

ANGUILLA

BUDGET ADDRESS 2008

**“TIME FOR CONSOLIDATION:
COPING WITH THE GROWING PAINS OF
TRANSFORMATION”**

1. INTRODUCTION

Mr Speaker, Honourable Chief Minister, fellow Ministers of Government, Members of the Opposition, other Members of the House, invited guests, those listening via radio, television or the internet (including the Anguilla diaspora community overseas) – good evening. Welcome to this first Budget Address to be held during “prime time”. I hope presenting at this time has enabled more of you to attend and to tune in. It is my duty this evening to present Government’s budgetary proposals for the fiscal year January to December 2008.

As in every year since I became Minister of Finance I have constructed my address around a central theme. The theme for this Budget Address is

**“TIME FOR CONSOLIDATION:
COPING WITH THE GROWING PAINS OF TRANSFORMATION” -**

I have settled on this theme after listening to the various opinions which you the people of Anguilla have offered on the state of our beloved country during the year. A consistent refrain has been the need to take a time out, to pause, **to consolidate**. To say that Anguilla is undergoing rapid change is to state the obvious. And with change comes challenges, which we must address or face the undesirable consequences.

Mr Speaker, this Anguilla United Front Administration was elected into office in 2000, at a time when Anguilla faced the very real threats of major economic decline and continuing political destabilization. We pledged to the people of Anguilla our commitment to achieve the development vision of the Anguilla Revolution by finding new and creative ways to unleash the productive forces at our disposal to further the development of all Anguillians.

Seven years later, we are very much a victim of our own successes as Anguilla is booming on all fronts. In fact there is no shortage of folks who continually tell us that Government is paying the price for declaring in 2005 that Anguilla is **“open for business”**. They assert that we have taken the country too far and too rapidly along the path of economic growth, to the extent that social development has not kept pace.

Mr Speaker, while we in the United Front Administration must accept responsibility for some of the shortcomings in Anguilla, which are currently giving cause for concern, a sober analysis of events must however address the structural changes, which have occurred in Anguilla over the past 40 years. Yes 40 years! We as a people have been collectively building a new Anguilla for the past 40 years **transforming** it from the veritable **“waste land”**, that it was in 1967 to the vibrant **“emergent city-state”** that it is today.

Mr Speaker, lest we forget, Anguilla in 1967 was devoid of electricity, running water, telecommunications, paved roads, air and sea port infrastructure, health and education facilities and the other infrastructure that we take for granted today. Anguilla was wracked by severe unemployment so that Anguillian men were forced to migrate in droves, to provide a livelihood for themselves and their families. 40 years later the situation is completely reversed so much so that in the words of the Chief Minister, Anguilla is **“like the America of the Caribbean”** in that workers are coming in droves from our sister Caribbean islands and farther afield, to take advantage of the opportunities available in Anguilla’s booming economy.

In order to appreciate the magnitude of this change, I think it is appropriate to provide the following quotation from St. Lucia’s Nobel Prize winning economist, Sir. Arthur Lewis. Speaking on **“transformation”** he wrote:

“Every country converting from a poor subsistence economy to a rapidly expanding market economy undergoes profound cultural changes in family structure, land tenure, tribal loyalties, political institutions, religious beliefs, degree of urbanization and almost any other cultural feature you care to mention”.

Just a few weeks ago, I counted myself as being privileged to have been asked as Minister with responsibility for Social Security, to deliver the Keynote Address for the 3rd Biennial National Development Conference for which the Anguilla Social Security Board was the main sponsor. The theme of the Conference was **“Anguilla at 40, A Self-Evaluation: Conversations on a Blueprint for Tomorrow”**.

I intend no disrespect to the other presenters, but I believe the presentation which will be most remembered is that delivered by Dame Dr. Bernice Lake, Q.C. on the topic “**What Makes Us Anguillian?**”. It is the central question facing us Anguillians today, at this cross-roads of transformation where we find ourselves 40 years on from the Anguilla Revolution. Dame Bernice Lake did not disappoint us and left us with the sobering possibility that if as Anguillians we do not immediately, and as a matter of national priority define, promote and protect what it is to be “**Anguillian**”, then we face the very real prospect of forever losing our identity at this extraordinary time of change.

Another presentation which provided much food for thought is that given by Dr Vanus James, a self-described student of the Anguilla Revolution. Dr James and his team of consultants were contracted by the Anguilla Social Security Board, to examine the impact of the Anguilla Revolution by carrying out a scientific survey of the Anguillian public. I think it is very appropriate to reflect on some of the findings of that survey as they speak to some of the “**growing pains**” that Anguilla is experiencing as it transforms from an undeveloped to developed country. As I indicated it is a study which has presented much food for thought. However, time constraints only permit me to highlight two sets of findings in particular.

As regards the Benefits from the Good Governance Efforts of the Anguilla Revolution, **73%** of respondents felt that it has led to better job opportunities; **73.6%** felt that it has led to more secure job tenure; **68.5%** felt that it has led to higher incomes; and **68.3%** felt that it has led to access to better schooling and training opportunities. Consequently, it is reasonable to conclude that Anguillians believe that the Anguillian Revolution has contributed to a significant improvement in their material well-being.

When asked what they perceived to be the most imminent threats facing Anguilla today, the top 5 concerns were:

1. Crime
2. Drug Use/Abuse Among Youth
3. Youth Deviancy
4. Cost of Living

5. Break Down of the Family

Mr Speaker these findings seem to confirm what many have observed over the years: that economic progress has been achieved at the price of social decline, and at the heart of this social decline is the decline of the family. This is a dilemma of development which has exercised the minds of development academics and practitioners alike in many a country.

Recognizing the changes which have been wrought in the Anguillian society as we have developed since 1967, we in the Anguilla United Front contested the 2005 General Elections on the platform of a commitment to **“social reconstruction”** for the period to 2010. We recognized that the family is the fundamental building block of communities and society as a whole and the basis of a stable social order. And that development which is not predicated on this principle is not sustainable and will only be fleeting in the gains that it brings.

Mr Speaker, in this context, the statement **“time for consolidation”** is a recognition of the need to take the time to conduct more scientific enquiries, into challenges which confront us studies like that commissioned by the Social Security Board on the impact of the Anguilla Revolution,. This will in turn lead to a more evidence based process of policy-making, with a focus on targeted interventions and the monitoring and measurement of the outcomes of such interventions.

The statement **“time for consolidation”** is also a recognition that Anguilla may have reached the limits of what it can reasonably absorb, that if we give in to the excesses of materialism we do so at the risk of condemning future generations to a fate much worse than we have escaped by breaking from the shackles of poverty and underdevelopment, which marked our condition as a member of the tri-partite state of St. Kitts-Nevis-Anguilla.

Development is a fine balancing act. We as a Government are forever striving to find that correct balance between meeting the legitimate expectations of the people of Anguilla, as regards their development aspirations **here and now** and **giving due consideration to**

the legacy of the decisions which we take as regards their impact on future generations – in a nutshell meeting the challenge of sustainable development.

Mr Speaker, as we continue to reflect on this challenge, the more apparent it is that we must be committed to the principle of **“optimization”**. Optimization speaks to an approach which takes into consideration social, economic, political, environmental as well as financial factors, and seeks to derive outcomes which are mutually beneficial to all stakeholders. If we remain committed to the social capital oriented path to development which I sought to outline in previous Budget Addresses, Anguilla will be on a path to development which is sustainable, because sustainable development is about optimization in that it embodies moderation, temperance and even sacrifice.

As I offered in previous Budget Addresses good leadership and good governance entail making **“real choices”**, **“tough choices”** if we are to be **“effective stewards”**. I believe the Chief Minister and my other Ministerial colleagues will agree with me that in some respects it is much more difficult to **“lean against the wind”**, which is what is required now, than it is to **“lean with the wind”**, which is what was required coming out of the recessionary years of 2001 and 2002. However, we remain committed to the challenges at hand and have the utmost confidence in Anguillians as a people, to do what is right to make the necessary adjustments. **Growing pains** are just that, **“growing pains”**. Faced with the choice, we in the Anguilla United Front will always choose to be part of a process, which challenges the status quo to take Anguilla forward rather than settle for stagnation and decline.

This 2008 Budget reflects the continuing efforts of the Anguilla United Front Administration to realize the Vision for Anguilla as we have articulated it and is worth repeating here, namely:

“we envisage for the people of Anguilla a future in which they maintain their culture; preserve their heritage; achieve their full human potential in peace and freedom; and participate in the economic and social progress of the regional and international community”.

Mr Speaker, putting together the annual budget is a very significant undertaking requiring efforts by many individuals. The Budget formulation process involves the entire Public Service, with the Ministry of FEDICT playing the coordinating role. I round out these introductory remarks to the Address by acknowledging the support of the Honourable Chief Minister and my other Ministerial colleagues, in the endeavour of formulating and preparing the 2008 Budget. It took several sessions of Executive Council, but in the end we were finally able to agree on the Budget.

2. ECONOMIC AND FISCAL REVIEW

Permit me now Mr Speaker to undertake a review of Anguilla's economic and fiscal situation.

2.1 Economic Activity

Mr Speaker, according to Government's official statistics, Anguilla's gross domestic product (GDP), in real terms grew by **15%** in 2006 to **\$281.9 million**. This represents an increase from 2005 when the economy grew by 10.9 per cent.

Hotel and Restaurants continue to be the largest sector accounting for **32.7%** of economic activity. Banking and Insurance is the next largest sector accounting for **17.1%** of economic activity. The top three is rounded out by Construction which accounts for **16.7%** of economic activity. These sectors grew by **17.5%**, **6.0%** and **36.6%**, respectively in 2006. The strong growth in construction is linked to robust activity in all sub-sectors: resort, villa, residential and commercial construction.

Mr Speaker preliminary estimates for 2007 indicate that the economy once again would have grown in excess of 10% in real terms. This would represent the 4th consecutive year the real GDP growth would have been in excess of 10 per cent. While this is an impressive achievement, this level of growth is not sustainable as the economy is already experiencing severe shortages in labour which is contributing to rising wage inflation, particularly in the construction sector. Consequently, Government will be challenged to manage the situation so as to curb inflationary pressures and to protect real incomes.

2.2 Fiscal

Mr Speaker, fiscal performance is measured in terms of recurrent revenue relative to recurrent expenditure, and combining this with capital revenue and expenditure to give a picture of Government's overall fiscal balance.

2.2.1 Recurrent Revenue

Mr Speaker, recurrent revenue collections at the end of October stood at **\$171.46 million**. We are therefore expected to surpass the 2007 budget estimate of **\$174.98 million**. In fact the revised estimate for 2007 is now **\$205.75 million**. To date the top 5 performers by revenue head have been Import Duty (Other), Stamp Duty, Accommodation Tax, Import Duty (Fuel and Gas) and Work Permit Fees.

Examining the top 3 earning heads in some detail, collections from the Import Duty (Other) revenue head in 2007 are projected to amount to **\$67.73 million**. This would represent an excess of **\$14.73 million** from the budget estimate of **\$53 million**. The robust Import Duty (Other) collections are reflective of the economic boom that the Anguillian economy has been experiencing since 2004. This will be the 4th consecutive year that Import Duty (Other) collections will have exceeded the budget estimate. The Comptroller of Customs and his staff are to be congratulated for the diligence with which they go about the job of ensuring that Anguilla's principal revenue earner meets and, as we have seen, exceeds expectations.

Stamp Duty continues to be a strong performer, with collections from this revenue head averaging **\$26.6 million** per annum over the period 2004 – 2006. Collections for 2007 are projected to amount to **\$32.3 million**. The strong performance in stamp duty collections since 2004 is testimony to the success of the investment strategy pursued by Government which will see some **US\$3.24 billion** in investment in tourism accommodation over the period to the year 2020.

Rounding out the top 3 revenue performers, Accommodation Tax collections are projected to amount to **\$15 million** for 2007. This would represent an increase of **12%** from 2006 collections of **\$13.4 million**. The projected increase in accommodation tax collections is directly attributable to an increase in visitor arrivals, particularly of the important stay-over visitor category, which is expected to increase by 10% from the 2006 figure of 72,970 to **80,267**.

Mr Speaker, while we in the Anguilla United Front Administration are justifiably proud of the positive performance in recurrent revenue since 2003, as we seek **to consolidate**

on the gains made we have no choice but to continue to forge ahead with the revenue objectives outlined in our 2005 Manifesto. Economic progress has been accompanied by increasing challenges on the social development front and will require extensive interventions to correct such imbalances. It goes without saying that these interventions have to be adequately funded and resourced.

2.2.2 Recurrent Expenditure

Mr Speaker, recurrent expenditure is projected to amount to **\$167.2 million** in 2007 compared to the budget estimate of **\$157.2 million**. An increase in personal emoluments associated with a 20% increase in salaries paid to Civil Servants effective July 2007, an increase in the subvention allocated to the Health Authority of Anguilla, and an increase in expenditure on other key programmes in the face of stronger - than - expected revenue performance, account for the over expenditure.

2.2.3 Recurrent Balance

Mr Speaker, Government's recurrent surplus for 2007 is projected to be **\$38.55 million**. This continues the strong record of recurrent surpluses recorded since 2004 and again is testimony to the robustness of revenue collections, coupled with strong expenditure management.

2.2.4 Contribution to Fiscal Reserves

Mr Speaker, in 2007 Government continued to put money aside into fiscal reserves as a safeguard against the future. Some **\$5.7 million** were put into reserves this year. Reserves now stand at **\$40.7 million** compared to the target of **\$32.2 million** for the year (75 days of recurrent expenditure).

2.2.5 Capital Expenditure

Mr Speaker, capital expenditure for 2007 is expected to top out at around **\$53 million**.

Expenditure on infrastructure development has once again led the way. The leading area of expenditure was on the roads development programme with some **\$13.5 million** spent on completion of the network of main roads and a number of village roads, to name a few

- **Rev. C. Leonard Carty Rd. (Sachasses – North Hill), Stoney Ground Rd., Rose Hill, Tackling Road and Stonewell Road.**

There was expenditure of **\$8.6 million** on seaport development. This year has seen the conversion of Blowing Point to a passenger-only port and the construction of three new jetties and ancillary office space. A consultancy is also underway for the Master Plan and Design for the landside development at Blowing Point Ferry Terminal which is funded in conjunction with our partners CDB. Renovations to the existing jetty and construction of a new jetty have also taken place at Road Bay to accommodate cargo traffic from St Martin/St. Maarten.

There has been significant expenditure on Land Acquisition (**\$10.3 million**) to meet outstanding land compensation obligations and to support the progress on both social development initiatives and infrastructural development projects.

On the social development and social infrastructure side, we are especially proud of our educational developments that have taken place this year - principally the ongoing construction work at the Allwyn Allison (West End) Primary School, **\$2.2 million**, and the completion of Campus B auditorium **\$821 thousand**.

Expenditure has also taken place on sporting development, with construction of the National Football Stadium underway, and progress being made with planning the National Indoor Sports Auditorium and the development of the National Cricket Stadium.

With regards to Health Services Development, **\$1.2 million** went towards funding of capital infrastructure for the Health Authority of Anguilla, most notably an ultrasound machine and scanner, equipment for the maternity ward, dental equipment and continued construction of the psychiatric ward.

Mr Speaker, I am happy to report that the European Union continues to pledge its support to the Government in its implementation of the Medium Term Air Transport Sector Plan, covering the period 2004 - 2008. Following the Medium Term Review of the EDF 9 Programme which was conducted towards the end of 2006, the EU this year pledged an

additional **3.95 million euros** to be made available to Anguilla, bringing the total amount available under EDF 9 Programme to **12.24 million euros**. We are expecting the second tranche of these funds - some 2.4m euros - to be received in the coming weeks. This will be used to repay the US\$15million which the Government borrowed to undertake the runway, terminal and associated expansion under the Medium Term Air Transport Sector Plan. While the disbursement process of the EDF remains slow, we appreciate them as our single major source of grant funding.

Finally, Mr Speaker, the EDF 9 Programming Cycle will be replaced by EDF 10. I am also happy to report that the proposed allocation for Anguilla under the EDF 10 programme stands at **11.7m euros** to cover the period 2008-2013. We have to decide where to direct these funds but the initial thinking is towards seaport development at Corito. Mr Speaker, we are grateful for the assistance of the Overseas Territories Department of the UK Foreign and Commonwealth Office in helping to unlock the various funding envelopes available through the EDF.

2.2.6 Overall Balance

Mr Speaker, the “Overall Balance” is simply the recurrent balance, less contribution to expenditure on capital. The recurrent balance for 2007 is projected to amount to **\$38.55 million**. Some **\$5.7 million** have been added to fiscal reserves so far during the year and we hope to add an additional **\$3 million** before the end of the year, to bring the total to **\$8.7 million**. Principal repayment on loans will amount to some **\$3.5 million**. As a result the amount of **\$29.3 million** available would have been for capital expenditure from the recurrent surplus generated. Capital expenditure is projected at **\$53 million** which means that the financing gap would be **\$23.7 million**. This was financed by \$28 million in new borrowing in 2007 leaving **\$4.3 million** in undrawn funds.

2.4 Social Security

Mister Speaker, as you are aware, the Social Security Board in 2007 has been celebrating its 25th Anniversary of operations under the theme “25 years of Achievement; A Lifetime Commitment”. The theme aptly speaks to the Board’s **achievements** over the past 25 years, which can be described as many and far-reaching. That the Social Security

System has been a success story over those years is indisputable. Perhaps the greatest testimony to this is that over 500 persons receive regular pension payments from the Social Security system. In total some \$7.2 million in short-term and long-term benefits will be paid out in 2008. (As the saying goes: “The proof of the pudding is in the eating”.) But the anniversary theme also speaks to Social Security being a **lifetime commitment**, which means that the System must continue to be strong and sustainable for future generations of workers and beneficiaries as well. This requires the building up of reserves and the judicious investment of those reserve funds, which, I am proud to say, will surpass \$200 million by the end of 2008.

The Social Security System is one of the institutions which is front and centre “coping with the growing pains of transformation” as our society and government grapples with the challenges which confront us. Mister Speaker, this is noteworthy, because the Social Security Board has not chosen to adopt a narrow mission such as, say, “to collect contributions and to pay benefits”. The Board has instead chosen as its overarching mission “Improving the Quality of Life for All” out of a recognition that the Social Security System cannot and does not exist in a vacuum, and that indeed its fortunes are inextricably intertwined with economic and societal conditions in the country. It is for this reason that the Social Security Board is concerned with the general well-being of every-one: workers and their families, pensioners, old and young, sportsmen and women, students and patients, you get the picture Mister Speaker, every-one. I could point to a host of areas where the Social Security System is playing a role in “coping with the growing pains of transformation” such as interventions in the areas of health, education and sports and social development, but I will just refer to the recent National Development Conference to highlight this effort. During that Conference, many of the issues which define our uniqueness as Anguillians and those which challenge us so much as we deal with rapid growth were discussed. Following quickly on the heels of the conference the Board has issued a “Call for Projects” which will help it to prioritize future interventions from its Social Security Development Fund.

The Social Security System, straddling as it does both the financial and the social arenas, is uniquely positioned to play a special role in the present growth and transportation

process, whether it be in the rationalization of our public pension system, the development of financing mechanisms for health care, or in economic development through the investment of its funds. As Minister responsible for the subject of Social Security for the past ten years, I know that those who manage the System are aware that to whom much is entrusted, much is expected. Mister Speaker, I wish to end this brief section by asking the House to join with me in extending congratulations to the Social Security System on its 25th Anniversary of service to the Anguillian people, and to recognize the vision of its pioneer Mr. James Ronald Webster and the work and contributions of all those who have brought it thus far.

3. PROGRESS WITH IMPLEMENTATION OF STRATEGIC POLICY OBJECTIVES FOR 2005 – 2010

Mr Speaker, time constraints do not permit me to give a full report on progress with all the strategic policy objectives of Government. Given their centrality, I will therefore report on progress with the implementation of economic, fiscal and social development objectives.

3.1 Progress with Economic Policy Objectives

Mr Speaker, as stated in our 2005 Manifesto, the overall strategic objective of the Anguilla United Front administration is to **“focus on social reconstruction and social development built on a foundation of gradual and sustained fiscal and economic expansion”**. We have targeted annual economic growth rates of 10% as being sufficient to generate the resources required to fund recurrent and capital programmes, in particular critical interventions in the social sector, while at the same time keeping inflation in check.

In reality Mr Speaker, the economy has grown at an annual average rate of 14.1% in real terms over the period 2004 – 2006. Economic growth for 2007 is expected to be in line with this average. This very robust growth has created shortages in the economy, particularly in the labour market and has contributed to rising wage inflation especially in the construction industry. Government was quick to recognize this trend towards the overheating of the economy and in October 2005 announced a moratorium on the

commencement of new large foreign direct investment tourism projects on which construction had not been started prior to then. With the investment projects that it has approved Government has also sought to stagger the implementation of approved investment projects so as to mitigate the demand impacts they will have on the economy.

Faced with an inflation rate of 10.9% for 2006, Government took additional measures and in February of this year announced a moratorium on the issuance of Alien Land Holding Licenses, with the exception of licenses for the purchase of real estate in the approved resort residential tourism projects. The objective is to take some of the heat out of the construction sector, which is in the main fuelling the inflationary pressures.

While the moratorium on alien land holding licences has helped to check construction labour demand in the villa market, the labour demand generated by the two large resort residential tourism projects currently underway (the Temenos and Viceroy projects) has been so great, that Government has had to reluctantly allow “work camps” of imported labour at these projects. The establishment of these work camps has presented some problems. Indeed one of the low points of 2007 was the labour unrest associated with the Viceroy Project. Neither Viceroy nor Anguilla can afford a repeat of this occurrence. It is hoped that the lesson learned by Viceroy, one that other developers should take onboard is that it is much more cost efficient in Anguilla, as a small economy to build out projects of that magnitude (300 plus rooms) in a phased and gradual manner over 7 to 10 years, rather than attempt to telescope the build out period to 3 years. Anguilla simply does not have the capacity to render such ambitious build out periods feasible.

Mr Speaker, enforcement of the moratoria mentioned earlier, and the development time tables approved for the major projects will allow Government to plan for the operation phase of these new resorts, that will come on stream. As much as the construction phase of these projects has been presenting a challenge, the operational phase will present growing pains of an entirely different scale, if we do not take time to consolidate. Government has taken the decision to launch a series of studies in 2008 to enable it to plan for what is to come. Permit me to elaborate.

Mr Speaker, Executive Council recently approved a two-year Tourism Sector Development Project, which will include contracting the services of a Tourism Planning Consultant to be attached to the Ministry of Tourism with responsibility for the following:

- (i) To Coordinate an Economic Social Impact Analysis (ESIA) Study of the Tourism Projects approved since 2001 on the Tourism Industry and the Anguillian Economy in General

- With some 4,500 tourism accommodation rooms in approved projects slated to come on stream by the year 2020, or some 300 rooms per year if a constant flow is assumed, Anguilla will be severely challenged to absorb this increase in tourism plant and the attendant demands it will create. The Consultant will be required to coordinate an Economic and Social Impact Analysis Study outlining the impact on the labour force, population, employment, wages, housing, human resource development needs, health, safety and security, environmental, government revenues, government expenditure, land tenure and related variables. The resulting study should clearly outline the implications for Anguilla's stated tourism policy stance of "**low volume – high value tourism**", which embodies Anguilla's limited carrying capacity, as a small island developing state vulnerable to natural, economic, social and other shocks. The results of the study should enable the GoA to make firm policy decisions as regards questions of further extension of the tourism accommodation expansion moratorium, the ALHL moratorium, labour and immigration policy, etc.
- It is anticipated that this study will take 6 months with results available around July 2008.

- (ii) To Coordinate a Tourism Master Plan Study (2010 – 2020)

- Using the results of the ESIA the Consultant should coordinate a Tourism Master Planning exercise to cover the period 2010 – 2020. Again the guiding principle should be Anguilla's commitment to "low volume-high value

tourism". A key output of the study will be a Tourism Sector Plan to cover the period 2010 – 2015.

- It is anticipated that the Master Plan Study would take 12 months with results available around July 2009.

(iii) To Coordinate Institutional Development Plan Study for Tourism Division within the Ministry of FEDICT

- The study should outline the Institutional Framework and Resources necessary for the Tourism Division within the Ministry of FEDICT to Coordinate, Regulate, Monitor and Evaluate Tourism Sector activity during the Master Plan Study Period (2010 – 2020).
- It is anticipated that the Institutional Development Plan Study will be conducted concurrently with the Master Plan Study.

Progress has been made with hiring a well respected consultant from within the region, who will commence work in February 2008.

Suffice to say Mr Speaker, that rather than ignoring the growing pains which Anguilla is experiencing, as some have suggested, Government is in fact seeking to address them in a manner which should facilitate evidence based policy responses. Government taking the time to consolidate should not be interpreted as paralysis, but action aimed at generating focused and measured responses to managing the challenges which Anguilla faces as it moves along its journey of transformation. The economic policy responses mentioned should therefore be viewed in this light.

Mr Speaker, as I have outlined in previous Budget Addresses, the objective over the medium to long-term is to diversify our tourism product and to create synergies with other sectors such as International Business and Financial Services to create a second pillar of economic growth and development. In other words Mr Speaker, tourism is a means to an end and not the end in and of itself. It means that if we can target a certain accommodation room number in line with Anguilla's carrying capacity as a small

territory, then we need not pursue a goal of continuously increasing room numbers but rather have second and third pillars of the economy to help carry the load. Mr Speaker as I indicated in my Keynote Address to the 3rd Biennial National Development Conference, as regards tourism, we need to focus more on the yield from tourism, in other words, increasing the gains per room rather than relentlessly expanding the number of rooms. The tourism related studies which I mentioned earlier should help to guide us in this endeavour.

3.2 Progress with Fiscal Policy Objectives

Mr. Speaker without a strong fiscal policy, the gains that can be made from economic growth will be extremely limited. The Fiscal Policy of the Government of Anguilla will continue to focus on a system of low taxes, an efficient revenue collections system, expenditure control, a sound public debt management strategy and a system of sound risk management.

In relation to revenue, the Government of Anguilla will continue to implement a tax system that will not be burdensome to the poor, that encourages investment and that are sustainable in the long run. We will continue to look at best practices for implementing taxes, while continuing to maintain our image as a low tax jurisdiction.

We have had much success in 2007 in avoiding wastage and dishonesty in the public service. We encourage the citizens of Anguilla to be our watchmen in this endeavour and to report instances of wastage and abuse. Despite a 20% increase in salaries, wages and pensions during 2007, recurrent expenditure at the end of November 2007 is still some \$6.7 million short of the estimate for 2007. Here I must commend the officers in the Treasury and Internal Audit for keeping a watchful eye over expenditure.

As I have stated earlier, our Public Debt is managed efficiently and we are comfortably within all our borrowing ratios. It is inevitable that a small developing country with only one source of grant funding must borrow. The borrowing must however be based on what is affordable. The most important part in all this is to have an accurate record of debt and to know how much to borrow in advance. Most of this work is done by one

person at the Ministry of Finance and I must thank her for the efficient service that she renders since her appointment to the post.

An important aspect of fiscal management is risk management. One of the goals of maintaining reserves is to guard against the risks of not having sufficient liquid reserves that typically befalls a country after a national disaster. To this end the reserves are designed to keep the country afloat for up to 90 days if revenue ceases to be available. To date we are comfortably within the target for 2007.

The Government of Anguilla has also invested **US\$500 thousand** in the Caribbean Catastrophic Risk Insurance Facility set up with assistance from the World Bank. This insurance system is based on triggers. Once a particular magnitude of a Hurricane or Earthquake affects an island covered by such a facility, it will trigger an immediate payout without the need for insurance assessors. St Lucia and Dominica appear to be the first two countries to receive a payout from the facility as a result of the Earthquake that affected those two countries and indeed the entire eastern Caribbean chain with tremors with a magnitude of 7.3.

Events such as Hurricanes and Earthquake highlight the need for Emergency Reserves. The Ministry of Finance will prepare a proposal during 2008 to develop a reserve fund. Also included in the 2008 Budget is a sum of **\$300 thousand** for Disaster Mitigation and Recovery. This sum is there to ensure that recovery work can commence immediately after a national disaster, since funds are already voted. Usually very little expenditure is expected from this subhead in a normal year.

The Government of Anguilla will also try to establish a Maintenance Reserve Fund in 2008 to ensure that there are always sufficient resources available to maintain our assets to the highest possible standards consistent with the upscale image of Anguilla.

3.3 Progress with Social Development Objectives

Mr Speaker as highlighted in the responses generated by the Vanus James Study, Anguilla has experienced severe growing pains on the social development front as hitherto unknown socially

deviant behaviours are now common place. In our 2005 manifesto we committed to embarking on a social development strategy which would emphasize the strengthening of partnership and network relationships between the Ministry of Social Development, Department of Education, Department of Social Development, Department of Youth, Sports and Culture, the Health Authority of Anguilla, the Royal Anguilla Police Force, Her Majesty's Prison, churches and NGOs involved in social and community development initiatives.

While in the face of growing occurrences of social deviancy it sometimes appears that we are not stemming the tide of social decline, progress is being made with the implementation of programme objectives which will in turn bear fruit. These include:

Continued Development of the Health Sector and Regulatory Function of the Ministry of Social Development

The HAA received accreditation this year from the Canadian Council on Health Service Accreditation.

Work continues on the Environmental Health Act and the Health Professionals Act.

The new Water Laboratory Building will be commissioned early next year. Not only have basic water quality testing capabilities been restored but the lab will be able to conduct much more sophisticated testing and monitoring.

The first ever Director of Health Protection was recently appointed in the person of Ms. Jaine Rogers, formerly the Water Laboratory Technologist. Her appointment will serve to unite the Environmental Health Unit and the Water Laboratory as one department with the shared goal of protecting and improving the health of the public.

The national strategic plan for health was reviewed and amended in preparation for the new strategic cycle which will cover the period 2009-2014.

Anguilla's National AIDS Programme--along with those of other United Kingdom Overseas Territories and the Dutch territories-- will receive European Union monies to strengthen its programme, hire additional staff, and implement programmes which target the prevention and treatment of HIV/AIDS.

The Psychiatric Unit is scheduled to be completed in March of 2008. This facility will provide treatment for the acutely mentally ill with the aim of stabilizing patients and reintegrating them into the community as soon as possible. Following the enactment of the Mental Health Act, the Government is now in the process of forming a Mental Health Review Panel, comprised of a cross section of professionals who will review or make decisions and offer recommendations about the care and treatment of mentally ill patients.

The National Health Fund legislation has had its first reading in this Honourable House. A Shadow Board has been appointed and a Director has been hired. The Director has already begun contract negotiations with overseas medical providers. A Request for Proposals for the IT systems has been disseminated to potential bidders. A new target date is to be announced for the implementation of the NHF.

Developments in Criminal Justice

Construction of the short-medium term Juvenile Rehabilitation Centre is more than half way completed. A Manager for the Centre has been hired and the Department of Probation is currently recruiting the rest of the staff for the Centre.

The Department of Probation has served over 100 clients since it was established in 2005. 90% of probation clients are compliant with probation orders. All juvenile probationers are currently attending school and over 95%

of adult probationers are employed. The Department of Probation has worked in collaboration with HM Prison and other departments to develop draft legislation for the Parole of Prisoners

HM Prison has implemented improved security measures and is focusing on sentence planning and other rehabilitative regimes. This will include work release programmes, counseling, education and skills building.

Community Development/Poverty Reduction

The National Assessment Team for the conduct of the Country Poverty Assessment has been formed and training for the members has begun. The CPA will begin early 2008

The Department of Social Development has established a legal aid clinic run on a volunteer basis by Justice Donald Mitchell QC.

The Department of Social Development is currently looking at revising woefully outdated Poor Law Board legislation to enable those who are entitled to receive assistance to do so.

A great deal of focus has been on strengthening the Foster Care system through recognition and public awareness. This will enable Department for Social Development to provide safe environments for children in need of care and protection.

Education

Mr Speaker while there was progress on several fronts as regards Education sector objectives, I will take this opportunity to highlight the achievements made with the establishment of the Community College.

During 2007 some 150 persons drawn primarily from the hospitality sector were provided with training offered by the Community College Development Unit. The training was delivered through two components: a Professional Part-Time Courses programme and a Seminar Programme in affiliation with the Barbados Community College.

Also during 2007 significant strides were made with the planning for formal establishment of the National Community College and, within this, the Hospitality Training Institute.

Youth, Culture and Sports

Mr Speaker, 2007 saw the split of this function into a Department of Youth and Culture and a Department of Sports. A major initiative for the Youth and Culture Department during 2007 was the reconstitution of the National Youth Council which had lain dormant for some time. The newly constituted National Youth Council successfully held what will become an Annual National Youth Conference. It generated many ideas for addressing the condition of Youth of Anguilla which will be advanced in the coming year.

The Department of Sports, too, made important strides and now has two Programme Officers on board in addition to the Director of Sports. It is widely acknowledged that Sports constitute an important and vital medium for channeling the energies of youth in a positive manner. In the coming year the Department will be working vigorously to roll out its programme.

Mr Speaker I will round out this section on progress with the implementation of social policy objectives, by observing that social policy interventions by their nature require a long gestation period. Widespread consultation with stakeholders is a must to ensure that the interventions are designed to provide the answers to the problems which they are meant to address. The staff of the Ministry of Social Development and its various Departments continue to work very hard to put the programmes, plans and projects in place to deliver on the social policy objectives, which the United Front Administration

has established. We expect that the 2nd Country Poverty Assessment, to be rolled out next year, will provide much needed data and further contribute to the process of evidence based policy formulation, designed to address the growing pains of Anguilla.

5. PROVISION FOR RECURRENT REVENUE

Mr Speaker, the revenue budgeted for 2008 is \$233 million. This is 33% more than the revenue Budgeted for 2007. The budget is based upon actual collections during 2007 and realistic projections in revenue for 2008.

Almost every revenue head in the 2007 Budget performed extremely well. I must take the opportunity at this time to commend the tax collection departments and officers. In particular I thank the officers in the Customs and Inland Revenue Departments for the difficult task of tax collection dealing with difficult customers and sometimes with inadequate staffing levels. We hope that we can effectively address the problem of recruiting and retaining high quality officers, especially Customs Officers.

The main new revenue measure projected for 2008 is the implementation of a new Property Tax system. During last year's Budget Address I spoke of the reform of the Property Tax System. As we speak, the new laws are being drafted and a new system will be implemented to coincide with this early in the New Year. The new Property Tax System should become fully operational by July 1, 2008.

Mr Speaker earlier we spoke of the investment made to develop the road network on the island. This was financed as part of the \$28 million loan in 2007. As part of the cost recovery effort and to maintain the roads at these high standards, all vehicle licenses will be increased by 10% as from January 1, 2008. I am sure that the driving community will not object, since they all would realize that Anguilla is no longer entitled to grant funds (except from the European Union) and that the cost of maintaining vehicles on Anguilla would have decreased significantly with this investment in the road network.

Mr Speaker the Government of Anguilla has taken the steps to introduce a Departure Tax at Blowing Point for all non Anguillians and Non Residents departing Anguilla by sea.

This Departure Tax will be EC\$53.00 or US\$20.00. To reiterate, this tax will not be applicable to Anguillians and Residents. Visitors who are traveling overseas for the day and Anguillians who use the ferry service will continue to pay the Seaport Tax of EC\$13.00 or US\$5.00.

Mr Speaker, I spoke earlier about the strong performance in Customs related revenue. Import Duties Other is now projected to raise some \$80 million in 2008. This amount is an increase of 54% over the 2007 Budget without any new tax measures. The target of \$53 million for 2007 was surpassed in October some 2 months ahead of schedule. This trend is expected to continue as a result of the rapid economic growth we are experiencing with the increase in local construction and foreign direct investment. With this level of activity, Anguilla will continue to see the rise in the importation of both dutiable and duty free products.

Mr Speaker the revenue realized from Work Permits will show 100% increase in 2008 over the 2007 Budget. No increases are planned for 2008 as the fees were increased recently. The increased revenue will come from the increased number of non-Anguillian workers in Anguilla.

Even with the Moratorium in place, the target of \$30 million for Stamp Duties will be achieved before the end of the year. We have projected a 10% increase in revenue from Stamp Duties in 2008.

Last year, Mr Speaker, I spoke about the introduction of the National Health Fund in 2007. Unfortunately the implementation date has been pushed back. As a result employers and employees have had some additional time to prepare for this. The Minister of Social Development made a public broadcast on this last month. We are convinced that all Anguillians and Residents will benefit from this Fund, and we expect the support from the House of Assembly and the General Public, when the bill is introduced early next year for discussion and approval.

6. 2008 CAPITAL BUDGET AND FINANCING

Mr Speaker we have made provision for **\$53m** in capital expenditure for 2008. This is the same as what we expect the capital expenditure out-turn for 2007 to be.

The Ministry of Infrastructure, Communications, Utilities and Housing has the largest allocation – approximately **\$25.7 million**. Within this, road development dominates, with an allocation of approx **16.3 million**, primarily to tackle the long awaited (and much deserved for the patient people of Anguilla), Valley Roads – Town Road Development – an allocation of approximately **\$13.3 million**. Other noteworthy interventions under this Ministry include: an initial allocation of approximately **\$3.7 million** for the long overdue Central Office Accommodation Complex for the Government of Anguilla. This will eliminate our dependency on the rental of office space from the private sector. Just under **\$2 million** will be for Water Development that will focus on the Corporatisation of the Water Department and the acquisition of various infrastructure including a second water plant and storage tank; **\$1 million** for the continued implementation of the Medium Term Air Transport Sector Plan; and **\$750 thousand** for Seaport Development, that will consist primarily of the planning and design of the new container port at Corito.

Mr Speaker, the Ministry of Social Development has the second largest allocation – approximately **\$16.1 million**. The pledge to focus on social reconstruction and social development is a committed and ongoing one and of the various projects supporting primary, secondary and tertiary education, of note is: **\$600 thousand** to expand Tech Voc educational facilities; and, in a related effort, **\$750 thousand** to the on-going efforts towards developing facilities for the National Community College. As regards Sports there will be continued efforts towards planning and developing the National Cricket Stadium and the National Athletics Stadium. In this regard, provision has been made for counterpart financing commitments of **\$800 thousand** for the National Indoor Sports Auditorium and **\$540 thousand** for the National Football Stadium. With respect to Health, support to the Health Authority will continue with an allocation of **\$2 million** to the funding of capital infrastructure and approximately **\$2.7 million** on a Management Information System to facilitate the implementation of the National Health Fund.

Mr Speaker, the Departments under the Chief Ministers Office has the next largest allocation – approximately \$7.3 million. This is dominated by an allocation of **\$7 million** for continued land acquisition to facilitate the progress of important social development and infrastructural initiatives. Also under this Ministry is an allocation of **\$300 thousand** towards Environment Development, to further build our capacity for its monitoring and investigation of our vulnerability, impact studies for our most vulnerable sectors and increasing public awareness. Mr Speaker I hasten to add that this is just the beginning of what will be increased allocations to this sector, as we move into the future. It is in recognition of the environment and the important role that it plays for our future as a people and for our tourism, our economic engine.

Next in line, is the Ministry of Finance, Economic Development, Investment Commerce and Tourism, with an allocation of approximately **\$3.2 million**. Of note is **\$840,000** tourism sector development project which I describe in detail earlier.

Last but certainly no reflection of their importance, under Public Administration **\$700 thousand** has been allocated to cover Disaster Mitigation (**\$300 thousand**) and Police Development (**\$400 thousand**).

Mr Speaker, in terms of financing of the 2008 Capital Budget, **\$27 million** will be funded through borrowing, **\$24 million** from recurrent surpluses and **\$2 million** through private capital grants. The private grant is expected from the KOR Group and its partners towards the development of the new Primary School for Island Harbour