**AIDE MEMOIRE**

**MONTSERRAT BUDGETARY AID DISCUSSIONS**

**19 – 26 February 2014**

1. A DFID team comprising Moira Marshall (Montserrat Programme Manager), Douglas Winslow (Senior Economic Adviser), Mary Thompson (Senior Social Development Adviser) and Heather Ferrie (Deputy Programme Manager) visited Montserrat from 19 to 26 February 2014 to review progress on the Government of Montserrat’s 2013/14 budget and discuss plans for 2014/15. They were joined throughout by Kato Kimbugwe (Private Sector Adviser and in-country DFID Representative) and Colin Gourley (DFID Infrastructure Adviser); from 24 to 26 February by Laure Beaufils (Head of DFID Overseas Territories Department); and on 28 February by Colette O’Driscoll (EU Caribbean Delegation). In addition the DFID team met with members of the Opposition[[1]](#footnote-1), Donaldson Romeo and David Osborne. The main conclusions and recommendations for the Government of Montserrat (GoM) and DFID Ministers are set out below. The attached annexes provide further detail on discussions relating to the infrastructure sector review and on project portfolio scoring.
2. The DFID team would like to thank GoM for frank and fruitful discussions and for assisting with the work of the mission. It continues to be challenging for GoM to provide all the information required by the DFID review team to fully assess budget performance in 2013/14 and GoM’s forecasts for 2014/15 and beyond[[2]](#footnote-2). The DFID team left Montserrat unable to provide GoM with an outline budget aid settlement for 2014/15. DFID has confirmed that it will fund at least the minimum departmental baseline budgets presented by GoM, which total EC$64.1 million. This has allowed GoM to complete the first stage of its budget process by the beginning of the financial year 2014-15. There is some outstanding information required to complete the full settlement and additional funds will be approved by GoM through a Supplementary Appropriation Bill as was the case last year. DFID strongly encourages GoM to continue to make improvements to better plan and prepare for future review missions. DFID is happy to support GoM in this as necessary and will discuss whether an earlier budget aid mission next year would be preferable.

**Review of 2013/14 Budget Performance**

1. Economic growth has continued to be modest, estimated at 0.9% in 2013/14, compared to 1.6% the previous year. By sector, public administration (the largest component of GDP) and construction have been broadly flat, whilst there has been stronger growth in financial intermediation and in the hotel & restaurant sector (at 4% and 3% respectively). Inflation is estimated to have fallen from 4½% in 2012/13 to close to 3% in 2013/14, partly due to lower fuel prices. There is uncertainty around the actual inflation rate however given the basket of goods used for the official calculation is very out of date. GoM has confirmed that the work with CARTAC to update the basket will be complete by the time of the mid-year budget review.
2. Domestic revenues in 2013/14 have been lower than were forecast at the beginning of the financial year, in particular from income and property tax receipts. There has been limited progress in collecting tax *arrears* and little sign of an improvement in tax efficiency and compliance. Overall domestic revenues in 2013/14 are around $EC1½ million lower than assumed in the budget set at the beginning of the fiscal year.
3. Legal action by GoM to pursue tax arrears is anticipated in the next six months. GoM has confirmed that there are now no legislative constraints to taking forward prosecutions[[3]](#footnote-3), and that holding places can be made available for confiscated property. This would help send a strong message about GoM’s intention to pursue defaulters and improve tax compliance more generally. The DFID team would welcome further detail on the analysis underpinning GoM’s tax arrears write-off and collection strategy. The mid-year budget review will also include an assessment of progress in this area.

1. On the expenditure side, there has been an estimated EC$2m underspend on wages this year due to unfilled posts in the civil service, which has offset the lower than expected tax receipts[[4]](#footnote-4). There was a similar underspend on wages in the 2012/13 budget. The availability of a Contingency Fund and less disaster related spending need than in the previous year has also relieved some of the pressure on the budget. One notable overspend, of some EC$0.5m, was on the outsourcing of the school bus service.

1. A key part of the 2013/14 budget settlement was to tackle growing arrears (for example to regional institutions) and inadequate provisioning for future liabilities (such as legal cases, other contingency events, and asset and maintenance costs). These had been storing up fiscal risks, ran counter to good public financial management and undermined the Medium Term Expenditure Framework (MTEF). As provided for in the 2013/14 budget, GoM has paid the EC$2.4 million arrear owed to the Caribbean Development Bank. The $1.8m Small Capital Asset Fund introduced at the last budget has also been fully utilised.
2. This provision made in the 2013/14 budget meant the only substantial unbudgeted arrear was the EC$6.4m owed to the University of West Indies (UWI). DFID recently made available further resources towards this UWI liability, following assurances that GoM had negotiated revised rates and that liabilities would not be allowed to build up again. Due to a GoM reporting error when the Budget Aid claim was made in Quarter 1, $3.0 million of liabilities were settled (CDB, Medivac and the ECCAA) out of the recurrent budget line, rather than the liabilities line[[5]](#footnote-5). As a result, GoM has contributed EC$1.2 million (EC$0.2m of budget savings and EC$1m Contingency Fund surplus) in 2013/14 to this arrear. Subject to the conditions specified, DFID confirms that it will exceptionally settle the balance of UWI arrears.
3. Nevertheless DFID has several areas of concern in relation to potential increases in GoM liabilities. These include rising levels of litigation and a lack of clarity about legal aid responsibilities. DFID supports use of the TC budget for a Legal Aid study in 2014 that will help GoM to develop an approach that is compliant with the Constitution. More generally, it is important that GoM remain current on fees and subscriptions to international institutions. The DFID team was surprised that GoM presented a new spending request of EC$1.6m in 2014/15 for “regional and international contributions” without the full breakdown at the time of the budget mission. DFID would welcome a current list of all subvention payments that GoM have committed to and quarterly updates on potential litigation liabilities and outstanding subvention payments.

**Public Financial Management**

1. GoM has made progress against the Public Financial and Economic Management (PFEM) Reform Action Plan 2011-2013, with support from the EU and CARTAC. GoM has reported that 90% of the action plan has been completed. There is a new Public Expenditure and Financial Accountability (PEFA) Assessment Report planned by December 2014, which will result in a new PFEM Action Plan 2014-2017 and a new Fiduciary Risk Assessment (FRA) shortly after. DFID welcomes the opportunity to collaborate with GoM and the EU in taking this work forward[[6]](#footnote-6), to support stronger budget management and public sector delivery[[7]](#footnote-7).
2. GoM is not yet in a position to implement a full three-year budget. Currently a one-year budget is set, with only basic forecasts for the two outer years of the 3-year MTEF cycle. CARTAC continues to support capacity building in this area and the new PFEM Action Plan to be developed for 2014/15 will be an important indication of progress in the coming years. DFID will continue to monitor and support GoM capacity to plan budgets beyond a one-year period.
3. A number of PFEM 2010-2013 indicators are outstanding and to be addressed this year: the date for enacting the Audit Bill was pushed back; a Chief Internal Auditor is in place but the recruitment of audit managers is incomplete; Statutory Bodies are to be brought into the budget, supported by the newly appointed Financial Adviser; strengthening budget forecasts is an on-going task; GoM has mapped the budget to GFS[[8]](#footnote-8) standards and will test this in 2014/15 before full implementation; and “Below the Line” accounts are to be addressed in 2014/15. DFID looks forward to reviewing progress against these areas at the mid-year budget review.

**Public Sector Reform**

1. Public sector reform is a critical component in improving the efficiency of service delivery and economic performance. GoM has developed policy measures in this area under the Sustainable Development Plan (SDP), which includes the development of an MTEF policy framework, rolled out to three-yearly departmental plans. This is work in progress, and efforts to simultaneously streamline public sector departments to deliver the policy framework have been much slower. Whilst structures have been improved, functional reviews which include streamlining staff requirements are still pending and accommodation needs have been a challenge due to slow infrastructure progress.

1. All functional reviews are due to be completed by this month, with the exception of Health and Social Services which is much delayed and will be tendered shortly. There will then be more clarity on whether an overarching organisational development exercise is still required to support implementation, and new headcount requirements and institutional development plans for each department will be developed. The GoM target to reduce headcount to 950 FTEs is broadly on track: the number of approved FTEs currently stands at 955. This is five more than at April 2013 which GoM attributes to additional staff requirements for the new Internal Audit Department. GoM’s vacancy levels are currently running at close to 5%.
2. GoM has had limited success in developing solid performance management structures to support public sector reform. A new Public Administration Bill and implementation of the performance management framework will provide a better platform for linking performance to results and tackling poor performance. DFID looks forward to receiving further information on this and the Strategy Paper on Incentivising the Civil Service. Following a less than comprehensive Pay and Pensions Report (March 2014), GoM are planning another Job Evaluation which it is anticipated will form the basis of a new remuneration system. GoM and DFID will discuss whether this might be supported through the Public Sector Reform (PSR) project. DFID will support the Office of the Deputy Governor in PSR delivery through the PSR project improvement plan (PiP), and will discuss this issue in that context.

**Capacity and Technical Cooperation**

1. The 2013 review of the SDP[[9]](#footnote-9) highlights lack of human capacity in critical areas as a continuing development constraint with implications for effective delivery of public services. DFID will continue its support for longer term skills development through ACTS, with 13 new awards allocated in 2013/14 bringing the total of existing scholarships to 20. Priorities for 2014/15 were due to be confirmed by Cabinet following the budget mission and discussions with DFID. GoM is attempting to align ACTs with identified skills gaps in Montserrat though this is constrained by the need to complete a Labour Market Strategy (LMS). MCWL have revised ToRs for this work and anticipate completion by August 2014.[[10]](#footnote-10) By September 2014 it is expected that work to improve the education curriculum will be linked with the LMS to improve labour market planning.
2. DFID will continue to support GoM to address critical line-post gaps through LTTC. HRMU is in the process of identifying new requirements for 2014/15 as well as continuing recruitment efforts for agreed posts in 2013/14. Once GoM’s finalised requests for 2014/15 have been approved by DFID, the agreed amount will be reflected in GoM’s recurrent budget. STTC, which is a one year project set up in 2013/14 to fund urgent social and economic development priorities, will have a project completion review (PCR) carried out by the end of this month. DFID is currently reviewing the funding arrangements for STTC next year, drawing on the lessons from the PCR and GoM requests for 2014/15.
3. Challenges remain in TC recruitment, although this situation has improved over 2013/14. Of 12 critical LTTC posts identified in 2013/14, four remain unfilled, with a further new post recently added. Serious delays have occurred in the recruitment of a Chief Economist, Chief Statistician, Crown Counsel, Child Safeguarding Specialist, a Senior Social Worker and Community Mental Health Officer. GoM and DFID will work together to agree an alternative strategy (for example, more effective advertising, reviewing the use of recruitment agencies and benchmarking of salaries) to improve the utilisation of TC.

**Delivery of Key Public Services in 2013/14**

*Data*

1. Data challenges continue to hamper the setting of public service output targets, with limited macro-economic and socio-economic data. This also makes it difficult to assess poverty or vulnerability across a range of potential indicators. Analysis is further constrained by the lack of an up to date Consumer Price Index (CPI), discussed as a priority for the last few budget aid missions. DFID looks forward to seeing progress on this by June 2014, with support from CARTAC. DFID expects GoM to prioritise TC recruitment for a Chief Statistician and Chief Economist this year to begin to address such challenges. DFID also welcomes the UNICEF launch of DEVINFO[[11]](#footnote-11) in March 2014, as an aid to GoM strengthening socio-economic data.

*Welfare*

1. There is some evidence that civil servants are applying for one-off social welfare assistance to help with food but the numbers are unclear. Following completion of a social welfare review in 2013, Social Services is developing outline recommendations for increased welfare payments. DFID look forward to discussing this proposal in more detail, including implications for the recurrent budget, alongside plans to improve the legislative and procedural aspects of welfare administration.
2. Montserrat will benefit from a new DFID funded child safeguarding project to be launched this year. DFID expects GoM to prioritise recruitment for the Child Safeguarding Specialist and Senior Social Worker (originally planned for 2013). We understand that a child safeguarding specialist has now been recruited but her start date has been delayed until June and that GoM may be reconsidering the need for a Senior Social worker. DFID would be grateful for clarity on both posts.

*Health*

1. Progress against the health action plan[[12]](#footnote-12) includes the development of a Medical Assistance Policy (considered by Cabinet in March 2014) to properly manage medical referrals and establish a medical referral committee. There is also a proposal to improve targeting of categories for medical assistance. Organisational Management and Health Financing Sub-Committees have been set up to support the planned MoHSS wide organisational review and to work on health finance and divestment opportunities. This will be complemented by a study on doctor’s time out-of-office hours to determine optimal staffing and skills levels. GoM is also reviewing the current framework for elderly care, with further progress anticipated during 2014/15.

1. MoHSS Budget pressures continued in 2013/14, although were reduced by the use of a new Contingency Fund to deal with one costly emergency referral. Pressures this year included the increased cost of pharmaceuticals, higher demand for lab testing and medicines following promotion of Non-Communicable Disease (NCD) prevention, and urgent repair work for poorly maintained facilities and equipment. MoHSS recognise the need for a comprehensive maintenance schedule and as a first step will contract a biomedical engineer in 2014/15 to update the equipment inventory, prepare a robust preventative maintenance programme and undertake essential repairs and maintenance. With spending on vehicles, fuel and equipment costing around EC$150,000 per year, the current EC$50,000 allocated for maintenance will incur further pressure.

*Education*

1. Education expenditure is an estimated 8.3% of the total 2014/15 budget, compared with a Caribbean regional average of 11.9% and a global median of 14.4% in 2011[[13]](#footnote-13). New spend requests this year include EC$600,000 (two thirds of overall spend requests) for the school bus subsidy, following outsourcing of the service from government last year, which has significantly increased the cost. This was not accommodated in the baseline budget estimates and yet it is currently a non-discretionary spend item. GoM should ensure that such spending is brought into baseline departmental budgets going forward. Other new spend requests were made for staffing, but outside of TC it is recommended that the functional review of Education, originally due in March 2013, now due in March 2014, is considered before further decisions on additional posts are taken.
2. Apart from the school bus contract which incurred a supplementary budget increase, other budget pressures in 2013/14 included the asbestos problem at Montserrat Secondary School (MSS) which was alleviated through the use of the contingency fund. Meanwhile, a condition assessment on the infrastructure at MSS indicated the need for redevelopment and refurbishment of the school. GoM agrees to DFID conditions for help with funding this venture from the capital budget, but DFID requires formal confirmation that decisions have been approved, appointments made, and conditions satisfied before proceeding.
3. STTC funds allocated in 2013/14 to Education have been severely under-utilised. Given pressures in the areas of Special Education Needs and for a curriculum review linked to the pending Labour Market Strategy (MCWL, 2014), DFID recommends that MoEYS discusses TC requirements with HRMU, and with the DFID Education Adviser, to urgently re-prioritise TC needs. Other plans to increase capacity include following up on the CDB-funded Teacher Enhancement Project (2012/13), and the development of a Diploma in Education course for secondary teachers through a pending agreement with the University of Jamaica for online teacher training.
4. Montserrat primary school attainment test scores in 2013/14 were reported to be better than 2012/13, though there are challenges in assessing whether these are robust standardised tests that are comparable year on year. MoEYS is adopting the Caribbean Primary Exit Assessment (CPEA) which will allow for a regional comparison of standards in English, Maths and Science amongst primary school leavers as well as facilitating improved standardisation. Secondary level targets, (30% of pupils should gain 5 CSECs, including English and Maths in 2013[[14]](#footnote-14)) were not met, but results improved and gender differentials were reduced. Six Heads of Department were selected in 2012 to play a leading role in raising attainment in their subject areas at secondary level. Their formal appointment was approved by Cabinet in February 2013 but they have not yet been confirmed in post, nor paid the allowances or increments appropriate to their role. The GoM should remedy this as soon as possible, and confirm the appointment of a new Vice-Principal of MSS.
5. At the tertiary level, Montserrat Community College (MCC) reports an increase in CAPE results (A level equivalent) to 90%, up from 73% and 79% in each of the last two years. 15 students from Montserrat held awards for first degree courses at various universities in the region or in UK in 2013/14.

*Housing*

1. Particular concerns arose during the year with regard to the condition of the Force 10 houses and flats at Lookout. DFID supported a condition survey of the houses which highlighted safety issues and the need for a complete overhaul. GoM’s own condition survey of the Force 10 flats also raised significant issues. Whilst some of these problems have arisen due to initial design matters, lack of maintenance has been a significant contributory factor. Upon receipt of further information requested during the Budget Aid Mission (overview of the housing stock and financing; copy of GoM’s divestment policy; and an example of a sales contract for a Force 10 property), DFID and GoM will discuss a way forward.
2. GoM assured DFID that no other housing issues are storing up future liabilities. However, DFID remains concerned that accommodation built for mentally challenged and vulnerable people, including Oriole Villas, is not being adequately maintained. This is part of a wider public assistance housing maintenance issue. DFID requires clarity on maintenance plans for these properties.
3. GoM has handed back all the temporary wooden family units to the owners of the properties and through a range of initiatives (including working with financial institutions) the inadequate shelters have now been closed. Over 400 people are on the housing waiting list seeking a range of housing solutions including 15 vulnerable people who are in need of sheltered housing. DFID will continue to discuss housing issues with GoM and requests information on enactment of the Housing Bill (scheduled for June 2014). This, and the draft building code, when approved, will provide further support for minimum housing standards and an improved regulatory and procedural framework for GoM. The restructuring of MAHLE by end March 2014, should also help to improve operational efficiency.

*Access*

1. For the 2013/14 fiscal year, DFID and GOM agreed a budget in the sum of £750,000 (EC$3m) to support air and sea access operations in Montserrat. A further sum of £605,000 (EC$2.42m) was later approved (with conditions) to allow for short term improvements to sea access - to provide for a bigger, better, faster, more comfortable ferry operating five days a week and servicing new ports of call. In addition, DFID agreed to provide EC$1.7m to implement a series of improvements at the airport following a series of air accidents in Montserrat and Antigua.
2. GoM has implemented the new five day service at the end of November 2013 and has met three out of the five conditions attached to the increased funding for the ferry service with remaining conditions expected to have been met by this month. Passenger numbers for ferry and air services have grown year on year together with the level of revenue. The bulk of the work on improving the safety and security of the airport is underway and will be completed in the next six months. ASSI the UK appointed regulator are satisfied that the recommendations will be implemented.
3. For the 2014/15 fiscal year, GoM is projecting an increase in transport subsidies from £1.2m to £1.5m to facilitate the delivery of the increased ferry and air services. We will work with GoM to agree conditions and milestones to attach to this year’s support to ensure value for money and delivery of a service that facilitates and supports its wide ranging socioeconomic objectives. Ultimately, this can only be achieved by fully implementing the access component of the SGP (acquisition of the ferry) given the annual £1.4m cost of leasing and operating the current ferry service.

*Infrastructure*

1. Infrastructure was the sectoral focus of this year’s budget aid mission. Discussions were held with all Ministries on infrastructure performance and need. This was in direct response to DFID concerns at the 2013 budget mission about inadequate maintenance of public assets and the lack of Departmental asset management plans and an overall strategy. During the mission, it was valuable for DFID to observe an Infrastructure Board meeting and it was agreed that the DFID Infrastructure Adviser would join all future meetings.
2. GoM has taken action through the Financial Secretary’s directive to Departments to rationalise routine maintenance needs and identify areas where significant backlog maintenance has built up. GoM and DFID discussed the draft GoM *Infrastructure Sector Review – Maintenance Strategy and Budget*. A forward planning strategy will be developed, including plans for detailed condition assessments and maintenance plans. In the meantime, DFID have provided an initial response and tentative recommendations to the review, set out in at Annex 1.

*Procurement*

1. DFID is pleased to note that in response to the concerns raised during last year’s budget mission, GoM has procured the services of Crown Agents to review and, where necessary, update Financial Regulations. Crown Agents will develop model tender and contract documentation and provide training to key personnel. Whilst progress on strengthening GoM’s procurement systems has been made, DFID considers that project and contract management skills across GoM remain weak. DFID generally welcomes the increased role of the Ministry of Finance in both of these areas, but has sought assurances from GoM that MoFEM is properly resourced to meet its increased responsibility.

**Medium-Term Expenditure Framework**

*Overall process*

1. Overall progress in 2013/14 to operationalise the Medium Term Expenditure Framework has been modest.[[15]](#footnote-15) As recommended at the 2013 budget mission, GoM has simplified the indicators of policy performance against the Sustainable Development Plan. More work is required over the next six months however to make these indicators specific and measurable. The Monitoring and Evaluation specialist flagged as a need by GoM in the new Monitoring Unit under the Cabinet Secretariat will be key to delivering this. Lack of data and technical expertise remain a key barrier to operationalising the MTEF.

*2014/15*

1. GoM forecasts a 1.3% increase in economic growth in 2014/15, only slightly higher than the rate this year. By sector, “public administration” is expected to grow the least next year, at just 0.3%. By contrast, the most marked pickup is in the construction sector, from growth of 0.2% this year to 3.6% in 2014/15. We agreed that further analysis would be undertaken by the time of the mid-year budget review to assess the impact of pipeline capital investment projects on economic growth and tax revenues in the medium-term. GoM has no plan to significantly change the tax framework next year. Forecast growth in general tax revenues is modest, in line with the economic outlook. More marked progress in pursuing tax arrears is expected which should improve tax compliance.
2. DFID has agreed a baseline contribution to the 2014/15 budget of EC$64.1 million. The budget aid team has not been in a position to agree the final settlement because of outstanding information required of GoM on certain new spending requests presented during the mission, for example on regional subscriptions. As was the case last year, GoM plans to implement these additional budget measures agreed by DFID by way of a Supplementary Appropriation Bill. Considerations in reaching a final settlement include, but are not restricted to, the extent to which GoM a) has adequately budgeted for maintenance of government assets; b) plans to implement the recommendations in the social welfare review; and c) has made more effective provision for contingency events, to avoid any in-year call on additional grant-in-aid.

**Recommendations to improve budget aid processes**

* GoM should continue to improve preparation for budget missions. The DFID budget aid team requires timely and full sight of both the current in-year budget position and of costed budget proposals for future years in order to properly inform the budget discussions.
* Related to this, GoM should be careful to appropriately inform DFID of the full range of policy measures that have significant budgetary implications, and to seek approval for the use of any in-year budget surpluses. The budget aid team is concerned that it was not given a complete picture during the budget aid mission of how GoM planned to use the expected end-year budget surplus for 2013/14. This prevents a complete analysis of the following year’s spending needs and policy prioritisation, and undermines confidence in the budget setting process more generally.
* In particular, DFID were not consulted in the lead up to the approval of a Supplementary Bill that used part of the 2013/14 surplus funds to fund a civil service bonus (although the subject of a performance-related bonus was briefly raised when the Premier and the Cabinet Secretary met with the DFID team in East Kilbride in December 2013). As discussed in March, GoM’s decision to press ahead with implementing this bill has meant that the budget proposal for a consolidated civil service pay increase from 1 April 2014 will not be pursued any further. As a result DFID will amend the Budget Aid MoU to bring within its scope the use of any surplus funds, requiring DFID approval for the use of any surplus as well as specifying a minimum consultation period for seeking that approval. DFID is considering how the 2014/15 settlement will be further affected by the use of the surplus in this way.
* GoM needs to ensure the integrity of budget resources that are ring-fenced for particular purposes. For example, surplus funds in the Contingency Fund set up at the last budget were used without full consultation with DFID despite the agreed protocol stating that “any unspent amounts on the contingency budget line will be used as discussed and agreed with DFID at the end of the financial year”.
* There should also be greater focus to ensure accuracy in financial reporting, including that spending is correctly categorised[[16]](#footnote-16).
* A Chief Economist and Director of Statistics should be urgently recruited to facilitate macroeconomic forecasting and to strengthen systems for socio-economic data management and analysis.

**Strategic Growth Plan / Memorandum of Understanding**

1. GoM took the opportunity to raise MoU reform commitments with the DFID team, recognising the need to continue to focus on economic growth objectives. With much of the work on the original MoU completed, GoM would like TC assistance to complete a number of outstanding commitments and to set a number of new targets. In all, GoM envisaged 14 key milestones going forward. These include but are not limited to CEMA regulations, outsourcing, energy regulation, investment promotion, labour market strategy, public sector institutional reform, and tax policy[[17]](#footnote-17). DFID and GoM agreed that a next phase MoU would be useful in driving reform. DFID priorities for a new MoU would be: improved delivery against the PSR2 project; successful management of the project portfolio; and further development of the tourism sector. DFID are considering inclusion of a payment by results tranche link to MoU deliverables. DFID and GoM will continue these discussions to agree an overall MoU framework.

**Project Portfolio**

1. Discussions were held during the BAM on the balance, quality and performance of DFID’s overall project portfolio in Montserrat. The challenge is to manage projects in a way that maximises performance. The recent review of performance of the existing projects revealed a mix of high performing projects, projects that had early set-backs and those that continue to fall short of expected performance. Discussions with GoM identified the following solutions: a stronger role for MoFEM’s Programme Management Unit to improve programme management; monthly DFID/PMU meetings to review progress and/or any threats to delivery; and the establishment of GoM action plans for all projects. DFID would welcome an MoU indicator related to project portfolio performance. It was agreed that it was useful to include discussions on the project portfolio performance and this would be adopted in future BAMs.

**Mid-year review**

1. DFID will agree an approach for a mid-year review of the budget and progress on the MTEF Policy Framework; this will be conducted in September/October 2014. DFID/GoM will agree which sector is to be subject to an in-depth review ahead of the annual budget aid mission in early 2015.

DFID Team, April 2014

**ANNEX 1: DFID Response to GOM Draft Infrastructure Sector Review – Maintenance Strategy and Budget Paper (Jan 2014)**

1.1 In the disaster recovery period, emergency infrastructure (e.g. Government accommodation, housing, sanitation, water supply, electricity, some roads) was hastily designed and built to maintain a viable island. Most of this emergency infrastructure is now past its useful design life. The design life has been further shortened by insufficient maintenance. The 2012-2022 Physical Development Plan (PDP) provides a separate infrastructure plan (Dec 2011) with an investment requirement of EC$1,197M over 10 years. This excludes requirements for roads, airport, Government Buildings.

1.2 In January 2014, the Ministry of Communication Works and Labour (MCWL) produced a draft *Infrastructure Sector Review - Maintenance Strategy and Budget.* This was discussed at the BAM alongside the key challenges encountered in delivering infrastructure programmes on Montserrat. These include:

1. Weak contract and time management resulting in over-spends, inadequate supervision of works, little or no attention to maintenance planning, resulting in poor value for money. Undertaking planning, design and implementation of infrastructure works “in-house” reducing efficiency, increasing time and transaction costs and as well as putting a strangle hold on the local private sector participation and growth.
2. Weak financial regulations and procurement procedures with no standard contract conditions, tender documents and regulatory procedures.
3. A significant public asset maintenance backlog that now requires rehabilitation beyond general maintenance.

1.3 A full discussion and response to the MCWL Sector Review can be found in the accompanying document *DFID Response to GOM Draft Infrastructure Sector Review*. This will be discussed in detail with the GoM in order to establish an action plan, implementation of which will be reviewed at the 2015 BAM. In the meantime, key recommendations arising from the DFID response and BAM discussions include:

1. Outsourcing of design, construction works and supervision that offer poor value for money when undertaken in-house.
2. Fully deliver the new TC contract with Crown Agents to :
* review and where necessary update/modify the SRO11 Financial Regulation
* plug the procedural gaps with the requisite model tender and contract documentation
* provide training and skills enhancement, in the first instance for PPB, MoFEM, AG and Account Holders; and
* give on the job technical support directly to the PPB Chair and Procurement Department in MoFEM.
1. Ensure that robust infrastructure management systems are in place for maintenance; and that a maintenance rehabilitation plan and budget is in place. This is to be prioritised above **any** new capital investment.
2. Any consideration by DFID to invest in a new roads programme should ensure that:
* Backlog and routine maintenance are prioritised
* MoFEM act as client and contracting authority
* Capital investment prioritises two works packages: one to reopen the quarry and the other for road works A01/02.
* Full works designs are prepared by international calibre consultants, provided together with a confidential engineers cost estimate. Works and supervision are tendered through open and international procedures.
* Any agreement on further capital investment must be related to an incentive/performance based reform package (both MCWL and MoFEM) that speaks to functional reviews approved by DFID.
1. To support increased road maintenance DFID would like to see the following actions taken:
* Analysis of options for cost recovery mechanisms and user pays concepts to improve the revenue base for road maintenance.
* Preparation of a detailed 5 year maintenance plan, financed against performance based tranches, illustrating unit cost data, build up and the backlog maintenance works schedules.
* Comparative analysis (regionally) of PWD’s unit construction and maintenance cost register to provide confidence in the estimates.
* Unless a clear value for money argument can be presented by MCWL, road maintenance works (excl. emergency) should be contracted to private sector (50% year 1, 75% year 2 and fully by year 3).
1. Design work for the Government Accommodation 5-year plan should be prioritised now and undertaken through the technical support to PIU line of the current Government Accommodation project. Any consideration by DFID to invest in a further phase of the Government Accommodation project should ensure that:
* MoFEM are client and contracting authority
* MoE/MoH, parliament and justice buildings are prioritised with all three buildings being designed using calibre consultants. This should be commissioned immediately under the current Government Accommodation project.
* Implementation of any subsequent phase of the project should draw on the lessons learned from the current phase of the Government Accommodation project.  Specifically, the implementation methodology should provide assurance to DFID on delivery within an acceptable time frame and to the requisite quality standards. It should carefully consider value for money and maximising economies of scale, whilst promoting open competition and supporting the local construction industry.
* Supervision for all three buildings to be provided by a consultant architect/engineer company.
* Revision of the Government Accommodation Strategy 2008 and development of master plan for Brades site. These activities should be commissioned immediately under the current Government Accommodation project.
1. DFID recognises the need for key permanent posts to be filled - Civil Engineer; Structural Engineer and QS. DFID recommends that it is far more efficient to buy-in such services from the private sector on an as-required basis.
2. DFID see little or no VFM in supporting a GOM policy that retains ownership of an unsustainable plant and vehicle fleet. DFID commitment to keep supporting the GOM vehicle, plant and equipment budget should be based on:
* A careful review of the actual costs and budget consequences for GOM (and DFID) of holding such a large and aged asset base (fleet size versus utilisation).
* A review of heavy plant and equipment utilisation and hire costs and an investigation of whether these contribute to the higher than average construction costs mentioned above
* A commitment to divest costs and risks and a significant amount of MCWL/PWD in house services (e.g. construction works, vehicle and equipment servicing), to the private sector (incl. PWD-Workshop)
* GOM reviewing its policy with regards vehicle, plant and equipment disposal and replacement. The evidence provided in the Infrastructure Review asset register suggests no replacement policy strategy is in force. If there is, it is ignored at a significant cost to the budget.
1. Whilst utilities (electricity, potable water supply, waste water disposal, solid waste disposal) were not specifically addressed in the GOM Infrastructure Review, DFID believe this to be an important area for inclusion in the capital requirement and maintenance discussion going forward. DFID look forward to further discussion and would be supportive if a project intervention catering for improved water supply, liquid waste disposal and solid waste management was developed that rationalised the management and operation of Montserrat’s utilities under a single entity, MUL.
2. With regard to other sub-sectors, DFID is supporting healthcare infrastructure through the Hospital and Health Care Improvement Programme, including the development of a long-term maintenance plan. Meanwhile, following condition surveys on houses and flats at Lookout, indicating structural failure, DFID are prepared to discuss support for GoM based on provision of an action plan for urgent repair and rehabilitation. GoM also need to be clear about the legal framework under which divestment of public housing stock takes place and potential liabilities for housing stock that is clearly below par whether currently in the public domain or divested.

**ANNEX 2: Montserrat Project Scores**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Project Name** | **Overall Budget (£)** | **Previous AR Score** | **Latest Review Type** | **Score**  |
| Montserrat Budget Aid 2012/13 (203258) | 13,980,000 | N/A | PCR | B |
| Montserrat Budget Aid (203896) | 17,150,000 | N/A | N/A - PCR due 30 Jun 14. | N/A |
| Education Infrastructure (113990) | 2,475,000 | B | AR | A |
| Montserrat Restructuring of the PWD Workshop (114442) | 1,609,150 | A | PCR | C |
| GoM Office Accommodation (200983) | 2,851,645 | 2 | AR | B |
| Diesel Power Station (202374) | 5,340,000 | First review | AR | C |
| Geothermal (202824) | 8,500,000 | First Review | AR | A |
| Hospital and Health Care Improvement project(114508) | 8,421,000 | First Review | AR | B |
| Montserrat Public Sector Reform (200952) | 3,121,000 | A | AR | B |
| Strengthening the MDC (203893) | 4,680,000 | N/A | N/A - AR due 9 Oct 14. | A from previous phase |
| Short Term TC (203259) | 840,000 | N/A | PCR due 30 Jun '14 | N/A |
| Road Reinstatement Project (114445) | 5,818,300 | B | AR  | B |

1. The discussion centred on concerns raised by the Opposition with regard to transparency, health services and poverty. [↑](#footnote-ref-1)
2. Recurrent budget estimates only. A separate Development budget is operated by GoM, financed by donors, including DFID and the EU, which is largely used for capital projects. In 2014/15 this is worth circa EC$165m. [↑](#footnote-ref-2)
3. Due to the overturning of a previous Crown Counsel ruling that tax arrears dating back more than 6 months could not be pursued. [↑](#footnote-ref-3)
4. Although GoM note that some of the budget savings from unfilled posts are spent on “acting” staffing arrangements required because of the vacancies. [↑](#footnote-ref-4)
5. For several years GoM has been providing a breakdown of Budget Aid claims that separates out liabilities although DFID recognises that this had not been formally required of GoM. Such a requirement will now be built into the budget MoU for 2014/15. [↑](#footnote-ref-5)
6. The EU will make available 170,000 Euros to support development of the action plan. [↑](#footnote-ref-6)
7. This collaboration is also relevant to the EU’s EDF conditions on macroeconomic stability, including budget predictability. [↑](#footnote-ref-7)
8. Government Finance Statistics (GFS) guidelines equivalent to International Public Sector Accounting Standards. [↑](#footnote-ref-8)
9. GoM, July 2013 Review Report for Medium Term Development Strategy, 2008-2012. [↑](#footnote-ref-9)
10. The Labour Market Strategy is both an SGP and an EU indicator. [↑](#footnote-ref-10)
11. DEVINFO is a UN database system, used to compile and disseminate data on human development. [↑](#footnote-ref-11)
12. Developed from the Health Sector Review, 2012/13 [↑](#footnote-ref-12)
13. UNESCO Global Monitoring Report 2013/14. [↑](#footnote-ref-13)
14. Montserrat Secondary School Review Report, May 2011 [↑](#footnote-ref-14)
15. The MTEF is linked to the Strategic Development Plan; the three year policy framework and departmental strategic plans were introduced in 2011. GoM is now moving into a new phase (2013-17). SDP objectives are cascaded down to three yearly MTEFs and departmental plans. [↑](#footnote-ref-15)
16. One particular example was the GoM reporting error in making the Quarter 1 claim which meant that $3m of liabilities were settled out of the normal recurrent component rather than the liabilities component of the budget. [↑](#footnote-ref-16)
17. GoM will provide a response to the previous tax analysis conducted as part of the MoU, indicating how they would like to move forward. [↑](#footnote-ref-17)