

EXECUTIVE COUNCIL

PUBLIC

Title: Response to the Public Accounts Committee [PAC] letter, of 22 May 2025: “Falkland Islands Government Financial Statements Year End 30th June 2024 with recommendation”.

Paper Number: 165/25

Date: 26 August 2025

Responsible Director: Financial Secretary

Report Author: Head of Finance

Portfolio Holder: MLA Roger Spink

Reason for paper: This paper is submitted to Executive Council:
To meet a statutory requirement.

Publication: This report should be made public after submission to the Legislative Assembly.

Previous papers: FIG Annual Financial Statements and Audit Completion Report for year ended 30 June 2024.

142/22 Response to the Public Accounts Committee Letter “Falkland Islands Government Statements Year Ended 30 June 2021 with recommendation of 20 April 2022.

List of Documents: Appendix A – PAC letter Ref: PAC/25/05/01, dated 22 May 2025.

Appendix B – Draft letter from the Clerk to the Legislative Assembly to the Public Accounts Committee reflecting the response the PAC letter: “Falkland Islands Government Financial Statements Year End 30th June 2025 with recommendation”, dated 22 May 2025.

1. Recommendations

Honourable Members are recommended to:

- (a) Approve the submission of the response to the Legislative Assembly as detailed in section 5 of this report;

- (b) Approve the publication of this report after the session of the Legislative Assembly at which the response is considered.

2. Additional Budgetary Implications

- 2.1 No direct financial implications.

3. Executive Summary

- 3.1 The purpose of this report is to provide a response to the PAC letter, PAC/25/05/01 issued on 22 May 2025. It provides details on actions being undertaken within FIG to review the budget process, especially in respect of expenditure - and also to confirm a highlighted typo in the Pension Fund statement.
- 3.2 The PAC letter referenced a prior budgeting query raised in 2022, about the variance between estimated and actual outturn, [see ExCo paper 142/22]. PAC recommended that this paper was “revisited to ensure that actions that were to be taken to review the budget process are adhered to.”
- 3.3 FIG welcomes all forms of feedback to help identify deficiencies to address. This report confirms actions taken since 2022 and it also highlights the ongoing actions in 25/26 and onwards, to continuously improve the budget process.

4. Background - and actions subsequently taken [per ExCo paper 142/22]

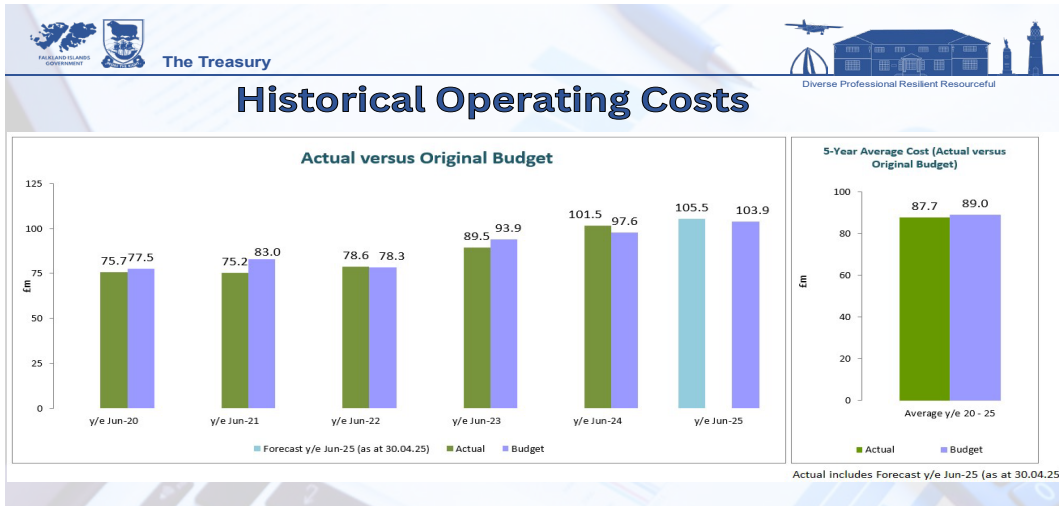
- 4.1 The External Audit report of Mazars LLP on the Falkland Islands Government Financial Statements Year End 30th June 2021 included a 5 years review of the FIG budgeting process [2016-2021] and its accuracy re: actuals v. budget for both Income and Expenditure.
- 4.2 This report stated inter alia: *We appreciate that income is inherently variable and will depend in a great part on the fishing seasons and also... on tourist income as these have a significant impact on the license and tax revenue respectively. However, given the consistent divergence between the budgeted and actual operating results and the additional interest in the financial statements with the credit rating, we recommend that the budgeting process should be reviewed, especially in respect of expenditure. It is important that the budgeted expenditure matches realistic expectations of the work that can be achieved in the coming year in order to demonstrate an effective budget process.*
- 4.3 It is this statement that the PAC based their original letter PAC/22/04/01 on, recommending that the budget process should be reviewed, especially in respect of expenditure.
- 4.4 The response to the PAC letter highlighted the work being done on budget principles; the implementation of quarterly financial reviews between Treasury, Accounting Officers and the Chief Executive to explore material cost and revenue variances and to better match costs and revenue to highlight areas of significant subsidy.
- 4.5 The latest set of FIG accounts for the year ended 30 June 2024 showed a significant positive variance against the budget of £35.8mn. It is this large variance that resulted in

the letter PAC/25/05/01 and the recommendation to review the budget process.

- 4.6 The cause of the large budget variance were significantly higher corporation tax receipts in the year, well above previous years and gains in investment revenue which cannot be predicted and as likely to be low as high. The improved performance against budget over the years is driven by revenue increases rather than cost savings.

5. Update on Budget Process following original PAC Letter.

- 5.1 Revenue is the area of greatest volatility and over which FIG has limited control other than the setting of Government Fees and Charges. Whilst Government can set fishing license fees, there remains the risk that refunds could become payable if the Illex season is poor. Corporation tax receipts will be dependent upon the profitability of businesses and are heavily dependent on the fishing companies. Investment income is market driven, volatile and affected by the fund investment strategies.
- 5.2 As part of the budget process, the taxation office contact companies and ask about performance and expected amounts of tax payable. This is voluntary information provided by the companies. In addition, as evidenced in the 2025/26 budget setting, known factors within industries are factored into the budget i.e. capital investment in vessels and the closure of fishing seasons.
- 5.3 Personal taxation is calculated using existing data and building in small increases based on wage and employment number growth.
- 5.4 Budget principles continue to be developed and are reviewed at the start of each budget cycle. These principles are used to direct the areas of focus within the budget setting process in order to meet the objectives of the Island Plan.
- 5.5 The Quarterly Reviews conducted between Treasury and the Chief Executive and Accounting Officers - by Directorate - are now well established. This provides an early indication of any significant budget variances and enables appropriate corrective actions to be considered and implemented. These reviews are also supplemented by the fortnightly CMT meetings where FIG and/or Directorate specific budget issues can be raised.
- 5.6 Historically, costs have been close to budget as the shown by the table below. This shows an average of £1.3mn higher spend (1%) a year over the preceding 5 years.



5.7 Treasury recognizes that there is further scope for Continuous Improvement throughout the budgeting process: from managing the collection of submissions, challenging the returns from Accounting Officers, distribution of data to Honourable Members, to revising the overall Budget Select Committee [BSC] meetings process and Agendas - and through to the detail of challenging the rationale behind budget carryovers.

6. Pension Fund typo.

6.1 Within all the Financial Statements, there was one instance of a typo - on Page 1 of Pension (Old Scheme) Fund - which quoted '£6.75M' instead of '£26.75M', although it was correctly quoted elsewhere in the document.

6.2 Currently within Treasury, an uninvolved reviewer sense checks the detailed Budget papers prior to submission to ExCo. This approach will also be applied to reviewing all Financial Statements prior to sign-off.

7. Resource Implications

7.1 Financial Implications

7.1.1 There are no direct financial implications. However, the continuous review of budget principles and greater scrutiny of proposals may result in budgetary changes during the budget setting process.

7.2 Human Resource Implications

7.2.1 None.

7.3 Other Resource Implications

7.3.1 None.

8. Legal Implications

8.1 None.

9. Environmental & Sustainability Implications

9.1 None.

10. Camp Implications

10.1 None.

11. Significant Risks

11.1 Volatility in revenue where FIG has no control over is an inherent risk although this is taken into account during the budget setting process. There is also the risk that certain elements of cost have the potential to vary significantly which is especially true regarding Medical Treatment Overseas costs.

12. Consultation

12.1 Before the current Assembly is dissolved, there will be a 'lessons learned' meeting with Honourable Members, the Chief Executive and Accounting Officers to identify and confirm where and how the budget process can be improved. The 25/26 Budget Draft approval was delayed and provides an opportune time to challenge the entire budget process.

12.2 Subsequent to the above 'lessons learned' meeting, the Corporate Management Team will be engaged with identifying further improvements in the budget process, covering initial Directorate detailed submissions, and through to delivering targets as directed by Chief Executive.

13. Communication

The report to be made public following submission to Legislative Assembly in September 2025

Appendix A – PAC letter Ref: PAC/25/05/01 of 22 May 2025

Public Accounts Committee

PO Box 420 Stanley Falkland Islands FIQQ1ZZ

Tel +500 22905 Email: pacsecretary@horizon.co.fk

Ref: PAC/25/05/01

22nd May 2025

Clerk of the Legislative Assembly and Executive Council
Members of the Legislative Assembly
Gilbert House
Stanley

Dear Members,

Falkland Islands Government Financial Statements Year End 30th June 2024 with recommendation

In accordance with Section (80) of the Constitution I am pleased to report to the Legislative Assembly that the Public Accounts Committee has examined the accounts of the Falkland Islands Government for the year ended June 2024 as listed below.

Falkland Islands Government Financial Statements June 2024

Falkland Islands Government Capital Equalisation Fund Financial Statements June 2024

Falkland Islands Government Currency Fund June 2024

Falkland Islands Government Insurance Fund June 2024

Falkland Islands Government Pensions (Old Scheme) Fund June 2024

Falkland Islands Government Retirement Pensions Scheme June 2024

The committee reviewed and discussed the Financial Statements. It was noted an error occurs on page 1 of the Pension (Old Scheme) Fund misstating the fund at 30 June 2024 at £6.75m instead of £26.75m, it was correct elsewhere in the document.

The PAC had written to Legislative Assembly in April 2022 having noted that Mazars Audit Completion Report for the 2021 Financial Statements identified a trend in divergence between budgeted and actual operating results. At the time the PAC recommended that the budgeting process should be reviewed, especially in respect of expenditure, noting the importance of the budgeted expenditure matching realistic expectations of the work that can be achieved in the coming year in order to demonstrate an effective budget process.

The response from Legislative Assembly was positive (ExCo paper 142/22) however the variance in the 2024 Financial Statements between estimate and actual outturn remains a matter of concern and the PAC will write to FIG to understand what actions remain outstanding or whether further actions are to be taken.

Recommendation: In light of the consistent divergence between budgeted and actual operating results the PAC recommends that ExCo paper 142/22 is revisited to ensure that actions that were to be taken to review the budget process are adhered to.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Bernie Goodwin". The signature is fluid and cursive, with the first name "Bernie" written in a larger, more prominent script than the last name "Goodwin".

Mrs Bernie Goodwin
Chairperson, Public Accounts Committee
c.c. FIG and Internal Audit

Appendix B – Draft letter from the Clerk to the Legislative Assembly to the Public Accounts Committee reflecting the response the Public Accounts Committee Letter “Falkland Islands Government Financial Statements Year End 30th June 2024 with recommendation” of 22 May 2025



Falkland Islands Government

Office of the Legislative Assembly Gilbert House, Ross Road Stanley, Falkland Islands Telephone: +500 27451
Facsimile: +500 27456
e-mail: assembly@sec.gov.fk

28 August 2025

Mrs. Bernie Goodwin
Chairperson,
Public Accounts Committee Stanley

Dear Bernie,

Please find below the response to Public Accounts Committee Letter of 22 May 2025 relating to the “Falkland Islands Government Financial Statements Year End 30th June 2024 with recommendation”, which was submitted to the Legislative Assembly in August 2025 under Motion 06/25. It provides details on what actions have been undertaken - and being undertaken - within FIG to continuously improve the budget process, and specifically to address the variances around expenditure actuals and budgeted amounts.

The Motion to accept the response from The Governor (in Council) was upheld by the Assembly. A copy of the transcript of the meeting will be made available to the PAC when completed and Executive Council report 165/25 is attached.

The cause of the large budget variance for the year ended 30 June 2024 were significantly higher corporation tax receipts in the year, well above previous years and gains in investment revenue which cannot be predicted and as likely to be low as high. The volatility of these revenue streams is evidenced by corporation tax receipts being well down on those received in 2023/24 and indeed against receipts in previous years.

Within the 2025/26 revenue budget process, account has been taken of known factors that will, or will likely affect the level of receipts to ensure that as accurate a figure as possible is budgeted for. These factors include known investments in fishing vessels, the closure of the Loligo fishing season and the impact on investment income as a result of the large capital spend programme requiring the use of reserves.

Budget principles continue to be developed and are reviewed at the start of each budget cycle. These principles are used to direct the areas of focus within the budget setting process in order to meet the objectives of the Island Plan.

The Quarterly Reviews conducted between Treasury and the Chief Executive and Accounting Officers - by Directorate - are now well established. This provides an early indication of any significant budget variances and enables appropriate corrective actions to be considered and implemented. These reviews are also supplemented by the fortnightly CMT meetings where FIG and/or Directorate specific budget issues can be raised.

Historically, costs have been close to budget with a recent presentation by the Financial Secretary showing that over the last 5 years, spend has on average been £1.3mn (1%) a year higher than budget.

The focus on cost control and cost savings was a major theme to Accounting Officers throughout the 2025/26 budget process and will continue to be so.

Treasury recognizes that there is further scope for Continuous Improvement throughout the budgeting process: from managing the collection of submissions, challenging the returns from Accounting Officers, distribution of data to Honourable Members, to revising the overall Budget Select Committee [BSC] meetings process and Agendas - and through to the detail of challenging the rationale behind budget carryovers.

Pension Fund typo.

Within all the Financial Statements, there was one instance of a typo - on Page 1 of Pension (Old Scheme) Fund - which quoted '£6.75M' instead of '£26.75M', although it was correctly quoted elsewhere in the document.

Currently within Treasury, an uninvolved reviewer sense checks the detailed Budget papers prior to submission to ExCo. This approach will also be applied to reviewing all Financial Statements prior to sign-off.

Yours sincerely,



Cherie Clifford
Clerk of the Legislative Assembly

Cc: Chief Internal Auditor