Implications and Implementation Considerations

- The design of the new Utilities Commission will need to occur, along with determining any potential headcount reduction as a result. May be issues with determining the organisational and leadership roles within the new Utilities Commission – necessarily results in less leadership roles.
- Legislation will be needed to facilitate the merger. This will require changes to the Information & Communications Technology Authority Law (2002), the Electricity Regulatory Authority Law 2005 and the Water Authority Law (18 of 1982)(FY11 Revision), as well as all associated regulations
- There is the opportunity to critically review the way prices are monitored across the Cayman Islands. The UK uses price-cap regulation, whereas Australia uses a range of rate of return and revenue-cap regulation. Price regulation every 3 or 4 years would align to most jurisdictions for monopoly services.

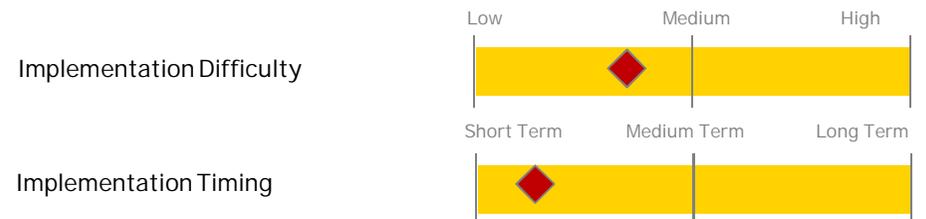
Risks

- Disruption during the merger integration process.
- Integration and alignment of systems, processes and people will take careful planning.
- Resistance to the concept of including the ICTA in with electricity and water regulation.
- Legislation may be needed to facilitate the merger and may be controversial.

Initiative Profile

Estimated Total Benefit \$250k p.a., in addition to significant non-financial benefits

Estimated Headcount Impact 1 to 2 FTEs



25.1. Creation of Utilities Commission: Option Evaluation

Merging the ICTA, ERA and Water Authority regulatory functions removes perceived conflicts of interest, reduces administrative duplication and consolidates similar regulatory style functions and processes

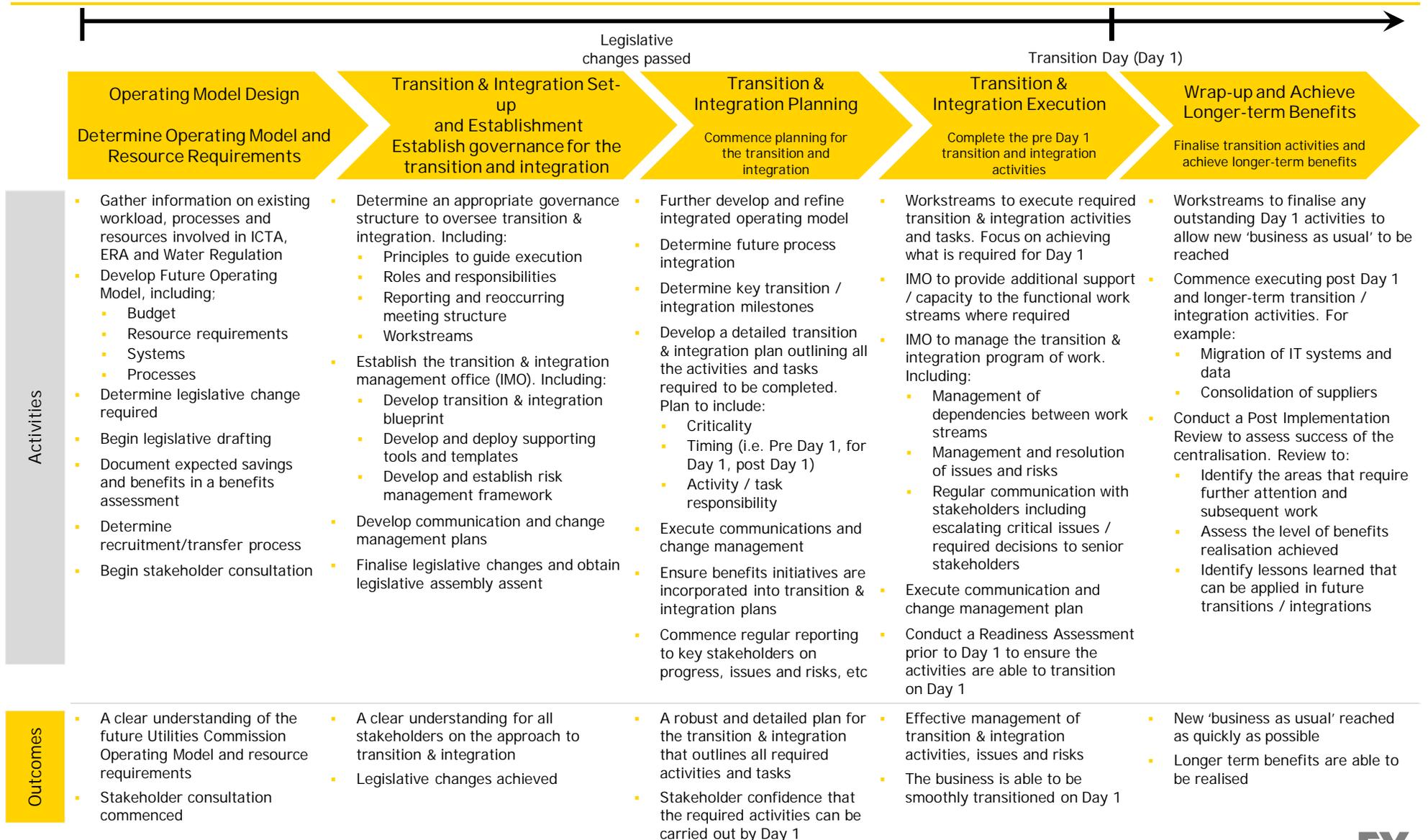
Criteria	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> This initiative reduces the number of separate entities within Government, and allows focus on the Government role of regulation and policy. This initiative separates regulation and Government policy from delivery roles. 	5
Financial	<ul style="list-style-type: none"> Savings in property and duplicated administration, along with associated redundancy costs. There may be some implementation costs to align systems and processes. There are no longer term liability implications. 	2
Ease of Implementation	<ul style="list-style-type: none"> The changes required potential legislative change. Implementation will need to be well planned and managed, and communicated to the public. There is some concern about the merger of the ICTA into a Utilities Commission. 	3
Local Economy /Sensitivity	<ul style="list-style-type: none"> There is the potential for the Utilities Commission to have a more broad view of pricing of Utilities in the Cayman Islands and consider the bigger picture when setting up licencing arrangements. 	4
Customer Service	<ul style="list-style-type: none"> There is the potential for this initiative to significantly improve the regulation of utilities in the Cayman Islands, leading to better customer service. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> There is the potential for some redundancies and for the movement of staff into one entity. There is no need for significant increases in Government or employee capability. 	3
Legislative and Regulatory	<ul style="list-style-type: none"> There are some legislative changes that will need to be introduced. 	3
Market	<ul style="list-style-type: none"> Other smaller states or countries have created combined Utilities Commissions. 	5

Recommendation

We recommend that this initiative is pursued as a "quick 'win' opportunity", with an initial phase to understand legislative changes required, size the new Utilities Commission function and develop the future operating model.

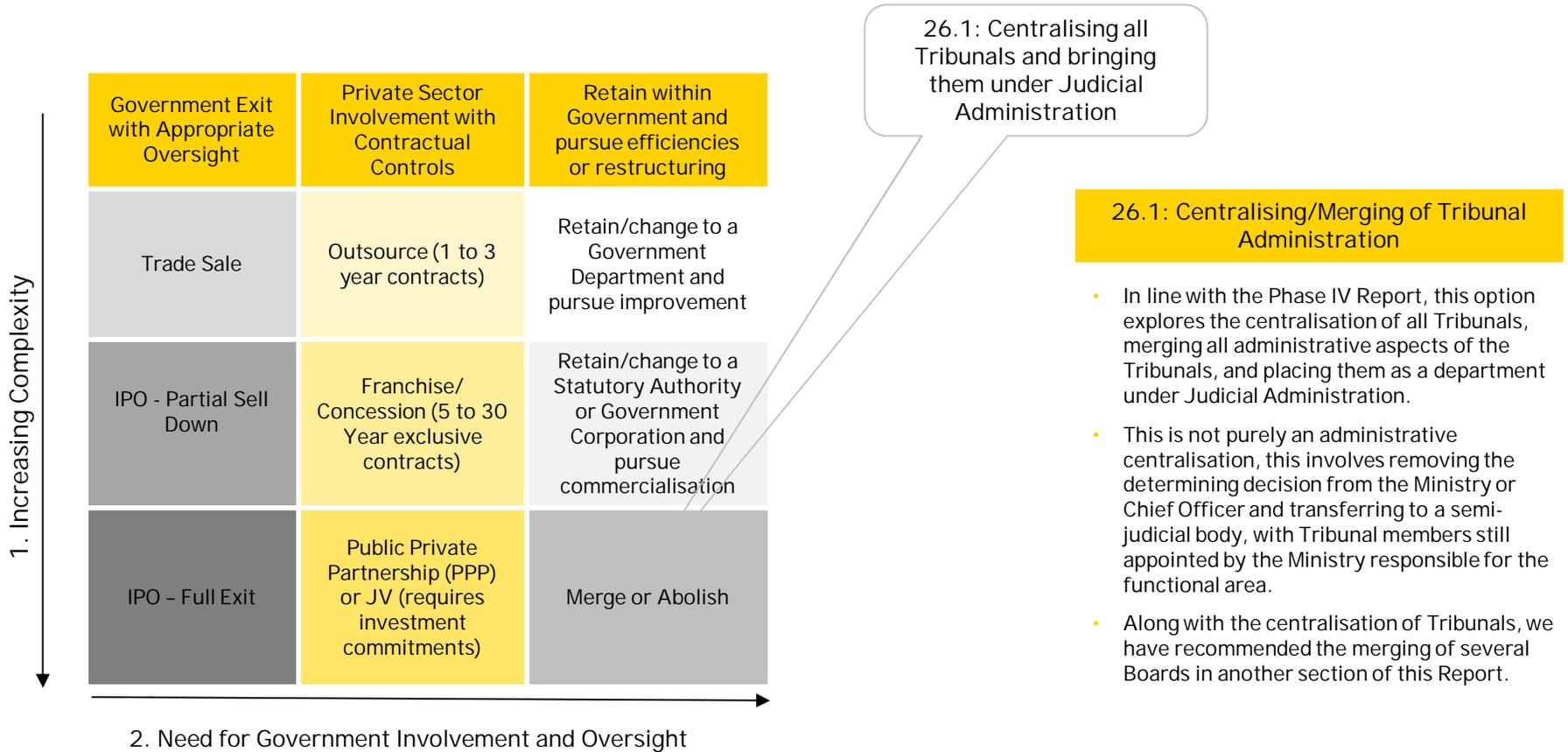
25. Creation of Utilities Commission: Implementation Plan

Implementation involves legislative drafting, detailed operating model design, transition and integration planning and communications and change management



26. Centralised Tribunal Service

There are currently approx. 15 tribunals as well as many other adjudicating bodies across Government¹, all administered and adjudicated separately under each Department's jurisdiction



¹ Audit of Tribunals and other Adjudicating bodies Draft v3

26. Centralised Tribunal Service: Detailed Analysis

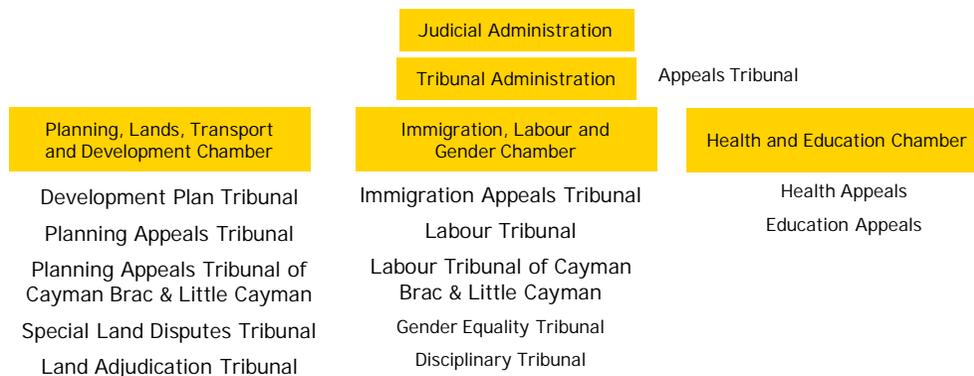
Centralising Tribunal Services has been implemented in NZ, Australia, UK and Ireland. We propose the amalgamation of tribunal administration as well as the merging of tribunal members into a “Chamber”

Initiative Overview

- Currently, there are separate Tribunals, and Tribunal administration, for over 100 Tribunals or adjudicating bodies. It is not possible to list all these Tribunals here, but a sample of the larger ones are provided below:
 - Immigration Appeals Tribunal
 - Labour Tribunal and Labour Tribunal of Cayman Brac & Little Cayman
 - Labour Appeals Tribunal
 - Gender Equality Tribunal
 - Land Adjudication Tribunal
 - Education Appeals Tribunal
 - Planning Appeals Tribunal and Planning Appeals Tribunal of Cayman Brac & Little Cayman
 - Development Plan Tribunal
 - Special Land Disputes Tribunal
 - Public Transport Appeals Tribunal
 - Health Appeals Tribunal
 - Disciplinary Tribunal
- Current tribunal administration in the Cayman Islands has been reported as being ad-hoc and operating in silos, with different ministries taking their own approach to the operation of each Tribunal. Tribunal cases are backlogged to such an extent that cases can become time barred. There is a possibility that section 7 (Fair Trial) and section 19 (Lawful Administrative Action) of the Bill of Rights could be compromised².
- Judicial Administration has suitable capabilities to manage and oversee tribunal administration, as tribunals are instruments of civil justice. Bringing it in line with the courts administration role will maximise synergies between the activities of both tribunal and court administration and ensure sharing of best practice.
- There should be the option to hold Tribunal hearings on Cayman Brac and Little Cayman, as required.
- There may be pool of Tribunal members that could be called upon to sit on any particular appeal within a particular subject area, these could be grouped into Chambers, as has been implemented in the UK. Some tribunals may need more specialised members e.g. Immigration, Medical, Labour.
- Additional work is required to determine the final Chamber groupings that best suit the Cayman Islands, but a possible Tribunal Chamber structure is proposed opposite, where Chamber members could be asked to sit on any of the Tribunals within the Chamber.

Inter-jurisdictional Comparisons and Benchmarks

- Australia: Administrative Appeals Tribunal established to provide independent merits review of administrative decisions. Recently amalgamated the Migration Review Tribunal, Refugee Review Tribunal, Social Security Appeals Tribunal and Classification Review Board to maximise efficiencies.
- UK: A unified Tribunals Service was established in April 2006 for UK-wide tribunals. The UK, due to its size and the need for speciality appeal decisions, has 7 “Chambers” of Appeals (e.g. General Regulatory, Immigration and Asylum). In England and Wales, Employment Tribunals were excluded from the First-tier Tribunal Chambers on the basis that they handle party to party disputes and a very high volume of cases.
- NZ: The Tribunals Unit of the NZ Ministry of Justice provides administrative and registry support services to 28 tribunals, authorities and committees. The only exception is the Waitangi Tribunal which hears appeals based on actions or omissions of the Crown that potentially breach the promises made in the Treaty of Waitangi.
- Ireland: In the FY11 Discussion Paper on the Future Administration and Structure of Tribunals in Northern Ireland¹, the Department of Justice clearly outlines the benefits of aligned or integrated tribunal systems. Northern Ireland was considering the merits of not only centralised administration, but the creation of a single tribunal, with remit to hear all first instance appeals.



¹ http://ico.org.uk/about_us/consultations/~media/documents/consultation_responses/Tribunal-Reform-in-Northern-Ireland-consultation-FY130125.ashx

² Review of Public Services - Phase 4 - Rationalisation of the Public Service

26.1. Centralised Tribunal Service: Detailed Analysis

There a number of non-financial benefits that can be achieved through this initiative, with minimal risks to implementation

Benefits to Government

- Creates an integrated, professional, efficient, and customer focused tribunal service.
- Enhances the independence of the Appeals and Tribunal process by putting at arms length from the Ministries/Departments.
- Improvement in tribunal processes through the leverage of best practices, whereas currently the work is a part-time effort. Facilitates faster response and processing of tribunal applications and hearings through a dedicated and specialised team focused solely on administering tribunal processes, potentially with an increase in legal or mediation experience. There is a potential to utilise some judges or magistrates in some more high profile appeals.
- Reduced duplication in systems, resources and effort between Tribunals.
- Volunteers from the private sector who currently sit on Tribunals could be freed up to contribute elsewhere in Government or the community.
- Maximise flexibility and reallocation of resources and allows for future development.
- Potential for financial savings through increased process efficiency.

Risks

- Integration and alignment of systems, processes and people will take careful planning.
- Resistance to the concept of Tribunal Chambers, with some Ministries of a view that there is too much specialisation to allow for pooled Tribunal Members.
- Some seats on Tribunals may no longer be necessary, leading to potential sensitivity with Tribunal members.
- Legislation may be needed to facilitate the centralisation and may not pass the Legislative Assembly.

Implications and Implementation Considerations

- The design of the new Tribunals Administration Chambers and administrative service within Judicial Administration will need to occur, along with the appropriate sizing of resources to support it. This will require a review of the total number of cases, length and associated effort.
- Requires the creation of a one-stop shop for Tribunal applications (web and/or counter).
- Requires the adoption of a consistent process for processing Tribunal applications.
- Legislation may be needed to facilitate the centralisation.
- No significant headcount implications, as tribunal administration is a very small percentage of many Government employee roles within Ministries. It is expected that a process should be followed to identify existing Government staff that may be interested in moving into Tribunal Administration, and that no new positions be created from this initiative.

Initiative Profile

Estimated Total Benefit

Non-financial benefits

Estimated Headcount Impact

Movement of resources to Judicial Administration

Implementation Difficulty



Implementation Timing



26. Centralised Tribunal Service: Option Evaluation

This initiative will enhance civil justice, improve Tribunal processes, save on duplicated administrative activity improve service delivery

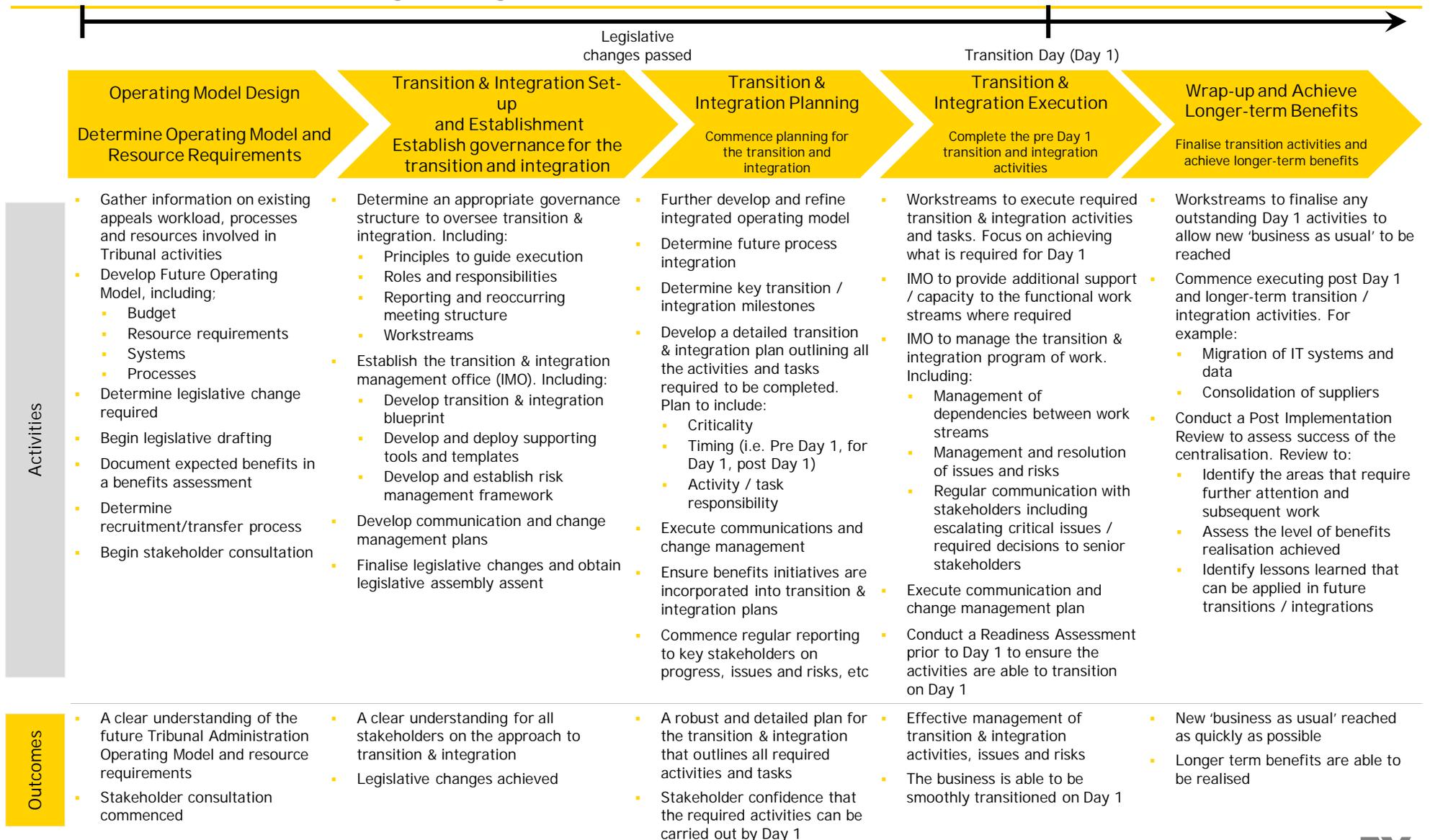
Criteria	Comments	Rating (1 to 5)
Alignment to Government's Role	<ul style="list-style-type: none"> This initiative reduces the duplication of administrative effort within Government, increases efficiency in Tribunal processes and allows the focus on administration and adjudication of appeals . 	5
Financial	<ul style="list-style-type: none"> Potential for financial savings through increased process efficiency There may be some implementation costs to draft legislation and align systems and processes, likely to be in the order of \$75,000 to \$100,000. There are no longer term liability implications. 	2
Ease of Implementation	<ul style="list-style-type: none"> There are no significant impediments to implementation, other than legislative changes. Implementation will need to be well planned and managed, but is not a difficult or complex process. There is no evidence of strong resistance from stakeholders to the concept, including Judicial Administration. 	4
Local Economy /Sensitivity	<ul style="list-style-type: none"> There are no significant impacts on the local economy or pricing. 	4
Customer Service	<ul style="list-style-type: none"> There is the potential for this initiative to significantly improve service to appellants. 	5
Workforce Impact and Capability	<ul style="list-style-type: none"> There is the potential for some positions to be moved from Ministries/Departments into Judicial Administration There is no need for significant increases in Government or employee capability. 	4
Legislative and Regulatory	<ul style="list-style-type: none"> There are some legislative changes that will need to be introduced. 	3
Market	<ul style="list-style-type: none"> There is a significant number of jurisdictions where this option has been pursued. 	5

Recommendation

We recommend that this initiative is pursued as a 'quick win' opportunity with an initial phase to understand legislative changes required, size the Tribunal Administration function and develop the operating model.

26. Centralised Tribunal Service: Implementation Plan

Implementation involves legislative drafting, detailed operating model design, transition and integration planning and communications and change management



Other Recommendations

Other Recommendations

There are a number of lower priority recommendations that should be considered that either do not warrant the detailed analysis within this Report, are required as part of implementation or are more straightforward

Merging or Rationalising Entities

27. Merging of the administrative functions of the Law School and UCCI

The consolidation of the back office aspects of UCCI and the Law School of the Cayman Islands would reduce duplicated efforts across two Government higher education providers and maximise efficiencies in student administration, finance, HR and procurement. The savings would not be significant, however the efficiencies achieved and potential better practices could positively impact on both financial and student outcomes.

28. National Drug Council to be abolished and moved within the HSY&C Portfolio

The role and mandate of the National Drug Council, as described in the National Drug Council Law 1997, is extremely broad, including research, evaluation, establishing treatment centres, developing policies and so on¹. It has been reported that the NDC, due to limited resources, is necessarily selecting its activities from the list of potential activities. This means that it is difficult to define the capabilities required and then select appropriate resources to undertake its activities as a separate entity. It is proposed that the NDC is abolished and its activities undertaken by the HSY&C Portfolio within a specialised department. This would rationalise the number of entities in Government, whilst enabling the existing important activities to be maintained. It is proposed that the NDC is moved from Home Affairs to HSY&C to align with its direct impact on human health, although it is recognised that an interaction with the Police and Prisons should be maintained. An alternative to this recommendation would be to reduce the role of the NDC and clearly define its interactions with Departments and align legislation to this more limited and focused remit.

29. GIS to be devolved into the Ministries with a lean central functionality

Our interviews and analysis have shown that the Government Information Service (GIS) has experienced significant challenges with its reputation, stakeholder management, capability and service delivery. There are delays in communication being distributed to the public on critical matters and a disconnection between Information Officers and their 'clients'. We propose that "Ministerial Communications" is devolved to the respective Ministries, with a small central functionality retained, to better enable a more direct relationship on the management of issues and communication on key policy matters. Should the recommendations regarding Radio Cayman Not be pursued it could also be considered as part of this initiative.

We believe this could better meet the communication needs of the ministries. It will enable faster response to constituency issues and closer alignment between communications and the Ministry and Chief Officer. A small central communications unit, including CIG TV, may be retained within Cabinet Office for use by all Ministries as well as the Cabinet Office, Premiers Department and Deputy Governor.

30. Merge the Hotel and Liquor Licencing Boards

We propose that the Hotel Licencing Board and the Liquor Licencing Board be merged into the one entity due to the similarity and overlap in the licencing area (Hotels and Bars) and similar considerations for licencing. This rationalises the number of entities in CIG but does not have a significant financial impact.

31. Abolish National Housing Development Trust and incorporate functions into CIDB

The Housing Development Trust's mission is to construct houses in planned communities and facilitate affordable home ownership for the Caymanian people through several financing options. The Cayman Islands Government, working with National Housing Development Trust and local private banks, provide mortgages to Caymanians and Caymanian Status holders. We recommend that these activities are aligned to, and could be brought within, the remit of the Cayman Island Development Bank (CIDB), which is mandated to support entrepreneurship, economic and social development through the provision of loans, equity financing and forms of assistance for tertiary education, first home buyers and the development of small business. CIDB's lending arm extend to all three islands namely, Grand Cayman, Cayman Brac and Little Cayman. This recommendation includes the abolition of the similar entity, the Sister Affordable Housing Development Corporation, and its incorporation into the CIDB. Obviously any decision to exit the CIDB would impact this recommendation.

32. Merger of National Museum, Art Gallery and Cultural Foundation into one Cayman Cultural Entity

Although not of significance from a financial value or overall impact perspective, it does appear there is some merit to the formation of one Cayman Cultural Entity. There are several areas where increased collaboration and cooperation would benefit the whole of the Cayman Islands, including the sharing of resources, systems, administration and best practices for marketing and commercial management. For example our interviews and research indicate that the commercial and marketing skills and capabilities recently demonstrated by the Art Gallery may benefit the Museum and the Cultural Foundation.

Other Recommendations

There are a number of lower priority recommendations that should be considered that either do not warrant the detailed analysis within this Report, are required as part of implementation or are more straightforward

33. Rationalise Health Councils

There are currently four Health Councils whose role is to approve the registration of new health related practitioners. These include Nursing & Midwifery, Medical and Dental, Professions Allied with Medicine and Pharmacy. Although the Councils are of a view that their subject areas are very different, we believe that it would be more efficient use of administrative and volunteer effort to combine the Pharmacy Council with the Professions Allied with Medicine Council, reducing the number of Health Councils from four to three.

34. Internal Audit and HR Audit to be combined into one division

There may be value in consolidating the Internal and HR Audit units as both conduct audits of Government entities and there may be learnings and synergies to be achieved between the departments.

35. Abolish the Special Economic Zone Advisory Board and incorporate into the Trade and Business Licencing Board (in 2 years time)

The Special Economic Zone Advisory Board implements the policies and programmes of the Government with regard to special economic zones and oversee all licensing, compliance, and enforcement of Special Economic Zone enterprises. Based on its licencing function, it could be incorporated into the Trade and Business Licencing Board in around 2 years time, once the current activities of the SEZ have been delivered related to Cayman Enterprise City and the role can be transitioned to a monitoring one.

36. Incorporate Street Naming & Numbering into Central Planning Department

We have been informed that the Street Naming and Numbering Department is not actively resourced on a regular basis, although it appears on the Government entity structure diagram. Our recommendation is that its activities are part of the planning responsibilities and should be incorporated into the Central Planning Department to rationalise the departments within Government.

37. Merge Animal Welfare Advisory Committee and Veterinary Board

There appears to be an opportunity to merge the Animal Welfare and the Veterinary Boards, who have similar interests and concerns. This would rationalise entities, although financial savings would be minimal and legislation changes would be required.

38. Abolish Cinematograph Board and integrate with Trade and Business Licencing Board

The Cinematograph Board was established by the Cinematograph Law (2009 Revision) to preside over the lawful exhibition of films. There appears to be scope to combine the duties and responsibilities of the Cinematograph with the Trade and Business Licencing Board. This would rationalise entities, although financial savings would be minimal and legislation changes would be required.

39. Restructure Tourism Attractions Board

The TAB was established under the Tourism Attraction Board Law (which relates only to (Pedro St James) and oversees four attractions and a national festival (Queen Elizabeth II Botanic Park, Pedro St. James, Cayman Craft Market, Hell Attraction Site and Pirates Week National Festival). The TAB has had difficulties in attaining profitability and is not reported to be able to do so in future years as all five activities are not profit-generating. Based on discussions with the TAB, we recommend the following:

- Cayman Craft Market to merge with the Department of Commerce.
- Transfer the management of Hell Park to Recreation, Parks and Cemeteries team (who may outsource management to the private sector).
- Pirates Week Festival be merged with, Cayman Carnival Batabano, Miss. Cayman and the Revitalization of George Town Project and placed under the oversight responsibility of an events area within the Department of Tourism.
- Amend the TAB Law, 1996 in order to eliminate existing anomalies and give the TAB its intended legal mission and mandate.
- Outsource café and event management under a revenue share concession model to improve financial performance.
- Retain the management of Pedro St James and the Botanic Park and pursue further cost reduction, including moving to the Pedro St James site instead of incurring lease costs in in George Town.
- Explore opportunities to develop and commercialize the Pedro St James tourist attraction.

40. Sharing of administrative staff between the Complaints Commission (CC), Information Commission Office (ICO) and Auditor General

The CC and the ICO are already in the process of moving into joint premises along with the Auditor General, saving an estimated \$50,000 to \$100,000 p.a. Although additional savings would be small, we believe it would be efficient to increase the sharing of administrative, reception and other back office staff between Audit, ICO

Other Recommendations

There are a number of lower priority recommendations that should be considered that either do not warrant the detailed analysis within this Report, are required as part of implementation or are more straightforward

and CC. It could also assist in balancing staff needs between the agencies in the case of sick leave or annual leave and would reduce the need for multi-tasking within these three groups – potential for more specialisation of function rather than requiring small numbers of staff to be wear multiple hats. In conjunction with this there is also scope to develop on office and post of Ombudsman to deal with areas including freedom of information appeals, maladministration complaints and police public complaints.

41. Transition the Cadet Corps into the Non-Government Sector

The Government currently funds the Cadet Corp with a small budget of \$260,000 per annum. There doesn't appear to be a good reason why these activities could not be transitioned to a Non-Government sector with a grant from Government, as the activities are not a critical or core Government service. This has a minor impact on Government headcount and only results in financial savings if Government policy changes in regards to the funding of the Cadet Corp in the future. Discussions should begin with the current set of volunteers involved in the Cadet Corp and the philanthropic private sector to determine interest levels.

Other Improvements

42. Improve Government Procurement

The recommendations of the Procurement Sub-Committee (Government Procurement in the Cayman Islands), developed as part of the Commission for Standards in Public Life, must be implemented in full as a high priority. This must occur prior to any of the recommendations in this Report being fully launched in earnest to ensure better practice procurement is adopted to implement our recommendations. The recommendations of the working group included improvement in procurement processes, probity over procurement processes and leverage of shared contracts.

43. Bring CAYS back into the Department of Children and Family Services

CAYS is a Government Company (GC), not enabled through legislation. It currently employs a considerable amount of permanent people for a relatively small client base, and there have been previous recommendations to abolish the GC status and bring it into central Government. We believe that there exists scope to bring CAYS back into the Department of Children and Family Services. We do not think that this move would have any adverse impact on the non Governmental funding the entity currently receives from donations, sponsors etc.

44. Charge Public Auditors to establish Auditors Oversight Authority

The Auditors Oversight Authority has been specifically established at the behest of the Cayman Islands auditing industry to facilitate access to specific European markets by the companies in the industry. As such, privately owned audit companies benefit financially from the AOA's activities and should contribute substantially to its operating costs. In its current "establishment" stage in which it is not actively auditing companies, it is costing \$340k per year. It is recommended that consultation with the industry begin immediately to contribute annual fees to the AOA.

45. Clarify role of District Administration Department

Currently, some Government services are provided by District Administration for the citizens of the Sister Islands, while some services are provided by the relevant functional Departments from the central Cayman Islands Government. Historically, due to distance and communication difficulties, the management of activities locally in the Sister Islands was required. This has gradually decreased over the years as the internet and cheaper telecommunications have enabled the benefits of better practices and increased consistency in education, health and other services to be brought to the Sister Islands.

There is a political decision to be made about the need for ongoing centralisation of further activities which are currently delivered by District Administration. Either way, the role of District Administration should be clarified to the residents of the Sister Islands so they understand who is responsible for elements of service delivery so that they understand the relevant Department of Government to communicate with.

46. Abolish National Pensions Board and move responsibilities into CIMA

As per the National Pensions Bill 2012, the regulatory activities of the Pensions Regulatory Board (regulation of pension plans, pension plan trustees and pension plan administrators) should be moved into CIMA, who regulate other financial aspects of the Cayman Islands.

47. Re-evaluate the need for the volume and scope of security services employed

There is a potential for Government to re-evaluate the need for the volume and scope of security services employed. Are all the security services provided required and if is there scope to reduce the number. For example does the library or post office require a security guard and does the Government Building require the number of guards currently employed.

Other Recommendations

There are a number of lower priority recommendations that should be considered that either do not warrant the detailed analysis within this Report, are required as part of implementation or are more straightforward

Legislation

48. Implement legislation to protect employees transitioning to the private sector in Cayman Islands

As part of the implementation plan for many of the recommendations in this report relating to the transfer of employees from the public to the private sector, legislation is required to facilitate the transfer and protect employee rights. Similar legislation has been introduced in the UK (Transfer of Undertakings (Protection of Employment) Regulations 2006, or 'TUPE') and in Australia (Fair Work Amendment (Transfer of Business) Bill 2012), where significant Government reform and transition to the private sector has occurred. Within these laws, for a successful transmission of business and transfer of employees the impacted employees must be provided with a suitable alternative role on "no less favourable terms" by the buyer.

Legislation usually covers the following elements;

- ▶ Employment protection for a period of time (unable to be forcibly made redundant)
- ▶ Protection of employee terms and conditions for a period of time
- ▶ Potential transfer payment to facilitate the move to the private sector
- ▶ Continuity of service for employees for purposes of calculating all leave and any future redundancy payments
- ▶ Cash out or transfer of some leave balances

49. Explore the impact of raising the retirement age for Government workers to 65

The core Government unfunded pension liability, per the 2014/15 budget, is \$178.3 million. This is a legacy from the defined benefit scheme which employees used to enrol for prior to 14 April 1999. Since then new employees are only enrolled onto defined contribution schemes.

One option we recommend exploring relates to increasing the retirement age to 65 to contribute to reducing the unfunded liability. Within the scope of this report, we were not able to review the most recent actuarial study currently being carried out. We recommend that the results of the study are reviewed to assess the likely impact of doing this, we understand that Government have this in hand. The benefit would be that staff would be required to work for longer thus reducing the amount of time which they would be receiving payments for. The impact will be reduced by the numbers of employees who have already retired

In assessing this option any benefit would also need to be weighed up against other considerations. By raising the retirement age you could be keeping on employees for longer than necessary and also could be restricting youth employment in Government. There would also be significant push back from employees who may have to work for longer than they had planned. This has been an issue that many jurisdictions have been challenged with and is generally a controversial subject.

Movement of Departments to create greater synergies in activity

50. Move the Work Permit Board to Education, Employment and Gender Affairs (EE&GA) out of Home Affairs

The Work Permit Board is formed under the Immigration Law (2012 Revision). However, there is considerable input from employment that would be beneficial in determining work permits. Consideration should be given to whether the Work Permit Board moves to EE&GA or whether increased involvement on the Board is possible from the Employment perspective.

51. Move London Office to Cabinet Portfolio

Discussions with Government stakeholders have indicated that the London Office would be better suited to the Cabinet Portfolio, although it is understood that it has been moved around Ministries previously.

Sale of Businesses

52. Sale of Native Tree Nursery

The Department of Agriculture has a nursery which produces plants for sale. A plant nurseries and the sale of plants is not a core Government function, it is recommended that this Nursery be sold to the private sector or its activities wound up.

Other Recommendations

There are a number of lower priority recommendations that should be considered that either do not warrant the detailed analysis within this Report, are required as part of implementation or are more straightforward

Fees

53. Reintroduce Taxi licensing fees

Fees to gain a taxi licence were in place in the past, and in all other jurisdictions, the licence to run a taxi can be very high. We recommend re-introducing a minimal taxi licence fee at this stage to minimise impact. This would infer the right to operate a taxi in the Cayman Islands.

54. Civil Aviation registry fees

We understand that potential exists to explore civil aviation fees and develop and progress the registry function similar to that of MACI. We recommend that this potential revenue stream be further explored by CIAA.

Efficiencies

55. Customs Efficiencies

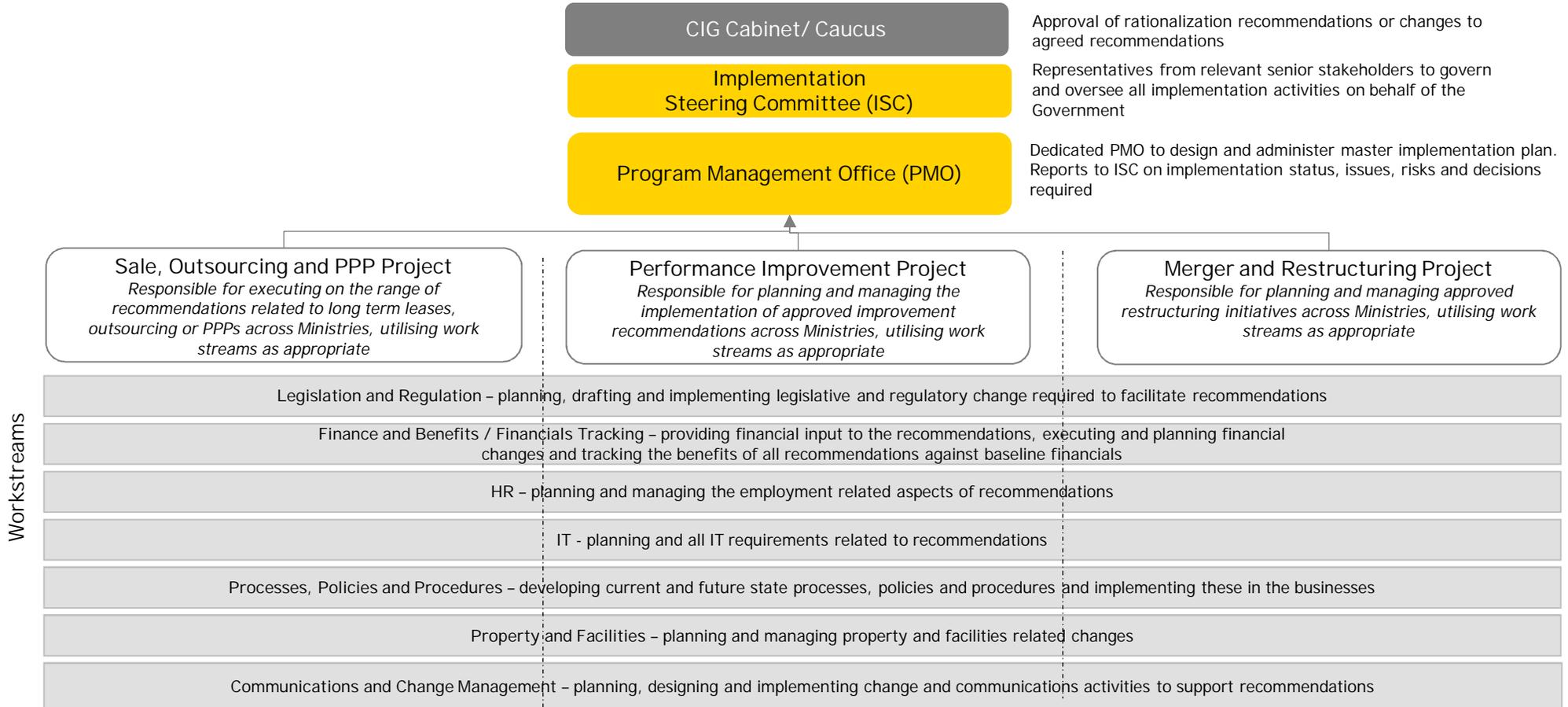
Customs are currently working on improving efficiencies and performance, in areas such as improvements in enforcement and the implementation of a new IT system called TRIPS (Total Revenue Integrated Processing System). This is being introduced in several module stages including electronic processing (online), risk analysis and electronic content management. We recommend that these improvements be pursued, as well as looking at additional opportunities such as Kiosks for self-assessment of customs payments and introducing a paperless customs process.

8. Implementation Roadmap

Implementation Plan: Governance

The implementation of the recommendations in this report are just as important as the recommendations themselves. A key element of implementation is governance, for which we have outlined a recommendation below

Proposed Governance Structure for CIG Rationalization Implementation Team

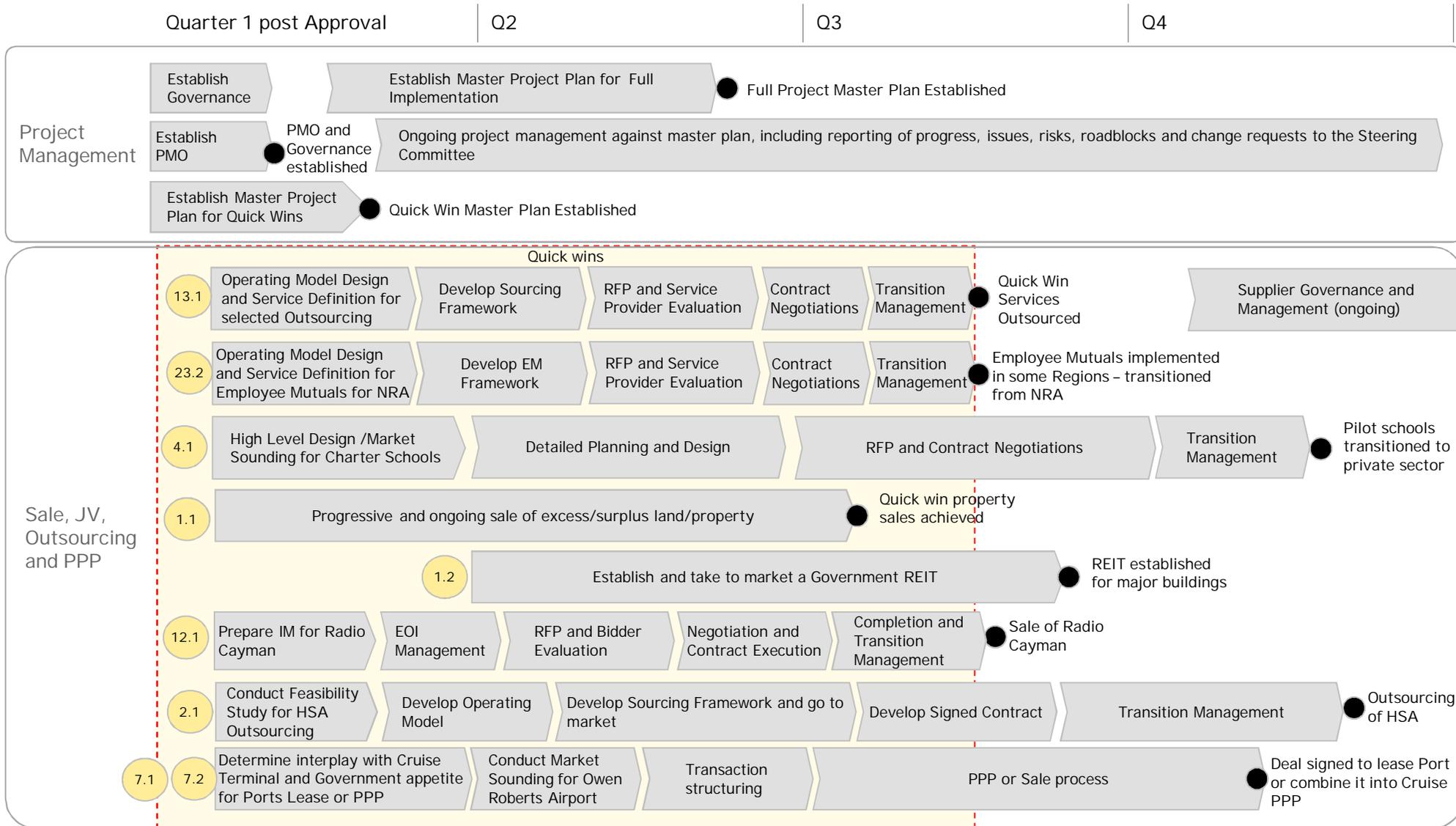


External Advisors may be required across all Projects, including:

- Commercial/Financial Advisor
- Legal Advisor
- Probity Advisor
- Accounting and Tax Advisor
- Real Estate Advisor/Representative
- Operational Separation and Transition Advisor

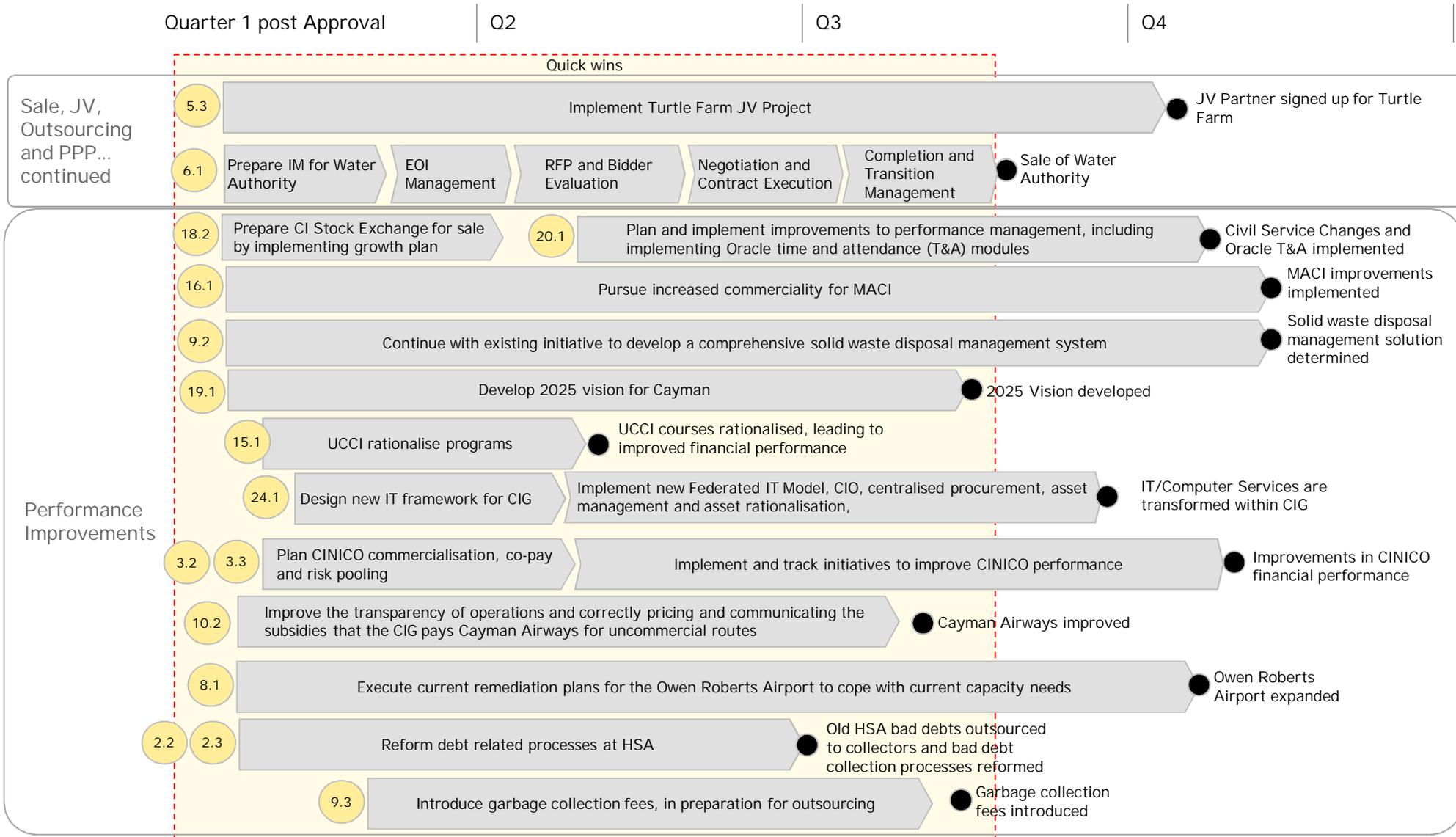
Implementation Plan: 1st Year Plan

The implementation plan for the first year of the Rationalization Implementation Program is provided below. More detailed implementation plans for the Priority Recommendations are provided within those sections.



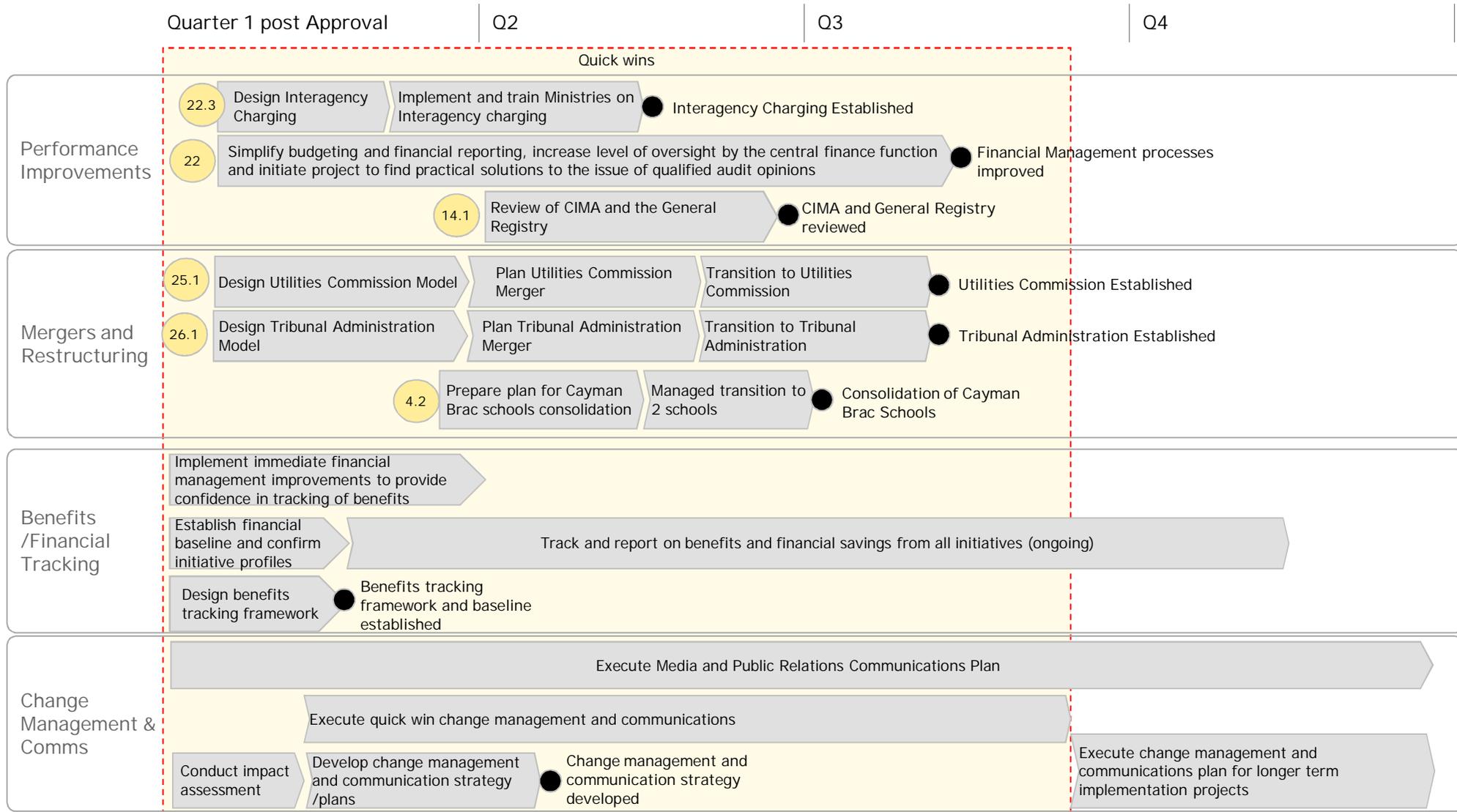
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Implementation Plan: 1st Year Plan

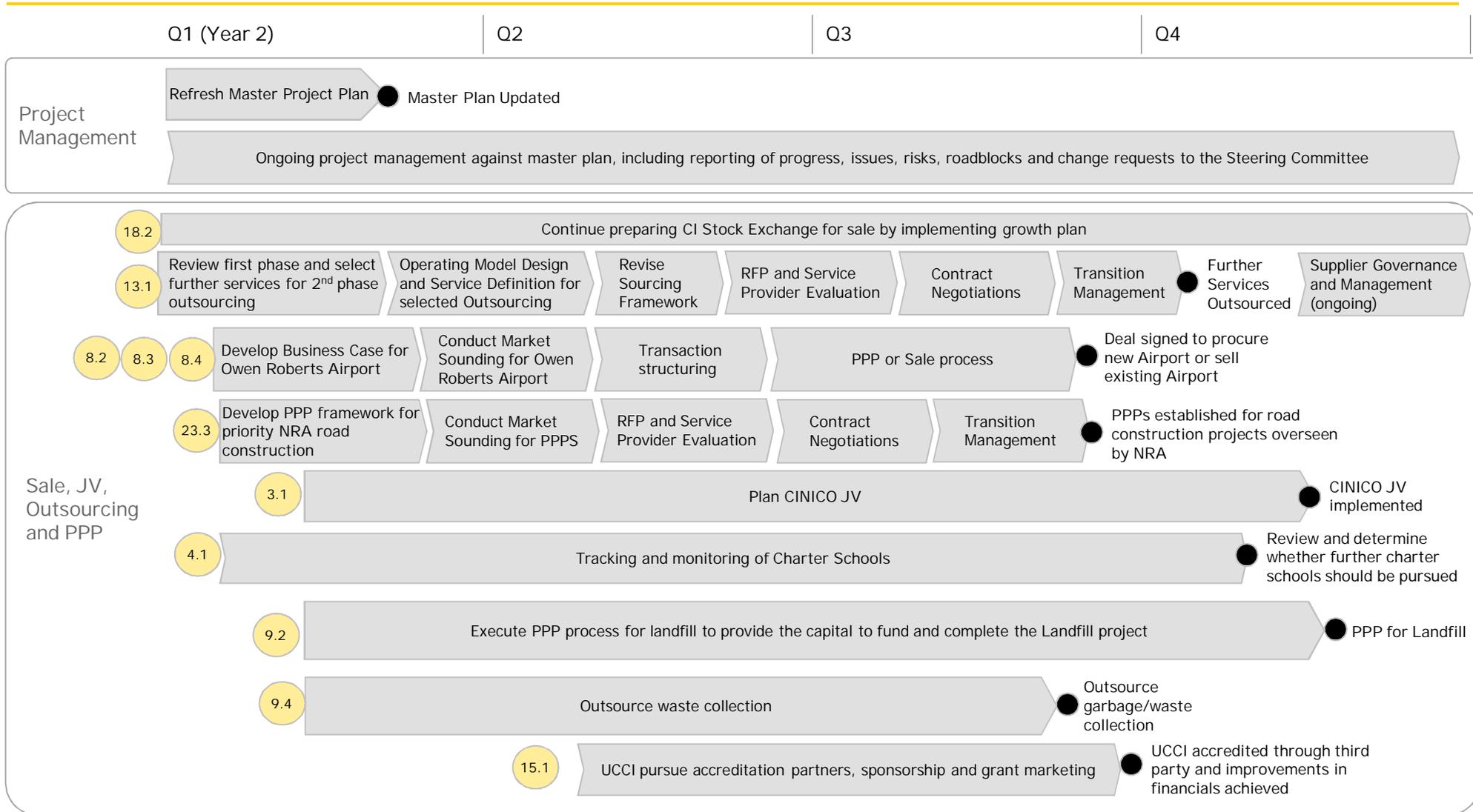
The implementation plan for the first year of the Rationalization Implementation Program is provided below. More detailed implementation plans for the Priority Recommendations are provided within those sections.



¹ <http://www.ndc.ky/about.html>

Implementation Plan: 2nd Year Plan

The implementation plan for the 2nd year of the Rationalization Implementation Program is provided below



Implementation Plan: 2nd Year Plan

The implementation plan for the 2nd year of the Rationalization Implementation Program is provided below

Q1 (Year 2)

Q2

Q3

Q4

11.1

Develop Commercial Model for Postal Service

Implement Postal Service Commercialisation

● Postal Service improvements implemented

17.2

17.3

Recapitalise or abolish CIDB

● CIDB solution implemented

Performance Improvements

20.1

Continue implementing civil service changes

● Civil Service Changes completed

22

Continue implementing improvements to financial management

● Financial management improved

21.1

Plan and manage introduction of shared services

● Shared Services introduced

Benefits /Financial Tracking

Track and report on benefits and financial savings from all initiatives (ongoing)

Change Management & Comms

Execute Media and Public Relations Communications Plan

Refresh and update change management and communication strategy /plans

Execute change management and communications plan for longer term implementation projects

Implementation Risks

There are a number of generic risks and issues that will be experienced throughout the implementation of the Rationalisation Project. These are described at a high level below and should be used to populate initial risk registers

Area	Risk	Impact	Mitigating actions
Project Management	<ul style="list-style-type: none"> Risk that there will not be available and skilled high calibre project management resources to oversee the implementation recommendations 	<ul style="list-style-type: none"> Poor project management of the recommendations and failure of the program 	<ul style="list-style-type: none"> Invest in project management training for Government resources assigned to implementation Utilise external advisors as required to fill gaps or provide better practice project management capabilities and tools
Timeframe	<ul style="list-style-type: none"> Short timeframe for separation and lack of clarity of key milestones 	<ul style="list-style-type: none"> Inability to achieve Day 1 separation Risk to business continuity on Day 1 	<ul style="list-style-type: none"> Minimal changes on Day 1, only those required Clear and consistent communication about what is required by the key milestone dates
Amount of Change	<ul style="list-style-type: none"> The number of recommendations and impacted areas included in this report is significant The pace at which we have recommended the initiatives be implemented is extremely aggressive 	<ul style="list-style-type: none"> Stress on key staff/stakeholders Organisational fatigue Increased risk of error during change implementation 	<ul style="list-style-type: none"> Clarity on the sequencing of the different change events Resourcing the project sufficiently to run multiple projects at once Identifying the effort and resourcing required to support these recommendations
Timeframe	<ul style="list-style-type: none"> Short timeframe for separation and lack of clarity at this stage about what is required by 1 July 2014 	<ul style="list-style-type: none"> Difficult to socialise changes with all stakeholders prior to implementation Less capacity to respond to errors/delays 	<ul style="list-style-type: none"> Large investment in communication to both internal and external stakeholders Develop contingency plans to ensure alternative plans can be quickly implemented
Delays in decision making	<ul style="list-style-type: none"> Decisions on this Report are delayed Ongoing delays in decision making mean the timeline and quick wins are unable to be achieved 	<ul style="list-style-type: none"> Loss of momentum Loss of trust in governance by key stakeholders 	<ul style="list-style-type: none"> Continue the public communication regarding the Report Develop appropriate governance frameworks and hold members to account to progress decisions
Change Management and Communication	<ul style="list-style-type: none"> Lack of clear and consistent communication from Government Lack of information being provided to key stakeholders Change cuts across multiple national service providers 	<ul style="list-style-type: none"> Uncertainty and dissatisfaction for staff Risk of losing key resources Increased media scrutiny 	<ul style="list-style-type: none"> Develop robust and comprehensive communication plan to deliver consistent and ongoing communication to stakeholders ("Internal" and "external", both upwards, sideways and downwards from the Rationalisation Reform Program
Transfer of employees	<ul style="list-style-type: none"> Transfer of employees will be delayed due to legislative/regulatory requirements or delays in transfer of employment agreement negotiation 	<ul style="list-style-type: none"> Low employee morale due to uncertainty Delay in achieving benefits 	<ul style="list-style-type: none"> Immediate drafting of employee transfer legislation i.e. TUPE style legislation Early engagement with employees and regulators
Financial Integrity	<ul style="list-style-type: none"> Most financial statements produced by Government Ministries, Departments and some Statutory Authorities, have been qualified by the Auditor General There is a risk that the unavailability or reliable financial data will put many of our recommendations at risk due to concern by bidders or inability to track benefits 	<ul style="list-style-type: none"> Risk of loss of financial integrity with bidders Risk that information will be unable to be reported accurately to the Implementation Steering Committee and the public 	<ul style="list-style-type: none"> Large piece of work required to improve financial processes To begin work, there must be an agreement on a financial baseline and then tracking against this to show differences to the current state

Implementation Risks (continued)

There are a number of generic risks and issues that will be experienced throughout the implementation of the Rationalisation Project. These are described at a high level below and should be used to populate initial risk registers

Area	Issue/Risk	Impact	Mitigating actions
Uncommercial Activities	<ul style="list-style-type: none"> CIG currently performs a number of activities that a private sector would not perform e.g. loss making contracts to some customers 	<ul style="list-style-type: none"> Impacts on the commerciality and profitability of the CIG and businesses targeted for potential sale 	<ul style="list-style-type: none"> These activities will need to be analyzed the cost estimated to understand the impost of providing them, with potential for payments to offset them
Stranded Costs	<ul style="list-style-type: none"> Government could be left with stranded costs e.g. people, systems and facilities it does not require and cannot utilise as part of the divestment of outsourcing of services 	<ul style="list-style-type: none"> 'Residual' businesses being burdened with significant stranded costs and overhead costs which must now allocated across a smaller department 	<ul style="list-style-type: none"> Need to consider the objective of 'no net cost' to customers due to separation across all the GOCs in cost benefit analysis work in next phase Ensure that operating model decisions are made considering the total impact to all three GOCs Ensure robust tracking of all costs for transparency
Benefits Not Achieved	<ul style="list-style-type: none"> There is a risk that we are not able to adequately outline the expected benefits of the recommendations, that differing baseline information is used and also that benefits expected are not achieved 	<ul style="list-style-type: none"> Financial and non-financial benefits not achieved 	<ul style="list-style-type: none"> Initiate a piece of work to develop a benefits tracking framework and baseline of financial information Establish a benefits tracking work stream, linked to the finance work stream Ensure robust tracking of all quantifiable benefits
Legislative and Regulatory Reform	<ul style="list-style-type: none"> The legislative and regulatory reform required to implement many of the recommendations is not achieved 	<ul style="list-style-type: none"> Minimises the benefits and causes confusion for citizens 	<ul style="list-style-type: none"> Need to develop a register of all laws and regulations required to be changed as part of the first phase of implementation planning Dedicated work stream to focus on these changes across different projects
Employee resistance	<ul style="list-style-type: none"> There is a risk that employees will resist the recommendations 	<ul style="list-style-type: none"> Unwanted media attention Disruption to operations and business performance Inability to implement recommendations and achieve benefits Poor staff morale 	<ul style="list-style-type: none"> Consultation, Communication and engagement strategy with employees and unions
IT changes	<ul style="list-style-type: none"> IT systems may be required to be transferred to external stakeholders or, IT systems must be updated to accommodate changes. Particular difficulty will relate to any IT applications/technology that has been developed specifically for Cayman Islands Government. In addition, any IT changes require significant cost and time to implement 	<ul style="list-style-type: none"> High complexity to transfer IT to private sector (including data transfer and third party contracts) High complexity / time consuming to split IT for use by both Cayman Islands Government and acquirer Short time frame does not allow sufficient time for testing changes 	<ul style="list-style-type: none"> Engage with relevant IT resources to identify and plan for issues likely to arise from the transfer / updating of IT
Third party contracts	<ul style="list-style-type: none"> Vendor contracts cannot be transferred without negotiation and agreement of vendor. Short time frames may not allow for sufficient time to engage with vendors 	<ul style="list-style-type: none"> Delayed implementation of sales or outsourcing 	<ul style="list-style-type: none"> Develop plan to engage early with vendors as part of sale or outsourcing programs

9. Appendices

Appendices

Statement of Work



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Hon. Franz Manderson, Cert Hon, JP
Deputy Governor, Head of the Civil Service
Office of the Deputy Governor
Cayman Islands Government
Grand Cayman, KY1-9000
Cayman Islands

15 April 2014

Statement of work – Project Future: Review of Public Services, Phase V Rationalisation

Dear Sir

This Statement of Work, dated 15 April 2014 (this "SOW"), is made by Ernst & Young Ltd, a Cayman Islands limited liability company ("we" or "EY"), and the Cayman Islands Government ("you" or "Client"), pursuant to the Engagement Agreement, dated 15 April 2014 (the "Agreement"), between EY and the Cayman Islands Government.

Except as otherwise set forth in this SOW, this SOW incorporates by reference, and is deemed to be a part of, the Agreement. The additional terms and conditions of this SOW shall apply only to the advisory Services covered by this SOW and not to Services covered by any other Statement of Work pursuant to the Agreement. Capitalized terms used, but not otherwise defined, in this SOW shall have the meanings in the Agreement, and references in the Agreement to "you" or "Client" shall be deemed references to you.

Background

The Office of the Deputy Governor has initiated an independent strategic review to improve the performance and efficiency of the public service and where appropriate, reduce costs. The first three phases of this review focused on reviewing individual government departments. Phase IV involved a review of the overall government structure and potential synergies that could be achieved by optimising efficiency and the use of resources and improvements that could be achieved with services that could be better and more effectively performed by the private sector.

We understand that you now wish to engage a strategic partner to assist in the review of recommendations and the development of a roadmap for transformational change for the Cayman Islands Government, known as Phase V.

Aims of Phase V

From our discussions with you, we understand your main objectives are to:

- Conduct a reliable assessment of past recommendations and a strategic review taking into account the current conditions of the Cayman Islands;
- Assess the feasibility of implementing the recommendations previously provided in internal and external reports;
- Identify those functions that would be better carried out by the private sector across the Government's portfolios of entities;
- Review the Government's assets and recommend those that could be sold to the private sector where a fair market exists;
- Develop a considered and appropriate roadmap for execution to guide the organisational transformation of the Cayman Islands Government's Ministries and other entities to deliver an efficient and effective Public Service; and
- Cut red tape for business, the Government and the broader Cayman Islands community.

In order to achieve these objectives, you have asked us to carry out the following work.

Scope of Services

In summary, our scope of work will comprise:

- Review internal and external reports provided in Phases I-IV to advise on the feasibility of implementing the recommendations outlined in those reports.
- Conduct an independent assessment with stakeholder input to further identify additional recommendations for:
 - Areas for internal rationalisation and efficiencies;
 - What can be sold, and what are the options available to maximise outcomes;
 - Areas for potential outsourcing.
- Prioritise recommendations and develop a detailed roadmap for execution.

Approach

Our overall approach to the work will include the following project stages.

Stage 1 - Desktop review and challenge

This stage will focus on recommendations made by the Miller Shaw, Expenditure Review Committee and Review of Public Services reports ("Reports") to conduct the initial review and challenge the feasibility of implementing the recommendations made in the Reports.

Our first step will be to confirm your objectives and success criteria to ensure that we analyse recommendations against agreed yardsticks.

We will ensure that each recommendation is defined as a discrete initiative, with clear objectives, benefits and risks/issues. We will test whether the recommendations:

- Have been executed globally, therefore providing a precedent
- Have material and accurately estimated benefits linked to their delivery
- Appear to be implementable within the Cayman Islands context
- Have potential risks or issues that have not been considered
- Appear achievable within required timeframes

We will also seek to clarify the level of agreement that Government has with the recommendations within the Reports. In addition, we will conduct a broader review of Government with stakeholder workshops, to make additional recommendations.

Stage 2 - Develop a prioritized initiative pipeline

Once we have agreed with you a list of feasible initiatives, we will analyse and prioritise the shortlisted initiatives to determine those most likely to achieve your objectives. This will involve targeted market sounding with key potential third parties, including local and global businesses and investment houses.

The core activity will be an analysis against a set of agreed, and potentially weighted criteria, including high-level financial benefits, implementation challenges, organisational readiness and potential market interest.

We will also consider the time and effort to execute and will identify quick wins that can be achieved in the near term. We will then produce a prioritised pipeline of initiatives that can be easily transferred into a roadmap.

The pipeline will be designed to identify and prioritise,

- i) opportunities for structural changes to drive increased efficiency and effectiveness of Government, including outsourcing and shared services;
- ii) opportunities for rationalisation and efficiency within Government departments or entities;
and
- iii) opportunities for transfer of activities to the private sector, including asset sales, outsourcing and partnerships.

Stage 3: Develop an implementation roadmap

Stage 3 will compile the findings of Stage 2 into a robust, practical and implementable roadmap. We will develop both a high level roadmap and a detailed implementation plan outlining the key steps that will be necessary to undertake each initiative.

A final report will be delivered to the Cayman Islands Government at the end of this stage, incorporating our key findings and recommendations of potential asset sales, outsourcing opportunities, Government mergers/rationalisation or internal efficiency initiatives, as well as the associate timeframe, priorities and overall benefits to the Cayman Islands community.

Our analysis will necessarily be at a high-level for some aspects, relying on assumptions and commercial experience where necessary. It is understood that once direction is received from Government, more detailed analysis and work may be requested for particular priority recommendations.

Our work may also involve review and commentary of financial and other forecasts. While we may comment on the underlying assumptions to such forecasts, the responsibility for such forecasts and the assumptions upon which they are based will remain solely with the Cayman Islands Government or the original author of the forecasts.

For the avoidance of doubt no part of our work will constitute formal legal advice.

Timetable

Unless otherwise agreed, we expect to perform our work over a ten week period commencing 17 April 2014 completing with our final report by 30 June 2014, noting that during a period of at least two weeks in May, Government will be largely unavailable for consultation due to the budget process.

We further note that if there are down periods during the budget process, you are willing to receive our report on 15 July to allow for that period. We will commence our work on the basis of a 30 June reporting deadline but will discuss with you if it should become apparent that a 15 July deadline is more appropriate.

The key steps and timetable for each stage of work is set out at Appendix A.

Achievement of the timetable will be dependent upon your providing information to us, making any necessary decisions and reviewing draft documentation, on a timely basis. Matters may also come to light during the work which could delay completion of any of the stages. If we believe that the timetable may not be achieved, we will bring this to your attention so that a revised timetable can be discussed and agreed.

Your specific obligations

You alone are responsible for the scope and sufficiency of the Services. We also draw your attention to the reservations set out in paragraph 5 of the General Terms and Conditions of the Agreement, as well as your management responsibilities under paragraph 6, your obligations under paragraph 11, and your representation, as of the date hereof, under paragraph 28 thereof.

Disclosure of our advice

Our advice will be prepared solely for the use and benefit of the Cayman Islands Government and should not be used or relied upon for any other purpose or by any other person. Our advice will be given in confidence and should not be quoted or referred to, nor should it be made available, unless so required by court order or a regulatory authority or save as set out in paragraphs 12 and 14 of the General Terms & Conditions, to any party without our prior consent in writing. If unauthorized persons choose to rely upon any of the contents of our deliverables, they do so at their own risk.

Limitations of the scope of our work

We will not identify, address or correct any errors or defects in your computer systems, other devices or components thereof ("Systems"), whether or not due to imprecise or ambiguous entry, storage, interpretation or processing or reporting of data. We will not be responsible for any defect or problem arising out of or related to data processing in any Systems.

Our work will consist primarily of qualitative analysis and analytical procedures applied to data, information and explanations provided to us.

Unless our instructions are later amended, the work we will undertake will be restricted to addressing the areas of work set out under the scope of work section above. If, during the course of our work, it becomes apparent to us that by virtue of budgetary or other constraints, we will be unable to complete all the work referred to, we will advise you accordingly.

Changes to scope

If, as the work progresses, you decide that you wish to vary the scope of the work, we will discuss such matters with you and any changes to the scope of work will be agreed between us in writing.

It is possible that there may be matters, which you would consider significant but which are outside our terms of reference and of which we may not be aware. If work is required in addition to that detailed in the scope of work, we will discuss the scope of the additional work with you in advance and agree a separate Statement of Work and additional fees with you accordingly.

Specific additional terms and conditions

We will provide you with a written Report as part of Stage 3 of our scope of work (set out above).

EY will not render an assurance report or opinion under the Agreement, nor will the Services constitute an audit, review, examination, or other form of attestation as those terms are defined by generally accepted auditing standards of any applicable jurisdiction or other applicable professional standards. None of the Services or any Reports will constitute any legal opinion or advice. We will not conduct a review to detect fraud or illegal acts.

General

Unless otherwise agreed, before providing our final report to you, we will submit a draft of our report to you to seek your confirmation of the facts contained within it. As any draft report is subject to revision and alteration, no reliance should be placed on any draft document without our prior written consent.

Informal oral comments made in discussions with you about any report or draft report will not have any greater significance than explanations or other material contained in the report and reliance should only be placed on information and comments set out in the final written report.

Our work will be carried out with a view to presenting you with a draft report by 20 June 2014 and completing our work by 30 June 2014 (with a fall back date of 15 July 2014). We have assumed that we will have full access to records and personnel from 17 April 2014 and that you, personnel from all relevant agencies and your other advisors and stakeholders will co-operate fully with us in our project. Obviously, if we are not able to obtain the information we require, our advice will have to be read in the light of such limitations.

Our team

The core team for this assignment is set out below and a full team structure chart is attached at Appendix B. The work will be led by Keiran Hutchison.

Keiran Hutchison	Local	Partner and Project Leader
Steve Nowell	Local	Engagement Senior Manager
Larni de Courtenay	Australia	Partner

The core project team will be supported by local and international professionals.

The core team will also be supported by a Specialist Advisory Board of senior specialists to provide test and challenge our findings. The board will comprise the following:

John Marsh	Government Transformation, UK
Bill Banks	Government Infrastructure, Australia
Chris Maiato	Performance Improvement, Bermuda
Craig Hill	Performance Improvement, New Zealand

Quality review and oversight will be provided by:

Dan Scott	Relationship assessment of service quality
Rohan Small	Coordinating partner

It should be noted that we are likely to require the use of other staff as the work progresses and we may need to change and supplement the engagement team from time to time depending on circumstances. It is intended that the Australian team will work remotely from Australia other than for at least two trips of approximately one week duration each.

Fees and disbursements

The General Terms and Conditions of the Agreement address our fees and expenses generally.

Our fee for the work set out above is KYD\$190,000 comprising KYD\$155,000 for professional time and KYD\$35,000 for expenses. This fee is heavily discounted and has been arrived at based on our discussions with you and our understanding of your requirements.

Our fees and costs are fixed based on the assumptions listed at Appendix C. In the event that we form the view that the assumptions are not holding or if for some other reason there is a prospect that our fees should exceed KYD\$190,000, we will advise you and discuss this with you before incurring any further costs.

Any fee estimate agreed with you is necessarily based on the assumption that the information required for our work is made available in accordance with agreed timetables, and that your key executives and personnel are available during the course of our work. If delays or other unanticipated problems which are beyond our control occur this may result in additional fees for which invoices will be raised.

We will also charge at cost for expenses incurred during the engagement. Travel expenses are estimated at KYD\$35,000 based on two return trips for Australian resources of between 5 and 10 days. Any other expenses or disbursements will be discussed with you before being incurred.

Invoicing arrangements

We will issue an invoice on 15 June 2014 for KYD\$150,000 and a final invoice on 15 July 2014 after completion of the Services in the sum of KYD\$40,000. Expenses will be apportioned equally between each invoice.

In witness whereof, the parties have executed this SOW as of the date set forth above.

Ernst & Young Ltd.



By: _____
Name: Rohan Small
Title: Partner

Cayman Islands Government



By: _____
Name: Hon. Franz Manderson, Cert Hon, JP
Title: Deputy Governor, Head of the Civil Service

Appendix A – Detailed work plan and timetable

	Week 1 21/4	Week 2 28/4	Week 3 5/5	Week 4 12/5	Week 5 19/5	Week 6 26/5	Week 7 2/6	Week 8 9/6	Week 9 16/6	Week 10 23/6
<p>Stage 1 Initial Desktop Review</p> <p>Kick-off Workshop 17 April – Agree project objectives, deliverables, timelines and guiding principles with key stakeholders. Define and agree assessment criteria, principles and framework for evaluating portfolio initiatives; agree initiative decision tree. ▲</p> <p>Desktop Portfolio Review – Review recommendations made in previous reports; distribute additional information request lists, conduct initial sense check of recommendations against high-level yardsticks and prepare list of validated and feasible initiatives</p> <p>Workshop #1* – Present and test list of valid and feasible initiatives with key stakeholders, understand the Cayman Islands Government's view on priority areas of review</p>										
<p>Stage 2 Prioritised Initiative Pipeline</p> <p>Analyse Portfolio – Assess selected initiatives to determine attractiveness of each initiative; conduct market soundings and stakeholder interviews; identify and validate key issues and risks</p> <p>Prioritise Initiatives – Test each initiative against co-developed criteria to determine priorities and quick wins</p> <p>Workshop #2* – Present findings of analysis and prioritisation to stakeholders to validate feasibility of initiative pipeline and ensure material risks have been identified; update findings as necessary</p>										
<p>Stage 3 Implementation Roadmap</p> <p>Roadmap and Implementation Plan – Design strategic high-level roadmap of initiatives and develop a robust implementation plan, including key workstreams of activity, timing, need for external advisors and other elements of implementation</p> <p>Draft Report – Prepare and issue draft report on 20 June, summarising our work and testing with stakeholders to the Cayman Islands Government. Final report issued by 30 June</p>										

* Note: Likely to be more than 1 group, due to range of stakeholders

Note: Government will be largely unavailable in late May due to the budgeting process

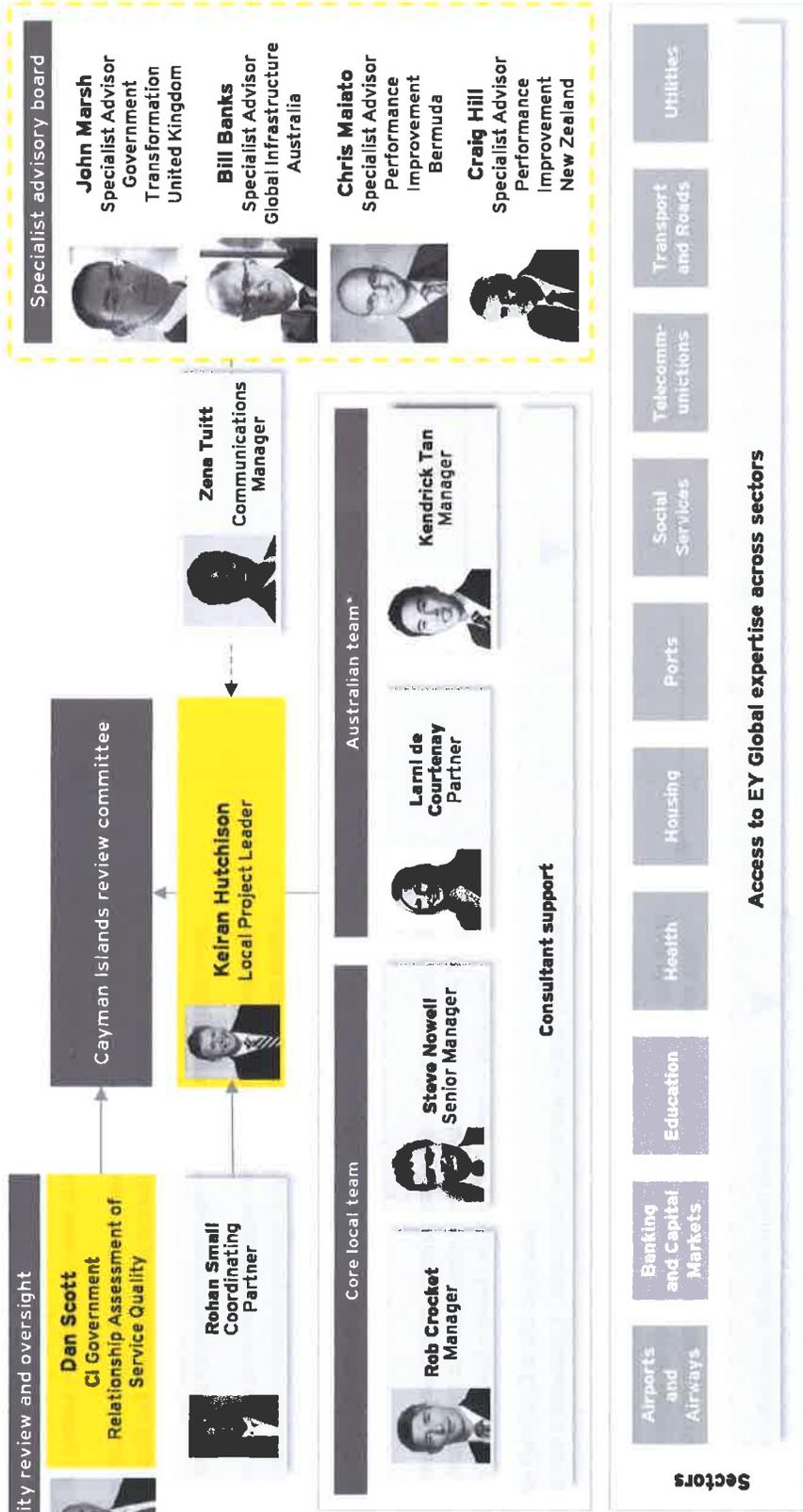
Desktop

Pipeline

Roadmap

▲ Milestone

Appendix B – Team structure chart



Appendix C – Fee assumptions

- Our fees are based on the scope of work identified in this Statement of Work.
- The engagement duration is assumed to run for 10 weeks, from 17 April to 30 June 2014 (with a fall back closing date of 15 July 2014, if required).
- All relevant information which we require from the Cayman Islands Government, the agencies and your other advisors and stakeholders will be provided in a timely manner and of an appropriate level of quality and format.
- Personnel from all relevant agencies and your other advisors and stakeholders will be made available as and when they are required for meetings.
- Comments on our deliverables will be provided in a timely manner for us to achieve the stated timetable.
- Our fees will be based on the number and seniority of staff required, the degree of skill and responsibility involved, the resources required to complete the engagement and the fee rates for the appropriate personnel. We have assumed that for this work, the following staff and time will be required:

Staff grade	Estimated hours
Partner / Director	150
Senior Manager	200
Manager	225
Senior	180
Other staff	120
Total hours	875

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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