



BUDGET STATEMENT

IN SUPPORT OF THE

ESTIMATES OF REVENUE AND EXPENDITURE

2005/06

Presented by The Hon. Paula A. Cox, J.P., M.P.

Minister of Finance

18th February 2005

To His Honour the Speaker and Members of the Honourable House of Assembly

Mr. Speaker,

It is my privilege and honour to present the Country's National Budget for 2005/06 – a Budget that will indelibly mark the record of our tenure as the Government of Bermuda that deftly balanced stability with innovation in this brave new world of change and challenges.

The National Budget for 2005/06 presents updated assessments and economic forecasts of our public finances and details how the Progressive Labour Party Government's policies properly position us to deliver on our long term goals.

Mr. Speaker, since assuming office in November 1998, the central focus of the two successive Progressive Labour Party administrations has been to support the sustained social and economic progress of the people of Bermuda. In that very short span of time, we have come closer to realising our vision of transforming our small, beloved country into a land of equal opportunity for all based on principles of fairness, equity, accountability and full democratic participation.

Mr. Speaker, in that span of time we have laid the foundation for the final phase of the transformation to the 'New Bermuda'. Accordingly, and very purposefully, Government has turned the spotlight on the 'Social Agenda', an all-embracing, joined-up strategy to enhance the well-being and welfare of all Bermudians through the sustainable development of our economy and community.

Government's National Budget for 2005/06 is shaped by the vision of the 'Social Agenda' and is guided by a disciplined focus on stable macro-economic management and prudent and fair fiscal rules. As such, the 2005/06 Budget will assist in narrowing the gap between the 'haves' and the 'have nots' in our small community.

Mr. Speaker, in shaping our economic and social policy it is important also to take account of the international context within which we operate as a country. In the rapidly changing global environment Bermuda continues to face economic and business challenges and often is called upon to assist as part of a global response to a natural disaster.

Mr. Speaker, governments and peoples of the world have been shocked, saddened and bewildered by the horrific loss of life resulting from the Asian earthquake/tsunami that struck with such devastating and deadly force on December 26, 2004.

The Bermudian people have responded with immense compassion and generosity by contributing more than \$1 million to the Red Cross relief effort. In addition to the \$100,000 that Government has already contributed, I announce today that Government will provide a further sum of \$250,000 in 2005/06 so as to permit Bermuda to be able to react even more responsively as we are wont to do when faced with international relief efforts. In the past we have been compassionate when faced with the plight of those suffering the devastation of hurricanes and national disasters. There are many who are in need, from the Asian tsunami to the Sudan and as a player in the global financial markets, we also have a responsibility to do our part, not only on the home hearth but also on the international scene, whenever and wherever there is a genuine humanitarian need.

Mr. Speaker, Government's assistance to the people of the Caribbean in the wake of the 2004

hurricane season is also to be noted. Tomorrow, a Bermuda Regiment contingent is scheduled to depart for Grenada for a two-week period. During that time the Regiment troops will be engaged in assisting the people of Grenada in their restoration efforts following the severe damage caused by hurricanes in 2004.

Mr. Speaker, while Bermudians are always willing to assist other countries it is imperative that at the same time we as a country remain alert to the economic challenges posed by the global economy and have the appropriate policy responses at hand. The continued weakness of the US dollar, rising oil prices and demands for more changes to the regulatory framework for financial services pose some of the bigger challenges for Bermuda in 2005. I will touch on the external economic challenges in a moment. There are also external challenges on other fronts. Bermuda's reputation and weight as a major player in the global financial services arena is no longer a trade secret. Our pedigree as a premier international business jurisdiction of choice is known. We are highly regarded. But, Mr. Speaker, we are also envied. As a result, we must be on guard against anything that erodes our competitiveness or diminishes our reputation.

Overly burdensome regulation will undermine our competitiveness as an international business jurisdiction. However, there may be a need for greater regulation in the future in order for Bermuda to protect and sustain the considerable investment in our financial services sector. There is more than \$50 billion of investment in this sector. Government has taken great care to implement international standards of financial supervision and regulation through a unique model that blends practicality with robust effectiveness. We will retain this model in order to protect our national economic interest.

Mr. Speaker, rogue companies and unethical business behaviour can harm, sometimes irreparably, the good name and reputation of a jurisdiction. Bermuda is known for its due diligence and 'know your customer' approach to new business. Quality rather than quantity is our watchword and will remain our watchword.

Government and the Bermuda Monetary Authority are monitoring very closely the developments in the New York Attorney General's investigation into certain aspects of the insurance sector in New York. While Bermuda companies have not been the subject of legal suits in any of the bid-rigging enquiries, the questions about the business relationships between insurance brokers and insurance companies could impact on the future number of incorporations of large reinsurance companies in Bermuda.

During the past year, Government has bolstered its position with key persons and institutions in Washington, DC. Government has broadened its network of contacts and the work in this area will be sustained in 2005/06. The relationships that we have established remain key to Bermuda's long-term success. Government will continue to strengthen and nurture these vital channels of communication.

Mr. Speaker, during the course of the year, I have consulted with different sectors of the small business community and with retailers and restaurateurs. The discussions have centered on the costs of doing business in Bermuda and the particular pressures that are faced in different business activities.

For a long time now, the retail community has requested a relaxation of the Public Holiday or Sunday trading regimes. It was not a unanimous call but clearly a majority was in favour of

unrestricted Sunday openings. There has been some relaxation of the policy since 1999 and the changes have been widely accepted by the community and welcomed by consumers. For many grocery stores, Sunday is now the second busiest shopping day of the week. Mr. Speaker, the Ministry of Finance undertook extensive consultation on this policy matter and as Minister I was heartened by the thoughtfulness that characterised the overall consensus. I was particularly impressed by the written response of a leading member of the clergy in Bermuda and I quote from part of the submission: “My immediate response is largely in favour of shops being open on Sundays and holidays from point of view of convenience, both for local persons and those who come to visit us. The ability to shop at any time is a great boon especially for visitors, having traveled here by cruise ship. It is a huge disappointment to arrive here to find everything locked up tight, with only one or two limited exceptions. If there is to be a change in current practice, it has to be balanced by the needs of persons who are employed in the retail trade. Their needs for adequate time off for rest, recreation and time with their families are important considerations that must not be overlooked.”

Mr. Speaker, balance is the essence of good public policy. This requires that we also are mindful of instituting the necessary protections for those who may be employed in this sector – fairness and equity are vital to success. So I am pleased to signal today that balance will be the key feature of any further relaxation of the Sunday and holiday trading regimes – flexibility for the business operator but also fairness for their employees.

During this Budget Session, I shall introduce an amendment to the Public Holidays Act 1947 allowing all stores to open between 1:00pm and 6:00pm on public holidays other than Christmas Day and Good Friday. The details are laid out in a policy statement that will be issued by the Ministry of Finance today. Mr. Speaker, with respect to restaurateurs, I will note for the record that during the Fall Term of this Parliamentary Session, Government extended the life of the Restaurants (Temporary Customs Duty Relief) Act 2002 to March 31, 2009. The extension of the concession on capital imports used in renovations, refurbishments, and new restaurant developments leveled the playing field for owners and managers of restaurants that are not associated with hotels. Earlier in 2004, Government extended the Hotels (Temporary Customs Duty Relief) Act 1991 for a five year period to March 2009.

Mr. Speaker, in the 2004 Speech From The Throne, Government announced its intention to unveil a template of concessions for small businesses. I am pleased to announce today that Government will introduce amendments to the Payroll Tax Rates Act 1995 and the Customs Tariff Act 1970. The proposed amendments will have the effect of stimulating new start-up businesses and assisting existing small businesses in managing and containing costs during their early years of development.

A tiered structure will be introduced in the payroll tax to provide incremental steps toward the maximum rate of 13.5 per cent. The proposed changes focus particularly on small and medium-sized businesses. The changes proposed for the Customs Tariff Act 1970 will introduce reduced rates of duty for florists and provide concessions to registered farmers. I will highlight some of the details later during my comments on the revenue measures.

Mr. Speaker, the National Budget for 2005/06 will provide additional funding for further enhancements to the well-being of seniors in our community. This Government has introduced prescription drug benefits for seniors, increased seniors’ pensions and for the first time in Bermuda’s history since the introduction of land tax, all seniors who occupy their own

homes will no longer have to pay land tax on those homes. Let the record show that these progressive steps were taken by the Progressive Labour Party Government. In 2005/06, monthly health and wellness clinics for seniors will be operational in Sandys, Warwick, Pembroke and St. George's. There will be enhancements to the community based home assessments and screenings for seniors and seniors may look forward to a further pension increase of 3.5 per cent in August 2005. As a consequence, social insurance contributions will be increased by 4.75 per cent with effect from August 2005. Mr. Speaker, seniors and their families will also benefit from the elimination of stamp duty/deceased estate tax on the primary family homestead. The family home is one of the most significant investments that individuals undertake over the course of a lifetime. Government is pleased to be able to shield this precious asset from stamp duty/deceased estate tax. I shall introduce amending legislation in the Budget Session to give effect to this benefit. Mr. Speaker, Government's National Budget for 2005/06 underlines the Progressive Labour Party Government's philosophy of putting our people first.

The budget judgments will forward the 'Social Agenda' by:

1. Strengthening social cohesion in our community;
2. Developing and training our young people;
3. Improving the quality of life of our seniors;
4. Putting good quality homes within the economic reach of more Bermudian families;
and
5. Stabilising, rejuvenating and encouraging business activity in all economic sectors.

Mr. Speaker, this five-strand hold on the 'Social Agenda' places the strategy in the palm of our collective hand. It will ensure that the 'haves' will continue to have and the 'have nots' will have more.

Mr. Speaker, it is important to note that the 'Social Agenda' also speaks to the full realisation of our potential as Bermudian citizens of the world. For that reason, Government has re-engaged our people in a dialogue about self-determination for Bermuda. The people of every country have an inherent and inalienable right to articulate a view on self-determination and act upon that view. The dialogue on independence will help to crystallise that view amongst Bermudians. The dialogue is about Bermudians and their future. There is nothing sinister about the dialogue. There is no hidden agenda. There is nothing to fear. There will be no rush to judgment. On the contrary, it is a noble, rational and politically mature process aimed at engaging the hearts and minds of the Bermudian people.

Mr. Speaker, clearly there will be opportunities for other stakeholders to express their views and have such views taken into consideration. At the end of the process, the Bermudian people will articulate a view on self-determination and act upon it. That is their inherent and inalienable right. The dialogue must be informed by facts. Reasonable people will wish to know the cost of maintaining an external relations or foreign affairs ministry. There will be costs associated with membership of international organisations such as the United Nations, the World Bank or the World Health Organization.

Again, reasonable people would wish to have a sense of matters of such importance.

Clearly, in our discussions with some of the stakeholders with whom we interact regularly, the prevalent view expressed has been that they welcome the opportunity for the public dialogue on this important matter. They have also expressed an interest in having a timetable of action so that this can promote an end to any uncertainty.

Accordingly Mr. Speaker, Government has made provision in the 2005/06 National Budget for fact-finding and providing answers to all the questions that reasonable people might have about self-determination for Bermuda and for Bermudians.

Mr. Speaker, before turning to some of the details of the National Budget for 2005/06, I wish to comment on economic developments in 2004 and provide Government's economic outlook for 2005.

Recent Economic Developments and the Outlook for 2005

Mr. Speaker, one of the hallmarks of the successive Progressive Labour Party administrations has been the disciplined focus on stable macro-economic management that has resulted in a general improvement in the economic wellbeing of all members of our community.

Preliminary estimates of GDP growth in 2004 indicate a better than anticipated expansion of nearly 3 per cent following the 2.1 per cent increase in GDP in 2003.

The rate of consumer price inflation averaged 3.6 per cent in 2004 compared to 3.2 per cent in the previous year. Price levels in Bermuda were driven higher by the sustained increases in oil prices, health care increases, and higher education costs for private schools and overseas college and university programmes.

Mr. Speaker, the consumer inflation experience in Bermuda paralleled developments in the United States. In the United States, it is estimated that the CPI rose 2.7 per cent in 2004, compared to 2.3 per cent in 2003. The largest increases occurred in the first half of the year and a moderating tendency could be discerned in the closing months. While there are unquestionable differences in the overall level of inflation between our two countries (a difference that has been a constant throughout recent economic history), the upward pressure on price levels has been a factor both in the United States and Bermuda. Mr. Speaker, I will comment here on the external economic challenges that I mentioned earlier. One of the challenges is the continued weakness of the US dollar. If the US dollar continues to weaken against the currencies of Bermuda's other major trading partners – United Kingdom, Canada and Japan –it will have the effect of driving up the cost of Bermuda's imports from these countries. That could mean higher prices for businesses and for households. The other external economic challenge is oil price levels. If oil prices do not stabilise, this scenario does not bode well for consumer price levels. Therefore in the worst case scenario of a weak US dollar and higher oil prices in 2005, Bermuda's consumer inflation rate could reach 4.0 per cent.

Preliminary results from the Annual Employment Survey indicate that the overall employment level increased by 1.5 per cent in 2004 following a flat performance in 2003. The overall number of jobs in the economy was provisionally placed at 38,259 in 2004, reflecting a net addition of 573 jobs across the entire economy.

An analysis by sector shows that international business was very buoyant in 2004 with total jobs increasing by 8.3 per cent to 4,096. In recent years, the international business sector has consolidated its position as the second largest provider of jobs in Bermuda's economy.

The construction sector was also very robust in 2004 with an expansion of 8.6 per cent in total jobs which pushed employment in the busy sector to 3,212. Hotels and the public sector posted increases in employment levels of 3.3 per cent and 3.8 per cent in 2004. The agricultural and real estate sectors posted increases of 2.8 per cent and 1.2 per cent respectively. Most other sectors recorded declines in employment, mainly in the range of 1 to 3 per cent. In the wholesale and retail sectors, employment was down by 1.5 per cent and 2.3 per cent respectively. Local manufacturing posted the sharpest decline in employment in 2004, recording a reduction of 5.5 per cent. While there was a slight reduction in employment levels in the retail sector amounting to a loss of 84 jobs, gross turnover in the sector was very strong in 2004. The sector posted strong volume gains in 10 out of 12 months in 2004. Gross turnover for the year is projected at \$590 million reflecting an increase of 6 per cent year-over-year. After adjusting for inflation in 2004, the volume increase in gross turnover was estimated at 2.5 per cent.

Bermuda's balance of payments showed signs of a return to a stronger surplus position in 2004 by posting current account surpluses for the first two quarters of the year. The 4-quarter moving total for the current account surplus was \$157 million for the period ending June 30, 2004. The indications are that the current account surplus for all of 2004 is on track to match or exceed this level.

Mr. Speaker, in 2004 the United States economy expanded by an estimated 4.4 per cent which was above its long term trend rate of 3.25 per cent. Looking ahead through 2005, the American economy is expected to perform moderately well with GDP projected to increase by 3.5 per cent. However, it is expected that the downward pressure on the value of the US dollar will continue throughout 2005. It is likely that the Euro in particular will continue to strengthen against the US dollar during the course of the year, while it is expected that the US dollar will hold its value against other major currencies. The interest rate environment is expected to remain at historically low levels in 2005, notwithstanding that the federal funds rate is expected to increase. In the United States, the Federal Reserve has adopted an anti-inflation posture and it is possible that the federal funds rate could increase from its existing level of 2.25 per cent to 3.5 per cent by the end of the year. Mr. Speaker, GDP growth forecasts for the United Kingdom, Canada and Western Europe in 2005 are mixed and range from 2.1 per cent to 3.3 per cent. Forecasts for the Asian Pacific region converge on a growth rate of 3.2 per cent overall, but GDP growth in Japan is projected below that average at 1.8 per cent in 2005.

In Bermuda, the economic outlook in 2005 is favourable. International business has been buoyant for several years and the dynamic momentum is expected to be sustained throughout 2005. Similarly, the construction sector is expected to remain robust given the planned construction projects in both the private and public sectors.

The outlook for the hospitality sector is also favourable. The additional airlift from the United States and Government's refocused marketing and promotion strategy that targets increases in visitors bodes well for Bermuda's tourism sector.

Mr. Speaker, based on these encouraging factors, Government forecasts Bermuda's GDP to expand in the range of 2.5 to 3.0 per cent in 2005.

Review of 2004/05 Revenue and Expenditure

Mr. Speaker, I wish now to summarise the most likely outcome for Government's fiscal position in the financial year 2004/05. The revised estimate of total revenue is \$738 million, just over 6 per cent above the original estimate of \$694 million. The major revenue sources contributing to this favourable outcome were payroll tax, stamp duties and customs duty.

Payroll tax receipts have been revised to \$248 million for 2004/05, \$28 million above the original estimate of \$220 million. The yield from stamp duty has been revised upwards by \$12 million to nearly \$39 million and customs duty is expected to be some \$3 million higher than the original estimate of \$194 million. Some revenue sources may come in below estimate in 2004/05. Shortfalls are projected for aviation fees, seaborne shipping fees, trade mark registration fees and a range of miscellaneous revenue items. Notwithstanding these shortfalls Mr. Speaker, total revenue is projected to be \$738 million in 2004/05, some \$44 million over the original estimate of \$694 million.

Mr. Speaker, turning to current programme expenditure in 2004/05, total current expenditure has been revised to \$665 million which is slightly less than one per cent above the original estimate of \$660 million. The additional expenditure was mainly in three areas, namely, the Ministry of Health and Family Services, the Ministry of Tourism and Transport and the Social Insurance Department.

In the Ministry of Health and Family Services, an additional \$2 million was required for subsidy payments to the hospitals for care of the elderly. In the Ministry of Tourism and Transport, an additional \$1 million was required for port security in Hamilton, St. George's and Dockyard. As well, \$1 million of additional expenditure was absorbed by the Department of Airport Operations for additional security costs and IT support at the Air Terminal. The Public Transportation Board exceeded its original budget by \$1 million for additional bus services required to accommodate the mega cruise ship visits in February 2005 and increases in fuel costs.

In the Social Insurance Department, an additional \$1.5 million was required for portability payments to cover subsidised overseas medical treatment as mandated by the Hospital Insurance Act 1970. In summary, the supplementary estimates of expenditure in 2004/05 were \$4 million net. The details of the supplementary estimates in 2004/05 will be presented to Honourable Members during the course of the Budget Debate.

Prudent Debt Management...

Mr. Speaker, before turning to the highlights of the 2005/06 Estimates of Revenue and Expenditure, I wish to make a few points about the overall debt position covering the time that the Progressive Labour Party Government has been in office. Earlier in my statement, I referred to this Government's adherence to fair and prudent fiscal rules. I shall now elaborate. The Progressive Labour Party Government is committed to keeping the people's public purse in good order through a carefully balanced policy of meeting current needs through tax revenue; managing and controlling current expenditure to

provide a surplus for capital investment; and, borrowing only for high priority long term capital projects such as schools, health facilities, bridges, public transport and Government office buildings.

When the Progressive Labour Party Government first assumed office in November 1998, it inherited a net debt of \$150 million from the previous Government. The net debt position is calculated by subtracting the balance in the Sinking Fund from the total amount of outstanding debt and government guarantees.

Mr. Speaker, there is a perception that this Government has significantly increased the public debt since coming into office. I have to say that perception is completely false. Nothing could be further from the truth! The true position is that over the course of the first Progressive Labour Party Government administration, the net debt was reduced from the \$150 million that was inherited from the former Government to \$123 million at the end of March 2004.

Net Debt below 1998 level...

The anticipated favourable revenue outcome in 2004/05 and the disciplined management and control of current programme expenditure produced a larger than anticipated surplus that was available to help fund planned capital expenditures. As a consequence, the borrowing requirement was reduced to less than \$20 million in this financial year. Government therefore projects that the net debt position at March 31, 2005 – inclusive of guarantees of \$9 million – will be \$131 million, still lower than the net debt position that was inherited at the start of our tenure in November 1998!

Investment grade credit ratings...

Mr. Speaker, allow me to say with the greatest of pride and humility that this Government's debt management record is one of prudence and restraint. We have borrowed wisely and invested the borrowed funds in hard assets that will continue to deliver value to the community for generations to come. Consequently, this Government has continually received excellent reviews from the major credit rating agencies on its debt management performance and indeed on its record of overall economic management. It is also worth noting that Bermuda has been able to maintain its high investment grade credit ratings, while a number of other jurisdictions were being placed on watch or actually downgraded.

Mr. Speaker, as we look forward and plan for the future, Government remains committed to prudent and sensible borrowing for investment in infrastructure and other hard capital assets. The debt policy limit of 10 per cent of GDP is sensible and remains one of the lowest, if not the lowest, debt policy ratios amongst developed modern economies. Our actual debt to GDP ratio at this time is about 4 per cent. In consultations with Bermuda's financial sector, the question has been posed as to whether the debt policy limit and the statutory debt ceiling are too low and therefore too restrictive.

Retention of debt policy limit of 10 per cent of GDP...

Mr. Speaker, Government proposes to retain the debt policy limit of 10 per cent of GDP. However, Government does consider that it is time to reset the statutory ceiling on public

debt – currently \$250 million or 6.25 per cent of GDP –to bring it closer in line with the policy limit of 10 per cent of GDP.

Aligning statutory debt ceiling with debt policy limit...

Given that GDP was \$3.96 billion in 2003, and is estimated conservatively at \$4 billion in 2004, Government considers it is now appropriate to set the statutory debt ceiling at a level that is consistent with the debt policy limit of 10 per cent of GDP taking account of the growth in our GDP since 2000. Accordingly, Government proposes to raise the statutory ceiling to \$375 million which is the equivalent of 9 per cent of an estimated GDP of \$4 billion in 2004. Mr. Speaker, raising the statutory ceiling to this level retains the ceiling at a very conservative level and keeps it inside the policy limit of 10 per cent of GDP. Government is confident that Bermuda's economy will continue to expand and develop. Therefore there is little risk of the statutory ceiling either catching up with or breaching the policy limit.

The proposed statutory debt limit of \$375 million would also allow for more flexible capital financing arrangements including public-private partnerships and private financing initiatives. With many of these types of financing arrangements, while Government itself would not be required to borrow funds, it is possible that for accounting reasons part of the underlying financing elements of some projects could be recorded as contingent liabilities on Government's account. Such contingent liabilities would therefore be charged against the statutory debt ceiling in the same way as a Government guarantee.

Government has been approached by financial institutions that have a keen interest in assisting Government with its high priority capital projects by using innovative financial mechanisms available in public-private partnerships or private finance initiatives. Government considers that the timing is right for new approaches to financing major capital projects in the public sector. Accordingly Mr. Speaker, I shall table an amendment to the Government Loans Act 1978 to effect the proposed change to the statutory debt ceiling.

Revenue Estimates 2005/06

Mr. Speaker, I turn now to the revenue estimates for 2005/06. Government proposes to collect total revenues of \$750 million in 2005/06, about 1.5 per cent higher than the revised revenue estimate of \$738 million for 2004/05.

No increase in major tax rates...

Government does not propose to put through any significant increases in tax rates in the 2005/06 National Budget. On the contrary, some proposed changes in payroll tax, customs duties and stamp duties will have the effect of reducing the tax burden in certain sectors of our economy. Mr. Speaker, with respect to the payroll tax, the standard rate of 13.5 per cent will remain as is in 2005/06. A new tiered rate structure will be introduced for small to medium-sized businesses on the basis of their payrolls.

New tiered structure for payroll tax...

In the proposed tiered structure for payroll tax, the existing threshold of \$100,000 will be increased to \$200,000 and the applicable rate will remain at

7.25 per cent. Two new thresholds of \$500,000 and \$1 million will be introduced with tax rates of 10.75 per cent and 12.75 per cent respectively. The highest tax rate of 13.5 per cent will apply to payrolls in excess of \$1 million and other entities that are subject to the standard rate.

In addition, Government will seek to stimulate training and employment by exempting persons on bona fide training programmes approved by the National Training Board from payroll tax. This should be a boon for small and medium-sized businesses and attractive to other businesses as well.

Small and medium-sized businesses to benefit...

Mr. Speaker, the new payroll tax structure will benefit a wide range of businesses and be of particular benefit to small and medium enterprises. With the proposed amendments in place for April 1, 2005, Government estimates that the payroll tax will generate \$250 million in 2005/06. Customs duties are expected to contribute \$202 million towards the total revenue estimate in 2005/06. Following consultations with farmers, fishermen and some other small to medium-sized businesses, Government decided to amend certain tariff items to assist businesses generally and to remove apparent inconsistencies in tariff rates between broadly similar categories of goods. Mr. Speaker, currently there is provision in the Customs Tariff for businesses to bring in samples of goods duty free. The provision is contained in Customs Procedure Code (CPC) 4314. However, the provision is not that widely used by small businesses because guidelines about what constitutes negligible value have not been updated in recent times. Government proposes to amend CPC 4314 so that it is of greater use to small businesses in their promotional and marketing strategies.

In the aftermath of Hurricane Fabian, the Premier and Government Ministers met with representatives of the Board of Agriculture to discuss the challenges in the agricultural sector and what might be done to lower the cost of production in this sector and to assist farmers in their recovery. The Department of Conservation Services estimated the industry-wide losses from Hurricane Fabian to be \$2.8 million. A report entitled the "Review of the Bermudian Agricultural Sector" called for farm inputs to be allowed to enter Bermuda dutyfree.

Customs duty concession for farmers...

Mr. Speaker, in order to help promote local agricultural and horticultural industries and to encourage the 'greening' of Bermuda, Government proposes also to introduce duty concessions for farmers. The Customs Tariff Act 1970 will be amended to provide a zero rate of duty on all equipment supplies and machinery imported by registered farmers.

In a similar vein Mr. Speaker, the Minister of Finance and Ministry officials met with representatives of the florist industry, and during that meeting local florists were persuasive in asserting that there was no logical reason for the existence of a differential rate of duty between cut flowers and greenery. We agree. Therefore, Government will amend the Tariff by reducing the rate on fresh greenery to 22.25 per cent with effect from April 1, 2005.

Further support for local industry...

Government proposes also to align the tariff rate levied on the raw form of PVC with the rate applied to finished PVC goods such as window shutters. The existing differential rate places local industry at a disadvantage as a higher rate of duty – 22.25 per cent – is paid on PVC in its raw form which is used to produce finished PVC products in Bermuda. After the amendment, the tariff rate on the raw form of PVC will be 10 per cent, the same as applies to imported doors and shutters made of PVC.

Mr. Speaker, this rounds out the template of concessions for small business that Government promised in the 2004 Speech From The Throne. The adjustments to payroll tax and customs duty will lower costs to small businesses including farmers and will certainly assist new start-up businesses to market and promote their businesses through the expanded use of duty-free sample goods.

Eliminating ‘stamp duty/estate tax’ on primary family homestead...

Mr. Speaker, Government proposes to make some changes to the Stamp Duties Act 1976, mainly for the purpose of modernising and simplifying the Act but also to close off certain avoidance opportunities that exist in the present form of the Act. In addition, the amendments will result in a slightly higher yield from the tax. The total yield from stamp duties in 2005/06 is estimated at \$33.4 million. Stamp duty is mainly self-assessed which means that the user calculates the amount of stamp duty applicable on any stampable instrument. The major users including legal advisors, banks, trust companies and real estate agents have all experienced difficulty in interpreting the current Act on a consistent basis.

The Act has been reviewed and compared to similar legislation in other jurisdictions including the United Kingdom, Caribbean countries and Hong Kong. The first round of amendments will involve revisions to the rates on instruments that attract fixed duty. Eventually these may be reduced to three basic categories. Head 31 of the Act which imposes ad valorem duty on documents relating to borrowing and repayment of debts is also to be amended.

Mr. Speaker, Government will also bring an amendment to shield the primary family homestead from stamp duty/estate tax that typically arises when property is included in the affidavit of value with respect to deceased estates. For most people, the purchase or construction of their own home is the largest asset that is acquired during a lifetime of work and sacrifice. In many other jurisdictions, the family home is shielded from any form of inheritance or estate tax if the owner occupied the home at the time of their death. Mr. Speaker, Government proposes to establish a similar protection for family homesteads in Bermuda. Some families have placed their real estate and other assets in trust to avoid the tax that is assessed on the affidavit of value. With the proposed measure, an equivalent and less costly protection will be available to families who choose to use it for estate planning purposes. Land tax is expected to yield \$45 million in 2005/06. The new ARV tax bands and associated tax rates came into force in January 2005. No further changes to the land tax rates are planned for the 2005/06 fiscal year. The increased yield from the land tax is related to the new residential and commercial premises that recently have been added to the valuation lists or will come on line during the course of 2005/06.

Bus & ferry fares and passenger taxes to stay at current rates...

There will be no increases in bus or ferry fares in 2005/06 and no increases in vehicle licence fees.

Passenger taxes will also remain unchanged in 2005/06 except that the cruise passenger tax of \$60 will be reset to \$20 per 24 hour period. This reconstruction of the tax will eliminate one of the major barriers to more single day calls to Bermuda by signature cruise lines. The \$60 fee was based on the traditional 3-day call and there was no provision in law for it to be pro-rated to accommodate 1 or 2 day calls. No matter the length of stay, all cruise visitors paid the \$60 passenger tax. This proposed refinement is responsive to the needs of the market – simple yet effective.

Mr. Speaker, the full details of the revenue estimates are shown in the annexes to this statement and in the Estimates of Revenue and Expenditure For The Year 2005/06. I would like to turn now to the expenditure highlights for 2005/06.

Current Expenditure 2005/06

Mr. Speaker, Government's total planned current account expenditure for 2005/06 is \$711 million. This reflects a \$51 million increase over the Original Estimate of \$660 million for 2004/05.

The scale of the increase reflects the additional resources that Government has deployed to realise the goals and objectives of the 'Social Agenda', namely:

- Strengthening social cohesion in our community
 - Developing and training Bermuda's youth
 - Improving the quality of life of our senior citizens
 - Putting good quality homes within the economic reach of more Bermudian families
 - Stabilising, rejuvenating and encouraging business activity in all economic sectors
- Mr. Speaker, all of the current expenditure estimates in the National Budget for 2005/06 were developed using Zero-Base Budgeting. In this regard, all Ministries were required to review service delivery options, to reconsider service output levels, to reprioritise programmes, and most importantly to align resources with the goals and objectives of key policy priorities of the 'Social Agenda'.

Ministers reviewed and ranked programme expenditures of departments in their Ministries. The Ministry budgets were then reviewed, challenged and defended in Cabinet before final approval at the Cabinet table.

'Social Agenda' at the forefront...

Mr. Speaker, as part of the management process for delivery of the 'Social Agenda', the Honourable Premier has identified 66 key programmes and initiatives that will be monitored on a monthly or more frequent basis against interim milestones and the target dates for delivery of final results. The National Budget for 2005/06 establishes new

benchmarks for Ministry expenditures, sets clear goals and objectives and provides a rigorous framework for management, review and evaluation of overall results. Mr. Speaker, I propose to provide a glimpse only of some of the programmes and initiatives for each Ministry. My Ministerial colleagues will provide ample detail of their programmes during the coming Budget Debate.

Continually improving the quality of life for our seniors...

With a budget of \$147 million – 20 per cent of the National Budget – the Ministry of Health and Family Services retains its position as the single largest provider of public services to our community. Nearly \$88 million of the Ministry's budget represents transfers to the hospitals for subsidised medical care of the elderly, youth and persons without the means to pay for these services. The transfers to the hospitals accounts for 60 per cent of the Ministry's budget.

The Ministry of Health and Family Services will improve the quality and level of senior health and medical care in 2005/06 by:

- Provision of enhanced health and wellness clinics for seniors in Somerset, Warwick, Hamilton and St. George's
- Community based home assessments and screenings for seniors
- Home modification and home adaptation programmes for seniors to ensure safety and provide for independent living The monthly wellness clinics for seniors will promote healthy behaviors through the provision of basic health screenings, health education and health promotion activities. Seniors aged 65 and older will be assisted to stay healthy and retain their independence.

The home modification support services will help seniors maintain and/or modify their homes to ensure that they are safe. This will be achieved through referrals to approved community based service providers for essential home repairs and home modifications. The programme will include making contractual arrangements with service providers (carpenters, electricians, masons and plumbers) to provide selected services for seniors at fixed rates. The Health Ministry is also raising the bar in the area of drug interdiction and rehabilitation. In 2005/06 the National Drug Commission will be fully integrated as a Department of the Ministry of Health and Family Services. Professional staff in the Ministry will closely monitor the rate of substance abuse amongst Court Services clients through frequent screenings and will offer comprehensive case management, supervision and referral for treatment. Funds have been earmarked in the Ministry's 2005/06 budget to provide a Women's Treatment Facility to enable on-island rehabilitation.

The youth are our future...

Mr. Speaker, there are few things more important to a community than the education, development and training of its youth. A sound grounding in language arts, mathematics, science, social studies, the arts and physical education provides young people with a firm foundation for a good life. It is for this reason that Government places a high priority on the education and training of Bermuda's young people. The public funding of education

aligns with Government's philosophy and therefore a budget of \$120 million is proposed for the Ministry of Education and Development in 2005/06. The Education budget is the second largest in Government and accounts for 17 per cent of the 2005/06 National Budget. This represents the equivalent spending of some \$16,000 per student in the public education sector from pre-schools to the Bermuda College.

The Education Ministry will be rolling out a host of new programmes during 2005/06 as announced in the 2004 Speech From The Throne. First, the grant to the National Training Board will be increased to implement the Tech Quest 2000 Project, a private-public partnership aimed at providing technical skills to unemployed and under-employed individuals, and a programme for youth drop-outs from senior secondary schools. Mr. Speaker, the National Training Board initiatives provide a good example of the Zero-Base Budgeting approach at its best. The total cost for full implementation of the Board's programmes as outlined in the Throne Speech exceeded \$1 million. However, with a phased approach and by seeking alternative delivery options by linking up with the private sector, the cost in 2005/06 was scaled back to \$600,000.

This then allowed the Ministry of Education and Development to mount other new initiatives including the provision of further education awards for mature students who previously were barred from such assistance because of age restrictions. There will also be an increased allocation to Further Education and Teacher Training Awards (\$300,000) in 2005/06.

Other highlights in the Education Ministry's budget for 2005/06 include:

- The expansion of Child Development Services
- An expanded Summer School programme
- The acquisition of Homeroom.com site licenses

The Ministry of Education and Development has reviewed its responsibilities for early childhood education, including those offered by the Child Development Programme, and is proposing reorganisation to create an early childhood team to ensure cohesive services to children from birth to the end of Primary 1. The early childhood team will cover the whole spectrum of educational needs:

- Development of young children in the home
- Support for parents concerning how best to help their children to learn
- Wide-range support for private child care and day care settings
- Strategies to enhance the education of children in Primary 1 Homeroom.com is an assessment software programme which the Ministry of Education and Development has purchased for all primary and middle schools.

This purchase was in response to and as a proactive step to ensure that all schools had access to valid and reliable assessment items in English language arts (including reading) and mathematics. Teachers and administrators will have at their fingertips a bank of items which are aligned to the Bermuda Performance Standards and also to the Terra Nova

assessment programme, as well as information for parents, resources for lesson planning and resources for students.

Affordable housing for Bermudian families...

Mr. Speaker, one of the five key strands in the 'Social Agenda' seeks to place modern homes within the economic reach of more Bermudian families. Nothing excites the imagination of young families more than the prospect of acquiring the first family home. The housing development at Southside in St. David's has fired the imagination of many Bermudians, including dual income couples with and without children, single young professionals, and even more mature working families who have worked and sacrificed but still have not been able to grasp and hold on to the reality of homeownership because property prices have been beyond reach.

Government has already made a tremendous contribution towards the ultimate realisation of this project which is being developed as a public-private partnership. Government has provided the land and customs duty concessions on the building materials that will be imported for use in the construction of the units. Government now looks forward to the completion of the project. The Ministry of Works Engineering and Housing also has plans already underway or at the launch phase for the construction of 160 housing units. The plans include the renovation and restoration of derelict or vacant premises such as the Ewing Street project and the construction of new units such as the project at Perimeter Lane. Similarly, plans for housing developments at Butterfield Lane and Redcoat Lane are at an advanced stage.

In addition, Mr. Speaker, the Works Ministry has plans for the construction and/or assembly of emergency housing units, as well as the establishment of community based housing for newly released prisoners. The latter units and associated services will assist former prisoners by providing a structured, therapeutic and residential environment to facilitate their transition back to the community.

Mr. Speaker, I wish to note here that the Bank of Bermuda-HSBC Group has pledged a gift of \$1 million for the emergency housing initiative. This sum will be placed in the General Reserve Fund and earmarked for this purpose. The planned activities of the Bermuda Housing Corporation have had only a minimal impact on the \$62 million budget of the Works Ministry in 2005/06 as the Corporation will be seeking the required financing in local capital markets. Corporate governance and transparency has been significantly improved at the Bermuda Housing Corporation and therefore the housing agency is well positioned to seek financing in local capital markets for its housing initiatives. In that regard Mr. Speaker, Government stands ready to support and assist the Bermuda Housing Corporation in raising the required capital to finance its housing plans that are an integral component of the 'Social Agenda'.

Social cohesion in our neighbourhoods...

Mr. Speaker, the Ministry of the Environment is provided with a proposed budget of \$22 million in 2005/06. The Environment Ministry's contribution to the 'Social Agenda' is centred on a programme of environmental improvements that will focus on the needs of Bermuda's older, well-established neighborhoods. The programme is called the Community Areas Programme or CAP.

CAP will bring together the public and private sectors in a partnership to implement schemes of improvement most favoured by the residents of various neighborhoods. While the overriding objective will be to upgrade the local environment, in a wider context CAP is also an initiative to stimulate community spirit and a sense of pride, and strengthen social cohesion.

Menu from which to choose...

The actions taken in different neighborhoods will be selected from a menu of possibilities that include:

- Minor road, sidewalk and lighting improvements
- Traffic calming measures
- Landscaping and planting
- General clean-up campaigns
- Provision of cycle or footpath systems
- Acquiring land for local open space needs
- Upgrading housing and derelict buildings
- Encouraging local schools to become involved in practical programmes and in researching the history of the neighbourhood
- Erecting plaques to identify locations or events of historical importance CAP provides a basic budget in the amount of \$1 million, a cross-Ministry co-coordinating committee involving Works, Engineering and Housing, Community Affairs and Sport and Education and Development, and a framework for progress.

Mr. Speaker, CAP's genesis arose from Government's experience in promoting and funding the St. Monica's Mission neighborhood plan. That experience confirmed that strong community leadership and involvement are the keys to success. In this regard, the North Village Community Trust is to be commended for its community leadership. It is a model for other neighbourhoods to follow.

Mr. Speaker, effective law enforcement and high public safety standards strengthen social cohesion by providing the community and individual citizens with a confident sense of security. Accordingly law enforcement and public safety are key components of the 'Social Agenda'.

Public safety a high policy priority...

In this regard, the proposed 2005/06 budget for the Ministry of Labour, Home Affairs and Public Safety is \$96 million, an increase of \$6 million, or 7 per cent, compared to the previous year.

There is a provision in the 2005/06 National Budget to enable the Bermuda Police Service

to fully staff the highly specialised Police Support Unit (the “PSU”) that has a dedicated focus on the reduction of violent crime in our community. With the additional funding, the strength of the PSU will be raised from 11 to 22 Police Officers.

The Department of Corrections is also to be provided with additional resources in 2005/06 for staff training and development as well as the introduction of the ‘Uncommon Results Programme’ for inmates. The Department will focus on its core objective which is to return offenders to the community as law-abiding, contributing, and self-supporting citizens who are far less likely to reoffend. This objective can be satisfied if, and only if, Correction Officers are appropriately trained and there is provision of a range of educational, counseling, therapeutic and related programmes that assist the inmates in the rehabilitation process.

Mr. Speaker, \$600,000 has been earmarked for staff training and development and \$1.8 million has been budgeted for the range of programmes for inmates in the Department of Corrections.

Stabilising, rejuvenating and encouraging business development...

Mr. Speaker, stabilising, rejuvenating and encouraging business activity in all economic sectors is a key policy objective of the ‘Social Agenda’. Stable levels of economic growth and expansion provide both the foundation and the framework for Bermudians to participate and share in the benefits of economic progress.

Mr. Speaker, the Ministry of Finance has the primary responsibility in this important policy area. The Ministry seeks to facilitate balanced economic growth and development. The Ministry also takes the lead in safeguarding Bermuda’s national economic interests in the face of challenges and threats posed by the wider global economy.

In this regard, the Finance Ministry’s proposed budget of \$98 million in 2005/06 includes provision for continuing initiatives in economic diplomacy. Over the years, Government has established effective relationships in Washington DC amongst law makers, their policy advisers and administration officials. This is in addition to the strategic partnerships that have been established between the Government of Bermuda and the locally-based stakeholders. We are action-driven and in rising to the challenge, to ensure we ably protect Bermuda’s reputation in the international market place, we acknowledge that business and community go hand-in-hand. All elements of society need to work effectively together to attend to our national goals. No one group on its own can achieve these goals. We cannot afford to be isolationist. These relationships have helped to ensure that Bermuda maintains its international reputation as a vibrant, well-regulated and stable financial services jurisdiction. The Finance Ministry will continue to develop and strengthen these relationships in 2005/06 in order to protect Bermuda’s national economic interest.

Mr. Speaker, some good things often take longer than planned to come to fruition. This is the case with Government’s partnership with the Corporation of St. George on the matter of dual property taxes in the St. George’s municipal area. There has been progress in the negotiations but a number of points require further consideration.

No double taxation in Town of St. George...

For the avoidance of any doubt, residents in the municipal area of St. George's will not be required to pay property taxes to the Corporation in 2005/06. Government will provide the Corporation with an operational grant again in 2005/06 while the final details of revamped service delivery in the municipal area are negotiated between Government and the Corporation. Mr. Speaker, Government proposes also to provide assistance to the Bermuda Stock Exchange (BSX) as part of a public-private partnership in maintaining high compliance standards in Bermuda's financial services sector. The funding is to be earmarked for listing and compliance functions of the BSX and a small contribution towards its international marketing efforts. Private sector entities are assisting the BSX through the extension of credit facilities. The grant is temporary and will cease when the BSX acquires the recognitions that it has sought from overseas authorities during the past several years. The recognitions are now imminent, but the delays have impacted the BSX's revenue base.

Mr. Speaker, the Finance Ministry is providing further tangible support to the 'Social Agenda' by the provision of customs duty deferrals and tax exemptions in key social and business areas. The use of tax policy in this manner has not only stabilised some business sectors but also has rejuvenated and encouraged growth and expansion in other sectors. Government is committed to further enhancing the raft of initiatives to our seniors especially in the arena of health care. To that end, on March 23 and March 24, 2005 there will be a two-day Health Summit committed to exploring ways to enhance the health care system in Bermuda and to find ways to make it more efficient and affordable for the end-user, that is, the people of Bermuda. Stakeholders who represent the various groups in the community are being invited to participate and to consider strategies and ways to promote a better and more cost-effective model for our health care system. The benefits are obvious and impact on all sectors of our community – from our seniors to our youth. Mr. Speaker, social security and pension planning and post-retirement requires strategic thinking and forward planning, both at the individual level as well as from a governance perspective. There are demographic issues. We have an ageing population. Companies and governments have to anticipate the changes and actively plan to take account of the societal shifts by instituting dynamic policy. That is why Government is seeking to consider various options to better utilise an able-bodied and productive work-force even where they may have reached the age of 65 by considering flexible ways to retain their skills and competencies to optimise productivity. In discussing issues of sustainability, we must also consider how to best maximise the value and contribution of labour to our economy, irrespective of age.

There is a cross-Ministry initiative policy paper that is being finalised and I anticipate that it will yield some progressive outcomes to benefit those who are willing and able to extend their time in the labour market even after they have reached the conventional age of retirement.

Relief for Superannuation Fund...

In addressing the pension needs of our public servants, I am pleased to advise that Government will write off a significant portion of the \$44 million owed by the Public Service Superannuation Fund (PSSF) to the Consolidated Fund. You will recall that earlier this year Government indicated that there was a shortfall in the Superannuation Fund and that we were arranging for an actuarial study to be done so that we can take active steps to improve its financial position. While there are a number of measures that

will be considered, this forgiveness of the current debt will relieve some of the immediate pressure on the PSSF. Following receipt of the actuarial report, further steps will be taken in the future to further improve its funding position and sustainability.

Bold steps for future pensions...

In addition to this and in furtherance of the 'Social Agenda', Government has pledged to set aside in the General Reserve Fund a sum of \$1,000,000 which we have dubbed a 'Bermuda Birthright Fund'. Given that the birth rate in Bermuda has been in the region of 800 births a year, as part of the forward planning for the future retirement needs of today's youth, we plan to set aside monies that will be saved and set aside in a Reserve Fund specifically for those who may yet be unborn. We will refine the details and report in successive months to come but the aim is to set aside today for tomorrow's retirees by this 'Bermuda Birthright Fund'. The monies will not be able to be used by any recipient for a prescribed period and will be invested for a minimum of thirty years on a cumulative basis. Increased life expectancy places unsustainable pressure on our pension system. We have an opportunity to take action today to try to help to address the pension needs of future generations.

Mr. Speaker, tourism and the hospitality sector have been main engines in the Bermuda economy for a long time. While it is undeniably true that the international business sector now provides the largest single contribution to GDP and foreign exchange earnings, the tourism sector continues to be a vital component of Bermuda's economy.

Clear, compelling, business-like tourism strategy...

The Minister of Tourism and Transport recently announced Government's vision for tourism over the next three years. The bold steps and pulsating moves in the revamped tourism strategy are supported by a budget of \$37 million, the largest share in the Ministry's proposed total budget of \$100 million for 2005/06. Mr. Speaker, the targets have been clearly stated and sound strategies have been formulated to achieve these aims. The goals are:

- To increase tourism's economic impact as it relates to on-island expenditure and public sector revenue
- To grow the number of visitor accommodations and direct air access gateways
- To increase the number of Bermudians employed in the hospitality sector
- To develop and diversify the tourism product

Clear business objectives have been tied into these overarching goals and include: increasing air arrivals to 400,000 over the next 3 years; increasing average visitor spending by 7 per cent; and increasing visitor 'complete satisfaction' indicators by 10 per cent.

Mr. Speaker, the strategies to achieve these objectives have also been thought through and clearly articulated. The strategies include continued work to decrease airfares, the development of new geographic markets in Europe and South America and positioning

Bermuda as a year-round destination.

The outlook for tourism in 2005 is positive and exciting. There will be more flights, more gateways to support, more cruise ships calling, more hotel beds and as the Minister stated and I quote: "...if we get it right... more visitors!" Mr. Speaker, I think that we will get it right!

There is provision in the budget for the Department of Marine and Ports for additional staff training to ensure that the crews and pilots of all ferries have the skills necessary to operate and maintain the vessels, and to provide the required level of service to the public. Funding has also been provided for the department to hire a Port Security Officer in 2005/06. The Transport Control Department will introduce a programme in 2005/06 that will require all vehicles to be emissions tested on an annual basis. Mr. Speaker, I am pleased to announce that Government is honouring the pledge it made to the taxi industry. You may recall the commitments made that the Government was prepared to move forward and to partner with those members of the taxi industry who were ready and willing to install the GPS system in their taxis by providing a measure of financial assistance. The offer was made solely to those taxi-owners who signed up by the stated deadline-January 31, 2005. The Government has indicated that it would help to defray the costs for those owners by paying a portion of the installation costs. Accordingly, the Ministry of Tourism and Transport has made provision in its 2005/06 Budget to assist those taxi owners who have signed up within the stated time-frame. They will be the pioneers of this system in Bermuda and we anticipate that this will help to improve service delivery and we look forward to the future when use of GPS will become the norm in the taxi industry.

The Ministry of Community Affairs and Sport has put up a budget in the amount of some \$17 million for 2005/06. The Ministry will continue to provide grant funding for community programmes including the 'Grass Roots Programme' that reaches out to individuals and groups on the 'margins' of our community.

Bermuda's Quincentennial Year...

Mr. Speaker, Bermuda will mark the 500th Anniversary of its discovery this year with a diverse range of functions and events. The Department of Community and Cultural Affairs has geared its programme of events to tie into the wider spectrum of events that has been co-ordinated by the Quincentennial Committee. The Quincentennial theme "A Bermuda For Everyone... Everyone for Bermuda" will be reflected in the Ministry's planned events for Heritage Month including visits to schools by historians and cultural tradition bearers and a Dance Festival that will embrace various ethnic and cultural groups that make up Bermuda's social mosaic.

The 'Historical Heartbeats Lecture Series' will continue throughout most of the year with speakers that reflect Bermuda's diversity. Mr. Speaker, our people will move in unison to the drum beats and rhythms of our cultural heritage as we celebrate 500 years of Bermuda's advances in this Quincentennial year. Such is the essence of the 'Social Agenda'!

Mr. Speaker, in a similar vein, Government will increase its level of support to the St. George's Foundation by pledging an amount of \$1 million to be spread over a 4 year

period beginning with the 2005/06 fiscal year. The Foundation will be able to use these proceeds to help cover the cost of materials imported for its restoration of the World Heritage Visitors Centre.

The Foundation's plan to restore the Queen's Warehouse as the World Heritage Visitors Centre will help to revitalise cultural tourism in St. George's. The completed World Heritage Visitors Centre will be the venue for programmes and exhibits that will highlight and share Bermuda's history with visitors, students and residents.

Customs duty relief for development of community sports facilities...

As part of the "Social Agenda" policy imperatives, there is considerable focus and energy being directed at finding ways to assist those who may feel marginalised in our community. The discipline of sports exerts a significant influence in the development of our youth and in cultivating an opportunity for the coming together of a community. While as a Government, we cannot provide something for everyone, we do think it is important and incumbent on us to do more to encourage the development of our sports and communities. The Minister of Community Affairs and Sport has been diligent in this regard. To further assist these efforts, the National Budget for 2005/06 provides a further incentive by the provision of customs duty relief on imported capital goods to those recognised national sporting bodies, clubs and community organisations that are engaged in renovating, refurbishing or constructing sports facilities for the benefit of the community.

Mr. Speaker, Government has proposed a budget in the amount of approximately \$19 million for the Ministry of Justice in 2005/06. Within this allocation, there are additional resources for the newly established Debt Collection Unit and funding for a project to update Bermuda's laws, that is, consolidate recent amendments to Bermuda's laws.

Mr. Speaker, Government has completed its initial review of salaries of Members and Officers of the Legislature. Accordingly, Government will table a resolution with proposed salaries to take effect from April 1, 2005. In addition, Government will table a proposed amendment to the Ministers and Members of the Legislature (Salaries and Pensions) Act 1975 to establish a review body to have charge of such reviews in the future.

Mr. Speaker, the proposed current expenditure budgets for the Cabinet Departments, the Ministry of Telecommunications and E-commerce and non-Ministry Departments in 2005/06 are \$14 million, \$8 million and \$4 million respectively. Honourable Members will note that the budget for the Ombudsman's Office is some \$376,000 in its inaugural year.

Long term plan for sustainable development...

There is also provision in the Cabinet Office budget for the completion of the landmark exercise that will result in a long term plan for sustainable development in Bermuda. The planning framework will take account of economic, social, physical and environmental factors drawn from extensive consultation with key stakeholders in the public and private sectors. In 2005/06 the Telecommunications Ministry will continue its efforts to resolve outstanding issues connected with Bermuda's apportioned satellite slots. The satellite

slots represent significant commercial value and a potential source of public sector revenue. The Telecommunications Ministry has retained expert legal assistance and is anticipating a positive outcome from the negotiations and related actions that are underway.

Continual improvements in financial controls...

Mr. Speaker, before turning to an overview of the capital budget I wish to advise Honourable Members that the 2005/06 National Budget includes provision for an expansion of professional staff and support staff in the Accountant General's Department. This action accords with recommendations of an independent auditor that Government engaged to review certain systems and procedures in the wake of the theft of public funds. The additional staff and improved systems will strengthen internal financial controls and provide for more rigorous enforcement of compliance with financial controls throughout Government.

Capital Expenditure Estimates 2005/06

Mr. Speaker, in 2005/06 Government plans to invest \$137 million in capital assets that form part of the long term Capital Expenditure Plan. Of this total, \$125 million – which accounts for 91 per cent of the planned outlays – is for the continuation or completion of projects that are already underway. The major projects underway include the Second Senior School, the new Hamilton Police Station and Magistrates Court, the Southside Police Station and the St. George's Residential Care Facility for Seniors. Each project reflects key policy areas in the 'Social Agenda'.

In addition to the above projects, a capital grant of \$7 million is budgeted for the further development of the National Sports Centre. The National Sports Centre lends itself to public-private partnership arrangements and the Trustees of the National Sports Centre are actively seeking partnerships along these lines.

Mr. Speaker, I wish you to note that for no additional funding within the Ministry of Tourism and Transport, the Minister of Tourism and Transport has been able to run a tight ship fiscally. Accordingly by exercising some spending restraint and re-prioritising in the face of emerging needs, that Ministry has remained within the original approved budget for the ferry project and in a value for money initiative reallocated funds that enabled a fifth ferry to be purchased and deployed to service of the eastern parishes. This will fully integrate the eastern parishes into the network of seaborne movement of commuters and visitors and should help to ease road congestion in our eastern parishes. Mr. Speaker, you may recall that in the aftermath of Hurricane Fabian the ferries were a significant boon to the eastern parishes. Their deployment proved very helpful to parents and commuters in the eastern parishes and helped to minimise disruption to commercial life and to the operation of our schools. New projects totaling \$12 million were added to the capital plan in 2005/06. Within this allocation, \$2 million has been set aside for refurbishment and restoration of Lefroy House. In addition, there is a provision of \$750,000 for the installation of an elevator in the Sessions House. Did I hear loud applause for that Mr. Speaker!

The largest allocation of the new money in the capital plan, some \$5 million, is for refurbishment work on Government buildings (which includes Lefroy House) and for

infrastructure work on dangerous walls and unstable rock cuts as well as the refurbishment of key Government reservoirs at Fort Victoria and the Government Quarry.

Capital Borrowing 2005/06

Mr. Speaker, given projected revenue of \$750 million and a combined current and capital expenditure budget of \$848 million, Government projects a borrowing requirement of \$85 million in 2005/06 after taking account of projected cash in hand at the beginning of the next fiscal year.

Mr. Speaker, the borrowed funds will be applied to the development and acquisition of hard capital assets as detailed in the Estimates of Revenue and Expenditure For The Year 2005/06.

Government successfully refinanced the ten-year \$75 million senior note issue that matured in June 2004. Government's \$150 million revolving bank credit facility expires in June 2005. Government plans to replace the revolving credit facility with a similar financing vehicle and based on the significant level of interest and the keen expressions of interest in our most recent 'Request For Proposals', we anticipate a positive and favourable response from the market. Our strong investment grade credit ratings have been of immense benefit in this regard.

Conclusion

Mr. Speaker, the National Budget for 2005/06 marks a pivotal point in Bermuda's history. Our people have made great strides and advances during the past 500 years and we stand at the portal of a promising future. Our model is that of an entrepreneurial government, that is, an entrepreneur that uses resources in new ways to maximise productivity and effectiveness. Our aim is to heighten efficiency and effectiveness and to improve the delivery of services to the people of Bermuda. The whole ethos of Zero-Base Budgeting is to challenge old ways of doing things and to explore and set new targets. It requires us to reassess what is being done, to move away from building empires and protecting turf with a mindless entrenchment of the status quo and preservation of existing programs and projects simply because that is what was always done.

We are living in changing times – indeed challenging times. We cannot afford to keep on doing things the way it always has been done just because it is familiar and comfortable. We intend to be an entrepreneurial government – one that constantly chafes at the bit and searches for more efficient and effective ways of managing. That is true empowerment – the notion that people working together can solve their own problems.

Bermuda in terms of GDP and per capita income is a society that is faring well. Not everyone finds their life to be an economic success story and often it falls to Government to assist with those who genuinely need help, for whatever reason. As incomes rise so do expectations. As people become better educated they expect improvements in their quality of life and they expect Governments to ensure this. How do we solve the problems? By acting collectively. How do we act collectively? Through Government – Government provides the mechanism that delivers services for the benefit of all the people. Bermuda has seen economic development occur with its economic growth. It is our challenge and our opportunity to continue to do all we can as Government to ensure

that the economy works for the people of Bermuda –consumers and business alike in a way that operates fairly and that benefits the people of Bermuda and in a way that is sustainable.

Budget 2005/06 is a roadmap to accomplish this. This is a new fiscal year yet already the work and planning has started for next year. We are living in an exciting time – there is so much to do, so many bridges to cross and there is a bold new world that hovers just on the edge of the horizon. We believe that Budget 2005/06 properly positions Bermuda and her people for the challenges that lie ahead. We will continue to set out what we see as the way forward and to continue to take the necessary steps towards implementation. We are committed to devise ways to continue to promote fairness in the availability, accessibility and quality of public services for all sectors of the community. That is the thrust

of the ‘Social Agenda’ and that is the goal of Budget 2005/06. We will continue to do what we can to help those in greatest need. Our focus is to narrow the gap and to assist in the key areas of health, education and labour and to make improvements so that increasingly, more and more can be empowered to chart their course and to succeed in this brave new world that is our home – Bermuda. Our future success will depend on our continued resilience, our continued prudence, and the courage to make bold steps in furthering the ‘Social Agenda’. This means that every one of us must be involved as we build our nation: A Bermuda for Everyone ... Everyone for Bermuda.

Thank you Mr. Speaker.