



BUDGET STATEMENT

IN SUPPORT OF THE

ESTIMATES OF REVENUE AND EXPENDITURE

2006/07

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

Minister of Finance

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

Mr. Speaker, Our objective is to build a strong economy and a fair society where there is opportunity and security for all. Our goal is to make the economy work for the people of Bermuda – consumers and business alike in a way that operates fairly and that benefits our young people and seniors. The National Budget 2006/07 ushers in a new wave – an ‘Age of Empowerment’, as we look to a better future.

In every single year between 1998 and 2005, the Progressive Labour Party Government has framed economic and financial policies that have delivered positive GDP growth to the Bermuda economy for the benefit of Bermudians and residents alike. While we do not have final data for 2005, the signals from strategic sectors of the economy indicate a seventh successive year of economic growth in 2005.

The National Budget 2006/07 builds upon the firm economic foundation that has been developed and fortified by successive Progressive Labour Party administrations. It will provide resources for programmes and initiatives that seek the following key objectives:

1. Strengthening social cohesion in our community;
2. Developing and training our Bermuda’s youth;
3. Improving the quality of life of our senior citizens;
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.

However budgets are not just about figures; budgets also speak to the needs of the people we serve. That is why the National Budget 2006/07 should be viewed through the prism of a Social Agenda focus.

Social Agenda

Accordingly there has been a significant boost to the budget allocated for building homes for Bermudians. Not only has there been a \$25 million dollar boost in the National Budget 2006/07, but also we will strengthen the financial position of the Bermuda Housing Corporation, otherwise referred to as BHC. Specifically, Government will convert the \$49 million debt that is owed to the Consolidated Fund by BHC into an investment. Given its clean audit, the resulting improvement in BHC’s financial strength will enhance its ability to borrow from financial institutions.

In health care Government is seeking to increase access and to lower costs. The existing prescription drug benefit for seniors on the HIP programme will be increased by 15% so that seniors can now receive up to \$1150 of prescription drugs on an annual basis.

Sandys Secondary Middle School, its feeder schools and the community will benefit from the

\$1 million grant that has been made available in the Ministry of Education and Development 2006/07 Budget. The Sandys Secondary Middle School Community Centre will include a gym, health club and a swimming pool. This grant will contribute to the completion of this community project.

It represents not only value for money but also fosters the social contract – a community partnership that typifies the Social Agenda focus. Training for Bermudians continues to be an issue that attracts a single-minded focus by the community and is an integral part of Government's multi-pronged strategy to address the needs of our community. Accordingly, funding has been allocated to the National Training Board so that they can increase their outreach.

Further, within the Ministry of Labour, Home Affairs and Public Safety, there is a National Work Force Development Programme that will broaden and deepen the ability of that Ministry to assist able-bodied, suitably qualified Bermudians to fulfill their potential in the labour market.

Government is committed to expanding employment opportunity for all. The intent is to create opportunities so that persons can reach their full potential and participate in Bermuda's flexible and buoyant labour market. To this end, we note the additional monies that have been allocated to the Ministry of Justice and specifically ear-marked within the Department of Public Prosecutions for the training of Bermudians to enhance their career advancement prospects within the Department, including opportunities afforded for overseas placements.

Government has committed to transforming the public transport system. You will note that there will be no increases in fares for bus and ferry passengers we are not raising taxes on the backs of the travelling public. There is the overarching commitment to improve the entire public transportation landscape. Accordingly, Government will introduce a duty-free exemption on the import of GPS equipment for use in the taxi industry. This measure will provide some relief to taxi owners in having the necessary re-fitting done so their taxis are GPS-compliant.

As an additional fillip for the taxi industry Government will also provide for a new limousine category of public service vehicles. This formal limousine category will provide a luxury transportation service to meet the needs of both visitors and locals and is expected to inject even more dynamism in the taxi industry. Interested taxi owners may apply to convert their taxi permit to a limousine permit.

Mr. Speaker, these are the programmes and policies that Government has committed to funding as part of the Social Agenda. The Social Agenda continues as the compass and regulator for the key policy priorities that underscore the Progressive Labour Party Government's philosophy of putting our people first. The evidence of the positive benefits to our people arising from the Social Agenda is there for all to see.

Government demonstrates its continuing commitment to address the needs of the people in the National Budget 2006/07. We have said that Government will continue to be creative and innovative in its pursuit of additional benefits for our seniors and that we will seek to improve their quality of life. Protecting and empowering the most vulnerable sectors of our community continues to be our priority.

In 1998 the maximum monthly pension from the Contributory Pension Fund was \$800 per month. Since taking office in 1998 this Government has instituted five increases over a seven year period thereby raising the maximum pension to \$1,061 per month in 2005.

During the 2006 Budget Session Government will bring forth legislation to increase pensions by a further 4 per cent with effect from August 2006. In 1998, seniors on the HIP plan did not have any insurance cover in the plan for prescription drugs. As a result of Government's progressive social policy, seniors on the HIP plan have had access to a prescription drug benefit since June 2003. The benefit will be enhanced in 2006/07 by introducing a 15 per cent increase in the prescription drug benefit for seniors.

A review conducted by the Department of Social Insurance indicated that the average usage levels were in the region of \$800 per person per year. However, given the widespread use of this additional benefit by our seniors it was considered responsive to increase the level of the benefit.

Also given the flexible terms of the HIP Plan and the increased use of it as an insurance plan of first choice, Government is increasing the monies allocated to HIP from the Mutual Reinsurance Fund. This is being done to promote further equity given the marked increase in enrollment in lieu of private insurance arrangements. The MRF contribution will be increased from \$2 to \$4. This injection of additional funding will help to secure HIP on a firmer financial footing. It will also provide an indirect additional benefit to our seniors who are joining the HIP Plan in increasing numbers and are often in the higher-risk categories.

Also this Government has seized the mettle and has directed that within Government and the wider community that more action is taken to encourage job availability for those who wish to work beyond their pensionable age. The intent is to be flexible in providing additional options as the numbers of persons of pensionable age increase and to institute policies to facilitate jobs being available for those who wish to be able to work longer. There is also a strong policy focus on occupational health. People's ability to work is heavily influenced by their health and Government is working to encourage best practice in health through its own role as a public employer and also by its health-sensitive policies. The recent anti-smoking legislation is just one case in point.

Mr. Speaker, the Social Agenda has been beneficial to our young people. The additional resource devoted to education under successive Progressive Labour Party administrations recognises the vital importance of education to our young people. In an increasingly knowledge-driven global economy, there is a determination to give our young people the opportunity to make a difference and to make the most of their talents.

Education helps to make this a reality. There has been considerable investment, not just in the education infrastructure, but also in seeking to raise standards and to provide an enabling framework for licensing our teachers who are on the front-line in delivering services to our young people. Smaller class sizes in primary schools have allowed for more individualised instruction and the accommodation of different learning styles.

As youth are the future of our country, and as the knowledge economy is increasingly becoming the main way for Bermudians to secure prosperity Government is committed to ensuring that sufficient resources are devoted to educating and training our young people. Educational attainment must continue to be a focus as a means of

assisting those disadvantaged members of society to move progressively up the job ladder.

Therefore the National Budget 2006/07 will provide additional funding support to the National Training Board so that it may expand its complement of professional and support staff. Education and career development plans need to play a major role in increased work force participation and representation at all levels. We look forward to the business community's involvement and active participation in assisting Bermudians to reach their career goals. That truly is good corporate social responsibility.

The National Work Force Development Programme will play a critically important role in maximising the potential of all Bermudians in all sectors and at all levels in the labour force. Clearly the potential is there for a win-win strategy that meets the needs of both the people and employers of Bermuda.

The other priority area where we propose to focus particular attention is in the provision of housing for our people. We recognise the need and intend to address it. Given that there is a quiet desperation both with our young people and others who feel that they cannot afford their own home, or find a rent level that will allow them to save towards home ownership, there is the tangible commitment by Government to increase the available supply of affordable housing.

There will be a continued focus on the provision of affordable housing for Bermudian families. There is an allocation of \$25 million in Government's Capital Expenditure Plan to address a range of housing needs. This includes emergency housing, the re-development of the shelter for homeless persons, and units for rent and for purchase.

Mr. Speaker, when we consider the commercial landscape, we see the continuous ebb and flow of new entrants into the market place and of those who exit the market. There is a wave of excitement about economic empowerment and newly emerging entrepreneurs in our community today. The excitement and anticipation about new start-ups and mergers and acquisitions exist in varying business sectors ranging from light manufacturing to retail to accounting and other financial services. There is also the expansion of existing businesses which gives perspective to some of the closures that have dotted the commercial landscape in recent times.

I am proud of the numbers of persons from a diversity of backgrounds who have come to see me in the Ministry of Finance: some about parking lots, some about new light industry, some about new potential in the fishing industry.

Mr. Speaker, you can almost feel and taste the optimism and hope. These budding entrepreneurs are ready to seize the opportunity. Government is responding by creating an enabling framework so that they may succeed.

The National Budget 2006/07 provides a framework for investment in Bermuda's future. It includes a package of measures to encourage enterprise. It aims to promote enterprise through measures aimed at increasing flexibility by removing barriers to entrepreneurship and developing an enterprise culture. There have already been reforms to the structure of the payroll tax system that have helped small and growing businesses. Given the planned revitalisation of North Street Hamilton, we intend to provide a further raft of measures as incentives to spur further development in this area.

The long term decisions that Government has taken – payroll tax restructuring, an expanded duty-free regime for fishermen, farmers and taxi-drivers – all of these initiatives speak to creating a strong platform for economic stability. Economic stability provides the platform for building prosperity, achieving social justice and opportunity for all.

The National Budget for 2006/07 will provide some further incentives to small businesses through adjustments to Customs Duty on specific imported materials. You will note that the aspect of further diversification of the economy is being advanced, not just by the empowerment of the entrepreneurial spirit, but also by Government-backed research into the feasibility of a Bermuda based offshore fishery.

Mr. Speaker, globalisation has thrown up challenging issues. Government will continue to enhance Bermuda's position by a studied commitment and determination to represent Bermuda, both domestically and in international fora. Government will build and manage relations with a broad range of local and international organisations consistent with Bermuda's national interest. We have to ensure that we have a voice and that we have every opportunity to protect and promote Bermuda's national interest. There can be very negative economic, social, political and environmental consequences for those countries that do not represent their own national interests at international gatherings.

Governments have a responsibility to attend to the welfare and well-being of their citizens on all fronts at all times. Never before has this imperative been more clearly defined than in these times. Accordingly, the National Budget for 2006/07 provides resources for the Government of Bermuda to establish a physical presence in London and to strengthen and to diversify its presence in Washington D.C. During the past year, Government has extended its network of contacts in Washington D.C., London, England and Switzerland. These contacts and relationships remain key to Bermuda's long term interests and the work in this area will be raised to a higher level in 2006/07.

Mr. Speaker, we have been disciplined and fair in framing the National Budget for 2006/07. Tax increases have been kept to a minimum in 2006/07 with no increases in major taxes. However, the biennial review of Government Fees has been completed and the new fees will have effect from April 1, 2006. The increases, for the most part, accord with recent changes in the general price level. Vehicle registration and licence fees will be increased by a similar level.

Given the focus on Social Agenda policy imperatives, we note that there will be no rate increases in any of the major taxes such as payroll tax, customs duty, land tax, stamp duties, and passenger taxes. Bus and ferry fares will remain at their current rates and also will not be increased. Government coffers will not benefit off of the backs of the travelling public. This freeze on fare increases for public transport is consistent with Government's keenness to encourage measures that decrease the number of private vehicles on the road. It is also a Social Agenda initiative.

The rate of customs duty payable on non-commercial accompanied goods for returning residents and visitors will be streamlined to a single customs duty rate of 25 per cent to facilitate and to expedite this phase of passenger clearance at the Bermuda International Airport.

Provision has also been made in the National Budget 2006/07 to increase manning levels in

the Customs Department significantly, in order to deploy additional personnel at the Bermuda International Airport and at other ports of entry. The higher manning levels are sensitive to the needs of the dedicated staff and should lead to greater operational efficiencies thereby enabling staff to deliver a higher level of service to our user public.

Mr. Speaker, before turning to the revenue and expenditure details of the National Budget for 2006/07, I wish to comment on economic developments in 2005 and provide Government's economic outlook for 2006.

Recent Economic Developments and the Outlook for 2006

Mr. Speaker, 2005 has been a year characterised by natural disasters. It began in the wake of the Indian Ocean tsunamis of December 2004 and continued with a record breaking Atlantic hurricane season, devastating typhoons in the Far East and the horrific earthquake in Kashmir. While the full economic consequences of these events are as yet unknown on a global scale, we know that there has been a mixed impact on Bermuda's economy in the wake of the virulent and extended Atlantic storm season. Bermuda's hospitality sector was on track to have a good year in 2005 following a recovery in 2004 where a four per cent increase in real output was recorded.

However storm-related consumer unease combined with uncompetitive air fares from major U.S. gateway cities to Bermuda led to a small but nonetheless disappointing decline in air visitors in 2005. An increase in the number of cruise visitors provided a counter-balance that led to a 7.9 per cent increase in total visitors in 2005.

Bermuda's international insurance and reinsurance sector was also affected by the 2005 Atlantic storm season. The past year was the worst in history for insured catastrophe losses. Bermuda's insurance market was impacted by the losses and the new insurance cycle that unfolded in the wake of Hurricane Katrina. The massive storm caused an estimated \$100 billion of damage to the city of New Orleans and the broader U.S. Gulf Coast. The share of the final cost to Bermuda companies is expected to be in the range of \$10 – \$12 billion; but these losses will be fairly easily absorbed by the sector's capital base of some \$100 billion.

More significantly, with expectations that renewal rates for property and casualty lines would increase in the range of 50 to 100 per cent in the wake of Hurricane Katrina, a new insurance cycle took shape in the immediate aftermath of the massive storm.

There was a surge of new company formations in the Bermuda market during the fourth quarter of 2005. Around the world Bermuda is recognized as the domicile of choice for insurance business. The Bermuda insurance and reinsurance market has fully developed its mezzanine layer in the last five years and the market's substantial capital base has stimulated the diversification of product lines that extends well beyond excess liability coverage and property catastrophe protection. Newer lines include integrated occurrence coverage, punitive damages, secondary products recall and many others.

The tendency for new insurance capital to form in the Bermuda market is increasingly attracting the attention of the traditional markets such as Lloyd's of London. Very recently, the Financial Times reported that Lloyd's has proposed a radical overhaul of some of its business practices in an effort to cope with intense competition from rival insurance centres such as Bermuda.

Mr. Speaker, you may be aware that two of the largest insurers in the Lloyd's market, Hiscox Plc and Amlin Plc, established bases of operation in Bermuda during the fourth quarter of 2005. This development represents a substantial endorsement of the Bermuda market.

However, it also means that we must be ever mindful of and ready to respond to the challenges that will inevitably arise in those rival insurance centres that see Bermuda's enduring and sophisticated market as a threat. To quote the closing line from an article in The Evening Standard on January 17, 2006: "...there is something about the scale of the Bermuda challenge this time that ought to be noted by anyone with a concern for the long-term health and prosperity of the London insurance market."

The recent developments in the Bermuda insurance market have raised the level of investment in the market to more than \$60 billion. Therefore we must remain vigilant and be positioned to act in our own interests on all fronts. I shall return to the theme of protecting Bermuda's national economic interest in the international arena later in the Budget Statement.

Reviewing the developments in the entire external sector during 2005,

Bermuda's balance of payments appears on track to post a strong surplus on current account again in 2005. The current account surplus for the first nine months of 2005 was \$523 million. The 4-quarter moving total for the current account surplus for the period ending September 30, 2005 was \$620 million.

If the net foreign exchange receipts continue to accumulate at this rate, the current account surplus in 2005 could be at least \$75 million higher than the 2004 surplus of \$546 million.

Revised forecasts of GDP growth in 2005 by the Ministry of Finance indicate overall economic growth in the range of 2.5 to 3.0 per cent.

The rate of consumer price inflation averaged 3.1 per cent in 2005 compared to 3.6 per cent in the previous year. The moderation of the inflation rate in 2005 was good news for persons on fixed incomes and for consumers generally. If wage demands in all sectors of our economy are reasonable in the course of the coming months, this would help to contain cost pressures on local price levels in 2006.

However, overall price stability in 2006 also depends upon the relative stability of oil prices and the value of the U.S. Dollar.

The outlook for the U.S. Dollar in 2006 is not promising. While it held its value in 2005 due to the interest rate increases, which led to demand for the Dollar, the U.S. Dollar is expected to resume its downward trend against other major currencies in 2006. The main factor at work will be an anticipated further deterioration in the U.S. Balance of Payments. The U.S. current account deficits may have increased to about \$750 billion in 2005, and a further increase is projected for 2006. In Europe, the European Central Bank has already raised its key interest rate. With inflationary pressures strengthening, further increases are expected. Under those circumstances, more capital will flow to the Eurozone and less to the United States. As a result, the Euro would strengthen somewhat, and the U.S. Dollar would be weaker.

A similar situation may evolve in Asia. In Japan, economic conditions improved somewhat in 2005, and further strengthening is expected this year. If so, the long period of deflation may

be over. However, if the improvements lead to visible upward pressure on the general price level, the Bank of Japan may become less generous in allowing bank credit and the money supply to expand enough to meet the demand for funds. Under those circumstances, Japanese interest rates would rise, and the Yen would strengthen against the U.S. Dollar.

Taking these factors into consideration the Bermuda CPI is likely to track in the range of 2.8 per cent to 3.0 per cent in 2006. Preliminary results from the Annual Employment Survey indicate that the overall employment level increased by 1.2 per cent in 2005 following an increase of 1.8 per cent in 2004. The overall number of jobs in the economy was provisionally placed at 38,815 in 2005, reflecting a net addition of 452 jobs across the entire economy. Bermudians held 27,219 of these jobs or 7 out of every 10 jobs in our economy.

An analysis by sector shows that international business sustained its growth pattern in 2005 with total jobs increasing by 3.3 per cent to 4,207. 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 also remained very robust in 2005 with an expansion of 8.5 per cent in total jobs, which pushed employment in the busy sector to 3,503. Hotels posted an increase of 3.3 per cent and restaurants, cafes and bars registered an increase of 4.2 per cent year-over-year.

There was relatively strong growth in the business services and financial services sector, including the real estate sector with employment levels increasing in the range of 4.1 per cent to 4.5 per cent.

The public sector posted a decline in employment levels of 1.0 per cent in 2005 while the jobs in the transport and communications sector fell by 4.2 per cent.

However it was the retail sector that recorded the largest decline as it shed some 220 jobs – down by 6.3 per cent – in the wake of the Trimingham's closure.

In contrast to the decline in employment levels in the retail sector, gross turnover in the retail sector was very strong in 2005. The sector posted strong volume gains in 8 out of 11 months to November 2005. Gross turnover for the year is projected at \$637 million reflecting an increase of about 7 per cent year-over year.

After adjusting for inflation in 2005, the volume increase in gross turnover is estimated at 4.5 per cent, one of the strongest performances in recent years.

Mr. Speaker, I would like to add a footnote to the discussion of changes in employment levels, particularly for the benefit of Opposition Members who have used certain changes in the employment data for Bermudians to proffer weak arguments about failed economic policy. The 2005 Economic Review will show a further decline in the number of jobs held by Bermudians. It is important for observers to understand the underlying demographic factor that is driving and shaping this trend. Due to declining birth rates, the size of the Bermudian work force is shrinking. This means that there are more Bermudians retiring from the work force compared to the number of young Bermudians entering the work force for the first time.

We also know that projections of the work force over the next 36 years forecast a decline

from 40,000 to 32,000 by the year 2042. The trend is visible now as the number of jobs held by Bermudians has decreased from 28,900 in 2000 to 27,200 in 2005.

Mr. Speaker, by taking account of all of the facts, a thoughtful and thorough analysis of the changes in the employment levels of Bermudians suggests that demographic factors and retirement at age 65 are the main reasons for the declining numbers of Bermudians in the work force.

This is why Government is considering options that may provide those seniors who wish to continue working beyond age 65 the opportunity to do so.

Mr. Speaker, in 2005 the United States economy expanded by an estimated 3.6 per cent, which was slightly above its long term trend rate of 3.25 per cent.

Looking ahead through 2006, the American economy is expected to perform moderately well with GDP projected to increase by 3.4 per cent.

The interest rate environment is expected to tighten in 2006 following the increase in the target rate to 4.25 per cent in December 2005. In the United States, the Federal Reserve has adopted an anti-inflation posture and it is anticipated that the target rate could reach 5 per cent by the end of September 2006.

Canada is forecast to have fairly strong growth as well in 2006 with a consensus forecast of 3.0 per cent.

Mr. Speaker, GDP growth forecasts for the United Kingdom and Western Europe in 2006 are mixed and generally below 3.0 per cent except for Spain, which has had consistent GDP growth above 3 per cent for the last few years.

Forecasts for the Asian Pacific region converge on a growth rate of 3.9 per cent overall, but GDP growth in Japan is projected below that average at 2.0 per cent in 2006.

In Bermuda, the economic outlook in 2006 is favourable. International business has been buoyant for several years and the dynamic momentum is expected to be sustained throughout 2006. 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 recently announced by the Minister of Tourism and Transport together with the refocused marketing and promotion strategy bodes well for Bermuda's tourism sector in 2006 with the anticipated increase in air visitors.

Mr. Speaker, based on these encouraging factors Government forecasts Bermuda's GDP to expand in the range of 2.75 to 3.0 per cent in 2006.

Review of 2005/06 Revenue and Expenditure

Turning now to a review of financial developments in 2005/06, I wish to advise Honourable Members of the most likely outcome for Government's fiscal position in the financial year 2005/06.

The revised estimate of total revenue is \$798 million, approximately 6 per cent above the original estimate of \$750 million. The major revenue sources contributing to this favourable outcome were payroll tax, stamp duties, land tax and customs duty.

For 2005/06, payroll tax receipts have been revised to \$253 million, \$3 million above the original estimate of \$250 million. The yield from stamp duty has been revised upwards by \$15 million to \$48 million and customs duty is expected to be some \$14 million higher than the original estimate of \$203 million.

Very few shortfalls are projected for 2005/06 of which the most significant is the downward revision of passenger taxes, off by just over \$2 million from the original target of \$27 million.

Mr. Speaker, turning to current programme expenditure in 2005/06, total current expenditure has been revised to \$725 million which is about 2 per cent above the original estimate of \$711 million.

In summary, the supplementary estimates of expenditure in 2005/06 amount to \$14 million net. The details of the supplementary estimates in 2005/06 will be presented to Honourable Members during the course of the Budget Debate.

Mr. Speaker, you will recall that there were no increases to major tax rates in 2005/06. On the contrary, Government restructured payroll tax to reduce its burden on small and medium-sized businesses, reduced some rates of customs duty to give incentives to small businesses, restructured land tax to the benefit of the majority of property owners, instituted an exemption from land tax for seniors across-the-board and provided a tax shelter from stamp duty on the primary family homestead.

Consequently, Government was very cautious with its revenue estimate for 2005/06. Government relied on the underlying growth in the economy in order to achieve its revenue target, which was to be achieved through sound and careful macro-economic policy management. You may recall also Mr. Speaker, that during our first term the Progressive Labour Party Government repositioned the revenue base on firmer ground in 2001/02 by linking it more closely to dynamic and growing sectors of the economy.

In 2005/06 Government's macro-economic policy was sound. It stimulated further economic growth and the resulting fiscal outcome was favourable. The enhanced revenue outcome was used to fund a larger proportion of the planned capital expenditure programme rather than rely on debt financing. The ultimate effect of the improved revenue outcome was a reduction in planned borrowing by \$41 million. Instead of borrowing \$85 million as originally forecast, the capital borrowing requirement was reduced to \$44 million.

Government considers this outcome to be most favourable for tax payers and the public purse as both reaped the benefit of a lower debt burden and lower debt service costs.

The additional revenue in 2005/06 was invested in needed infrastructure that will pay social dividends to the people of Bermuda for many years to come.

Members of the Opposition who have commented on Government's excellent revenue record since the publication of the Mid-Term Review for 2005/06 seem to have missed this fundamentally important point.

Their comments have lacked the qualities of informed economic analysis and progressive social vision and perspective. Instead their comments have been laced with sarcasm, cynicism and dare I say a splash of jealousy. But Mr. Speaker, I digress!

Turning very briefly to public debt I wish to note 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.

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 3.7 per cent of GDP.

Mr. Speaker, Government proposes to retain the debt policy limit of 10 per cent of GDP. Last year, Government increased the statutory debt ceiling to \$375 million to bring it closer in line with the policy limit of 10 per cent of GDP. With GDP in excess of \$4.5 billion, the indicative policy limit for public debt would be \$450 million. However, Government does not plan to increase the statutory debt ceiling in 2006/07.

Given the nature of fiscal developments during 2005/06, Government anticipates that the net public debt outstanding at March 31, 2006 will be \$152 million, \$2 million higher than the \$150 million of net debt inherited from the last United Bermuda Party administration in 1998.

Mr. Speaker, that record of public debt management speaks to prudence and financial discipline! During our tenure in charge of the public affairs of our community, the Progressive Labour Party administration has been frugal and attentive to the fiscal values of fairness and equity.

Revenue Estimates 2006/07

Mr. Speaker, I turn now to the revenue estimates for 2006/07. Government proposes to collect total revenues of \$835 million in 2006/07, about 4.5 per cent higher than the revised revenue estimate of \$798 million for 2005/06.

Government does not propose to put through any significant increases in tax rates in the 2006/07 National Budget. Read my lips, Mr. Speaker – no significant increases in tax rates!

No increase in major tax rates...

With respect to the payroll tax, the standard rate of 13.5 per cent will remain the same in 2006/07.

Customs duties are expected to contribute \$228 million towards the total revenue estimate in 2006/07. Following further consultation with fishermen and other small to medium-sized businesses, Government has decided to amend certain tariff items to provide greater assistance to these businesses. This Government listens and seeks to address the concerns

raised in a prudent but people-friendly manner. We are delivering on our commitment to foster an entrepreneurial and enabling environment where business is free to prosper.

Further incentives for small business...

During the course of 2006/07 Government will finalise the details of an incentive package for local full-time commercial fishermen. The package will include access to duty-free diesel fuel as well as concessions on ice chests for storage of freshly caught fish and on packaging materials for transport and distribution of seafood.

Mr. Speaker, as I remarked earlier, the entrepreneurial spirit has been revitalized in the 'New Bermuda'. In an effort to nurture that spirit and in response to a specific approach, Government will amend the Customs Tariff to provide for a zero rate of duty on rolls of sheet steel that may be fabricated to turn out products of use to the construction industry. Local production of these products will help to save on cost and reduce waste in the industry.

Land tax is expected to yield \$51 million in 2006/07. 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 2006/07 fiscal year. The increased yield from the land tax is related to the new residential and commercial premises that have been added to the valuation lists recently or premises that will come on line during the course of 2006/07.

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

There will be no increases in bus and ferry fares in 2006/07. However vehicle licences will be increased by five per cent with effect from April 1, 2006.

Passenger taxes will also remain unchanged in 2006/07. Given the outlook for visitor numbers in 2006/07, Government estimates that passenger taxes and hotel occupancy taxes together will yield about \$37 million.

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 2006/07.

I turn now to the expenditure highlights for 2006/07.

The National Expenditure Budget 2006/07

Mr. Speaker, Government's total planned current account budget for 2006/07 is \$806 million. This represents an increase of \$95 million compared to the Original Estimate of \$711 million for 2005/06. The planned Capital Expenditure

Programme has a proposed budget of \$126 million of which some \$25 million is earmarked for housing developments in 2006/07. The community is demanding more from the Social Agenda and Government is responding.

Government is committed to realising the goals and objectives of the Social Agenda, namely:

1. Strengthening social cohesion in our community;
2. Developing and training Bermuda's youth;

3. Improving the quality of life of our senior citizens;
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.

Works and Engineering and Housing

Mr. Speaker, for many years the issue of housing has been a ‘hot button’ topic of discussion in all segments of our community. Government acknowledges that what it inherited in 1998 suggested there had been no singular consensus or coordinated effort to mobilise resources to address the Island-wide housing issues until this Government came into office. We also recognise that there was no singular consensus that clearly defined the housing issues.

Accordingly, Government advocated a participatory approach to address the outstanding housing issues, while at the same time allowing for the broader operational concerns of continuity and sustainability to be realised. This led to the formation of the Housing Initiatives Team or HIT as it is more commonly known, to address the chronic housing needs. The HIT team comprised representatives of the three housing Quangos, the Quango Consultant and the Ministry of Works and Engineering and Housing’s technical officers.

Coordinated housing strategy...

HIT devised a plan that details all proposed housing initiatives, which fall under the Bermuda Land Development Company, the Bermuda Housing Corporation, the West End Development Corporation, and the Ministry of Works and Engineering and Housing. This detailed plan incorporates all land requirements, funding issues, construction methods, delivery methods, and the like.

The team is proceeding to co-ordinate the delivery of the plan by working with the local financial institutions, the respective Quango Boards, the Planning Department, local and overseas suppliers, and local and overseas contractors.

HIT’s coordinated approach to housing has now been extended to Board level as well, with the amalgamation of Board seats at all three Quangos.

Since the launch of the Social Agenda, this Government has been committed to delivering on that mandate in relation to providing affordable housing within the context of sustainable development.

The results of the Ministry’s 2005 Housing Study revealed that the average Bermudian spends approximately 41 per cent of their gross income on housing.

Lower income households (those earning less than \$50,000 annually) pay a greater proportion of their income toward housing.

Affordable homes for Bermudians...

To ensure that even more Bermudians have a secure place to call home, Government will commence the construction of 330 new rental units over the next 30 months. The 330 units

will address those most impacted by the crisis, the lower income bracket households. This will mean that since 1998 and within a 10-year period, Government will have provided housing for over 1,100 Bermudian families.

The Bermuda Land Development Company will begin construction on the 200 unit Harbourside Village mixed housing development with 100 affordable units. Government has stepped in to ensure that the project proceeds and the Bermuda Land Development Company has assumed responsibility for its delivery.

The concept of utilising market sales to subsidise affordable units will be used on other projects to further deliver on Government's mandate to provide homes both for rent and sale to the middle class as well as lower income families.

The replacement of the homeless shelter with a new 200-bed facility on North Street will also commence in this financial year. In the National Budget 2006/07 funding has been provided for construction on this site.

Work will also begin on the replacement of the emergency housing facility at building 632 in Southside.

The Ministry is also in advanced negotiations with several developers to provide affordable housing for sale to first time homeowners as part of ongoing public/ private partnerships. One such affordable housing scheme project, that is contemplated by the Minister for Works and Engineering and Housing involves the construction of 96 residential units, as well as an on-site day care facility, with completed units then being sold to first-time home-owners. The anticipated sales prices range from four hundred thousand dollars to five hundred thousand dollars.

As an approved housing scheme, a provision in the Customs Tariff Act – introduced by Government in 2004 – will also be used to provide duty-free exemption on materials used in the construction of this affordable housing development. Government will not make a profit on this project. This is an example of a socially-conscious Government partnering with the private sector in the discharge of its mandate to do right by the people of Bermuda in a Social Agenda initiative – efficient delivery of essential services to benefit the people of Bermuda.

Like every Ministry in this Government, the Ministry of Works and Engineering and Housing is committed to ensuring that the promotion of the Social Agenda is at the heart of its initiatives and that human and financial resources are dedicated to this end. The Housing Strategy is a key component of the Social Agenda. The longer-term strategy is to increase the housing stock and the number of rooming houses by renovating derelict and vacant premises and building new units where appropriate.

In demonstrating its commitment to the provision of affordable housing in Bermuda, Government has allocated \$25 million in 2006/07 and has planned for an additional \$42 million in 2007/08.

In addition to the provision of funding for its Housing Strategy, the Ministry of Works and Engineering and Housing is to be provided with an operational budget of \$70 million in 2006/07. The increase in the Ministry's Budget for 2006/07 covers anticipated increases in property insurance premiums, roads resurfacing, the roll-out of the land title registration

programme, and the increased cost of vehicle maintenance.

Government has taken steps to increase flexibility in the housing market. It is recognised that as you review Bermuda's housing supply, that house building must rise substantially to reduce house price inflation and to increase the number of affordable homes. Therefore Government is working tirelessly to expand significantly the supply of affordable housing over the next several years.

Health and Family Services

The Ministry of Health and Family Services is provided with a budget of \$163 million in 2006/07. Sixty per cent of the Ministry's Budget, or \$97.5 million, represents transfers to the hospitals for subsidised medical care of seniors, youth and persons without the means to pay for medical services in the hospital.

New state-of-the-art facility for seniors...

Still within the Ministry of Health and Family Services, the St. George's Residential Care Facility for Seniors is scheduled to be completed in June 2006 and handed over to the Ministry to outfit with furnishings and fixtures. This new state-of-the-art facility should be open for use by seniors in the fall of 2006.

The Seniors' Rest Home has an operational budget of \$2.9 million. It will provide a complete range of living accommodation to seniors, including independent living, assisted living, nursing care, and skilled nursing care, which includes an Alzheimer's or dementia unit.

The Bermuda Health Council is provided with a budget of \$1.8 million. The Council's key objectives in its first year of operation are to assume the functions of the former Health Insurance Commission in a seamless transition. During the early months, the Council will be occupied with recruitment of staff and organising administrative, financial and information technology support systems.

Government's sensitivity to the needs of those who are disabled and/or less mobile provides the impetus for a ParaTransit Service. During this financial year, the Ministry of Health and Family Services will introduce a ParaTransit Service. The new service will cater to the transportation needs of Bermuda residents who, because of mobility impairment, cannot access other public transportation.

The Health Department will revamp its immunisation programme for infants and school-age children in order to prevent the occurrence of specific childhood diseases that are associated with high morbidity and mortality globally. The revamped programme will have a dual delivery mechanism to cater to both the public and private sectors of health care.

Within the public sector, the programme will be delivered through health centres and schools, by providing immunisations free of charge. As part of the package, developmental assessments, anticipatory guidance, and health education and health promotion will also be provided. The private health care sector will be linked to the programme through the provision of vacancies at cost to private physicians for administration to clients. The target population for the immunisation programme is birth to 17 years, irrespective of their point of entry to the health care system. A sum of \$219,000 has been earmarked for this programme.

Help for at-risk families...

An allocation of nearly \$1 million is provided to the Ministry for its Cross Ministry Initiative Team or CMIT. The CMIT programme is being set up to address the needs of at-risk families. Families, which agree to enter the programme will be assessed and will be provided with training in areas such as budget counseling, parenting skills, life skills, and vocational programmes. The intent of CMIT is to provide at-risk families with assistance to develop the skills to become self-reliant and less dependent on Government funding for their day to day needs – independence through increased skills. This cross-Ministry initiative with the Ministry of Works and Engineering and Housing will provide increased support for families and children to lift children out of poverty and to ensure they have the opportunity to make positive choices that will stand them in good stead in the long-term.

It is estimated that there are up to 100 families, which could benefit from the programme. The full benefits of the programme will be felt by families which are able to be housed as part of the programme, but the Cross Ministry Team will work with as many families as possible.

Mr. Speaker, you will be aware that there is world-wide concern about the potential spread of the avian flu to non-Asian countries. The Department of Health has been working with guidelines developed by the World Health Organisation (WHO) and the Pan American Health Organisation (PAHO) to prepare for the possible threat of an avian flu pandemic. Initial action plans have been produced, and a Pandemic Flu Committee will shortly be formed.

This Committee will include representatives from the Department of Health, the hospitals, the business community, as well as other essential service-providers.

This group will work collaboratively to ensure that a comprehensive response plan is prepared and distributed to policy leaders and decision-makers in the community.

Education and Development

Mr. Speaker, another key people-centered Ministry is the Ministry of Education and Development. The National Budget 2006/07 reflects a people-oriented focus with its emphasis on providing the necessary educational programmes and services to meet the needs of our children in our public schools in the best possible manner. Government is committed to raising the bar for the standard of public education in our community. In the increasingly knowledge-driven economy, a sound and progressive education provides the fundamental and essential platform for individual success and fulfillment.

Raising the bar in public education...

Our public schools from primary level to middle schools to senior campuses and on to the Bermuda College must provide Bermuda's young people with a command of language arts, mathematics, science, social studies and the performing arts so that they may lead rich and fulfilling lives and contribute to the further progress and development of our community.

Accordingly, education and training is a central focus of the Social Agenda. In this regard, a budget of \$132 million is proposed for the Ministry of Education and Development in 2006/07. The Education Budget is the second largest budget amongst Government Ministries and accounts for 16 per cent of the 2006/07 National Budget.

Of the total Education Budget, some \$115 million relates to administration and delivery of the curriculum at school level from pre-school to senior school. The bulk of this cost is represented by salaries and wages and other benefits for administrators, teachers and para-professionals.

Funding for special programmes and services is also included, such as the Diverse Learners Programme, Summer Programmes, Lion Quest, the Child Development Programme and the Bermuda Sloop Foundation.

In 2006/07 the Ministry of Education and Development will receive additional programme funding in the amount of \$7 million. Of this amount, \$1.3 million will go to the National Training Board and the Bermuda Careers Centre.

The National Training Board is a key institution in Bermuda's labour market. However, a recent review of the National Training Board highlighted the need for additional staff. Its programmes, apprentices, trainees, educational and industry partners were completely dependent upon only two post holders in the organisation. This was not sustainable.

Resource boost for National Training Board...

Accordingly, additional funding is being provided for the hire of additional staff which will include a Programmes Manager, a Standards and Enforcement Officer and Training and Assessment Officers.

The additional staffing complement will enable the National Training Board to carry out its full legislative mandate including, most importantly, undertaking the activities necessary to implement the National Certification System under the National Occupational Certification Act 2004.

The National Training Board, or NTB, as it is more commonly known, is one of the many unheralded Government success stories. It delivers vital services to the trades industry and the wider economy. The NTB provides many of our young people with additional opportunities in terms of job training, technical scholarships and career advancement.

Helping students to achieve is a key plank of the Ministry of Education and Development. New funding in the amount of \$1.7 million is to be provided to improve the measurement and reporting of student achievement and \$2.5 million of increased operational funding for aided schools in the public system: The Berkeley Institute, CedarBridge Academy, Sandys Secondary Middle School, St. George's Preparatory School, and the Whitney Institute.

Mr. Speaker, knowledge is power and good information leads to better policy-making. Accurate and unbiased information is one of the key elements required for decision-making on policy matters. Over the years, the Department of Statistics has produced a wealth of comprehensive data useful in the formulation and development of policy in many areas. In 2006/07, the Department will conduct a special survey of use to the Ministry of Education and Development.

To this end, the National Budget 2006/07 for the Cabinet Office includes an allocation of \$88,000 for the Department of Statistics to conduct a Bermuda Youth Survey. This Survey will gather information on the knowledge and views of students aged 11–18 years in the

Island's public and private schools. The data will be used to evaluate and formulate policies to assist our young people. The Survey will cover major areas, including family support, mentorship, youth aspirations, health, diet, the education system as well as the issues of peer pressure and crime.

Community Affairs and Sport

Mr. Speaker, our youth are the seeds of the future. The Ministry of Community Affairs and Sport is provided with a budget of \$24 million to further consolidate youth initiatives.

I would like to share with Honourable Members one of the relatively unknown successes of this Government's philosophy of putting people first. In 1999 the Bermuda National Library hours were extended to include evenings and Sundays at the Adult Library and Mondays at the Youth Library. These additional hours, as well as the introduction of free internet access to the public in both locations, have resulted in a remarkable 250% increase in library usage from 80,629 admissions in 1998/99 to 204,305 admissions in 2004/05. No doubt, the free access to the internet was a significant draw but the more user-friendly access hours were also a telling factor in the increased usage rate at the Bermuda National Library.

The advancement of the 'arts' and the preservation and promotion of Bermuda's cultural and folklife heritage are major pillars of the mandate of the Department of Community and Cultural Affairs. Tangible evidence of this can be seen in the sizeable funds this Government has earmarked as grants to be channelled to non-government organisations involved in the promotion of the arts, and/or heritage awareness and preservation. Grant funding of \$809,000 represents 20 per cent of the total Department's Budget allocation of \$3.9 million for 2006/07.

Grant recipients in 2006/07 include amongst many others the Bermuda Arts Council, the Bermuda National Gallery, the Bermuda Heritage Museum, the Bermuda Society of Arts and the St. George's Foundation.

The Department of Community and Cultural Affairs has expanded its programmes to include Folklife initiatives. In September of 2005 Government hired its first Folklife Officer. There are a number of new initiatives being developed, including the publishing of a poetry anthology, which will feature previously unpublished work of Bermudian poets.

The Community Education and Development Programme has for the last four years been operating two youth outreach programmes – Hands on Youth, and Teens Helping in the Community. They run for eight months throughout the academic school year and provide excellent development opportunities for our young people of middle/senior school age. Both programmes help to impart leadership skills to the participants. As well, the students must be involved in some aspect of community service. The value of these programmes are their positive impact on many of our young people. They have helped to shape and mould them and to encourage personal responsibility. These outreach programmes help to advance one of the major cornerstones of the Social Agenda: youth development.

Nurturing our youth...

Government has committed \$11 million over four years to support the Bermuda Cricket Board's campaign for the Cricket World Cup 2007, and preparations to enable it to be successful in the 2009 qualification tournaments for the 2011 Cricket World Cup. The

allocation in the 2006/07 National Budget amounts to \$3 million dollars. Development of the Ministry of Community Affairs and Sport's National Youth Development Policy continues, with \$91,000 set aside to further this initiative.

In the area of sports development, \$130,000 is provided to assist in meeting the needs of those programmes that assist on the ground in tangible ways in sports development. These programmes must contribute in accordance with our mandate to Bermuda's representation in the five international sports festivals, including the Olympic Games, Pan American Games, Commonwealth Games, Central American and Caribbean Games, and World Championships. In 2006, the Commonwealth Games and World Championships in various sports are planned.

\$44,000 is provided to the Commission for Unity and Racial Equality (CURE) to assist with the National Work Force Development Programme. This will enable CURE to collect the necessary data to inform targeted policies aimed at redressing the racial imbalance in employment. CURE will also be provided with \$125,000 to assist in the reactivation of CURB, Citizens Uprooting Racism in Bermuda. CURB arose in 1998 and sparked the development of a number of initiatives. CURE will work with community groups and individuals to continue this most important work.

Environment

Mr. Speaker, our social and cultural environs is connected to our community and physical environment. Our sustainability on one front – the social infrastructure is linked to issues pertaining to the sustainability of our physical environment.

Accordingly, the Ministry of the Environment is provided with a budget of \$25 million in 2006/07 principally for the purpose of sustaining Bermuda's interconnected physical environment.

Mr. Speaker, the Ministry of the Environment remains committed to expanding, preserving and enhancing open spaces around the island, be they large or small.

This commitment is reflected in the \$600,000 that the Environment Ministry has earmarked for acquisition or improvement of open spaces. Under the Community Areas Programme or CAP, the Ministry is proceeding with a small park facility in Harlem Heights, Hamilton Parish and an upgrade of Pig's Field in Pembroke Parish. The Ministry will also use part of these funds to remediate a salt marsh at Cooper's Island together with creation of a boardwalk with interpretive signage.

Preserving open spaces for people of Bermuda...

As part of an incentive for 'green' policies and in a cross-Ministry initiative, there will be an exemption from stamp duty where there is purchase of property for the preservation of open spaces for the benefit of the people of Bermuda. This is also consistent with the Social Agenda focus.

Mr. Speaker, the Ministry of the Environment is proposing amendments to the 35 National Parks Act 1986 to incorporate several parks under the National Parks System. Among these new parks is the proposed Cooper's Island Nature Reserve. Such

parks will be managed to the same standard as current park lands that the Department of Parks is responsible for. In order to accomplish this objective, an additional \$518,000 has been budgeted to assist with maintenance activities, including landscaping, trash collection, sanitation, and enforcement.

Encouraging offshore fishing...

Mr. Speaker, one of the proposals arising out of the White Paper on the Marine Environment and the Fishing Industry in Bermuda is the development of an offshore fishing industry. In that regard, Government has set aside \$300,000 to explore the feasibility of a local, Bermuda-based offshore fishery. The long term objective would be to increase the local production of fresh fish, to explore export potential, and to provide employment opportunities for Bermudians.

Another initiative stemming from the White Paper on the Marine Environment and the Fishing Industry in Bermuda is the need for shore-side facilities to support both offshore and current fishing activities. To address this need, the Environment Ministry has budgeted \$785,000 to establish one such facility at Marginal Wharf, St. David's, which will provide services and infrastructure to commercial fishery operations, including flake ice, blast-freezing and cold storage.

Sustainable development is vital to ensure a better quality of life for everyone and for future generations. The concept of sustainable development has expanded the environmental debate by requiring that economic, social, environmental and institutional issues all be combined, so that there is an integrated perspective on human progress. Government's Sustainable Development Project will be invaluable for future generations to come in charting a way forward.

Sustainable development for our country...

The Honourable Premier, W. Alexander Scott, JP, MP in a Ministerial Statement delivered to Parliament on Monday, December 6, 2005 stated and I quote: "Mr. Speaker, ensuring that development in any country is sustainable, is one of the greatest challenges of our time. Development must be sustainable in order to provide a foundation for a better quality of life for everyone, now and for generations to come."

As part of a global perspective, given the propensity of hurricanes to impact on Bermuda and the Caribbean region, the Premier has long advocated both locally and in international fora, that consideration be given to public and private sectors world-wide, working together to create a financial backstop programme that can assist vulnerable island economies. The underlying concept would see that funds accumulate in advance of catastrophes so countries are better prepared financially, given the devastation that can be wrought on small island economies.

To this end, the Premier has participated in some real discussions in this regard, with a view that given the considerable intellectual capacity that resides in Bermuda's insurance and reinsurance market, its 'leading lights' may be able to advance the debate in a meaningful way. No man is an island and this is a way to foster constructive solutions and corporate social responsibility.

Cabinet Office

Mr. Speaker, I turn now to the Cabinet Office. The overall budget allocation for this Ministry in 2006/07 is \$18 million.

The Cabinet Office is at the heart of Government, providing services to Cabinet, the Premier and Ministers of Government. It also co-ordinates initiatives on cross-cutting issues and acts as the Corporate Headquarters for the Civil Service by providing oversight services, advice and guidance for other Government Departments and by extension, the wider public.

London office to open...

The large increase in the 2006/07 proposed budget for the Cabinet Office is due to costs related to the proposal to establish a physical presence in London, England.

Government considers that the time has come to strengthen Bermuda's presence in London by opening a Government Office. Honourable Members should note that all of the British Overseas Territories with the noted exception of Bermuda and small Islands such as Pitcairn, Tristan Da Cunha and St. Helena, have had London offices for many years. This has strengthened their relations with the U.K. Parliament and business leaders and also provides a focal point for students studying in the United Kingdom.

In addition, the representatives of the Overseas Territories in London form the basis of the United Kingdom Overseas Territories Association which provides opportunities for all of the OTs to cooperate in matters of mutual interest.

As Government further considers how to better position Bermuda and to advance her national interests, the establishment of a physical presence in London is a logical and necessary step. The proposed London Office accounts for \$500,000 of the additional funding within the Cabinet Office Budget.

Mr. Speaker, earlier we referred to the key functions performed by the Department of Statistics. Another Department within Government that is a vital repository of data and resource material on Bermuda is the Government Archives.

Government Archives is provided with additional funding in the amount of \$260,000 for the development and roll-out of a Government-wide training programme in records management that will address the challenges of managing Government information in the electronic age. In addition, as part of the continuing strides in E-Government, there is funding for an initiative that seeks to enhance public access to collections at the Bermuda Archives through an e-cataloguing project.

Finance

Mr. Speaker, a budget of \$115 million is proposed for the Ministry of Finance in 2006/07. The Ministry's overall purpose is to supervise the economy of Bermuda generally and to provide overall financial management and control of all government activities.

From 1998, the Ministry of Finance's strategic goals have been:

- To facilitate balanced long-term economic growth and development through

disciplined macro-economic management.

- To safeguard Bermuda's economic interests in the face of challenges and threats in the global economy.
- To abide by fair and equitable fiscal rules in tax matters.
- To assure accountability in the expenditure of public funds.

To encourage innovation and re-engineering of business systems and procedures in Government to improve efficiency and service delivery. Competition in the global economy is intensifying and therefore the strategic goal of safeguarding Bermuda's economic interests is a high policy priority for the Ministry of Finance. Bermuda is highly regarded as an international financial centre and in particular we are now seen as 'the World's Risk Capital' with \$80 billion to \$100 billion of investment in the Bermuda market.

Rival insurance centres such as Lloyd's have taken note and some may say also that they have taken aim at Bermuda.

Promoting and protecting our national interest...

As part of the policy response to the markedly less congenial environment, the Ministry of Finance will take a more direct marketing role in the business development of Bermuda as a financial services jurisdiction. The Ministry will go out in the marketplace to achieve this and will strengthen its strategic partnerships with stakeholders through deeper networking and the collection and assessment of market intelligence. An additional allocation of \$1 million is provided to Ministry of Finance Headquarters to support this heightened level of service and activity.

Our commitment to dialogue is not limited to international fora, but also extends to the local domestic arena. There is the desire and keenness to ensure that people understand what is within the remit of the Ministry of Finance and the scope of the local policy issues, such as the openness of the economy, the competitive environment and the efforts to expand opportunities.

We anticipate clearer priority setting and the targeted focusing of resources to maximise the benefit to the people of Bermuda. We will continue to anticipate and to respond to the changing global regulatory environment. This is part of governing with foresight and anticipating the future.

The Bermuda International Business Association (BIBA) has fulfilled this important marketing function for Bermuda and has contributed to raising the Island's profile in the global arena of international business. While Government intends to continue supporting BIBA by grant funding, the BIBA grant in 2006/07 has not been substantially increased. The additional funding allocated for this vitally important function has been reserved for the Ministry of Finance to play a pivotal role in marketing Bermuda as an international financial centre, cognizant of Bermuda's national interest.

On the domestic front, the Ministry of Finance will team with the Bermuda Small Business Development Corporation and the banking community to stimulate enterprise in business and the roll-out of the 'Economic Empowerment Zones' in North Hamilton. The grant to the

Bermuda Small Business Development Corporation has been doubled to \$1.5 million to support the inter-related initiatives in this strategy.

As a Government, we are committed to providing high quality, accessible and responsive services to our public.

The Ministry of Finance will also implement more rigorous accountability mechanisms and measures to improve the control and deployment of Government funds to agreed policy priorities and to help assess the quality of programme outputs and outcomes. Value for money will be the overarching rule.

Mr. Speaker, the Ministry of Finance proposes to appropriate a sum of \$2 million as a contribution to the Health Insurance Plan's prescription drug benefit for senior citizens. The annual \$1,000 free prescription drug benefit available to each senior in HIP will be raised by 15 per cent to \$1,150 per year with effect from April 1, 2006. The contribution of \$2 million from general revenues protects the seniors enrolled in HIP from a premium increase of \$30 per month, which, otherwise would have been required to pay for the prescription drug benefit.

Mr. Speaker, in a related matter, Government will transfer \$2 million from the General Reserve Fund to replenish the accumulated cash balance of the Health Insurance Fund, which has absorbed the cost of the prescription drug benefit since June 2003. The accumulated cash balance was used to finance the prescription drug benefit, while the claims experience of the initial years was documented.

This \$2 million was earmarked originally for transfer to the Contributory Pension Fund to help finance the extraordinary pension increase of 9 per cent in August 2004. However, following a review of the financial position of the Pension Fund in August 2005, which included taking actuarial advice, the Ministry of Finance determined that the Pension Fund was not in need of the \$2 million injection.

Tourism and Transport

The second pillar of Bermuda's economy is tourism and the quality and array of services that Bermuda is able to offer our leisure and business visitors. This is key for the long term sustainability of our tourism sector. The Ministry of Tourism and Transport's total budget for 2006/07 is \$111 million.

Mr. Speaker, in addition to the disparate factors such as improved airlift and infrastructure, it is the people that make the difference. You may be aware that within the Ministry of Tourism and Transport, the Department of Tourism has undergone a major restructuring over the course of the last year or so. The resultant structure and organisation is more efficient and more responsive.

The Department now is positioned to deliver greater numbers of visitors to Bermuda.

Accordingly, a budget of \$40.2 million is proposed for the Department of Tourism in 2006/07, including an injection of \$2.5 million in new money. This will allow the Department to raise the intensity of its effect in the development of new geographic markets in Europe and South America and in positioning Bermuda as a year-round destination.

Tourism on the move...

The vital and strategic work to decrease airfares will also be sustained as lower airfares are one of the keys to success in the hospitality industry world-wide. The recent announcement in respect of the introduction of JetBlue to the Bermuda route is just one such example of Government's drive to expand the range of offerings to Bermuda's travelling public – residents and visitors alike.

Another key to success is diversification of Bermuda's tourism product. In this regard, and as part of its contribution to the Social Agenda, the Department of Tourism is a leading partner in a joint initiative to invest in and develop an area of Court Street into Bermuda's 'French Quarter' thereby economically empowering Bermudians and providing a novel product offering for our visitors.

Bermuda's tourism product is also to be enhanced by the introduction of a limousine service. During this Budget Session, the Minister of Tourism and Transport will bring an amendment to the Motor Car Act 1951 to add a category for a Limousine Service.

Introducing a formal Limousine category will provide luxury transportation services to meet the needs of both visitors and locals. The vehicles in this category would have the same dimensions as taxis, be well appointed and only black in colour. An informal survey of the local hospitality industry revealed a high level of support for this proposal.

Public safety a high policy priority...

Labour, Home Affairs and Public Safety

Mr. Speaker, public safety is a high policy priority and is therefore a key strand of the Social Agenda. Since 1998/99, the two successive Progressive Labour Party administrations have increased the funding level in the Public Safety Ministry from \$64 million in 1998/99 to \$96 million in 2005/06. Public safety continues to be a high policy priority. Accordingly Mr. Speaker, Government proposes to increase the budget for the Ministry of Labour, Home Affairs, and Public Safety by 8.5 per cent in 2006/07 to a total of \$104 million.

Over the period of our tenure as Government manning levels have been increased, communications systems improved through investment in new technology, and the Police Service has increased its public service levels.

Partly as a result of Government's commitment to public safety, Bermuda is a safe country in which to live with relatively low levels of violent and property crime.

Notwithstanding the relative comfort of this social condition, the issues of drugs and drug-related crime present a public safety challenge. Research conducted by the Bermuda Police Service has documented the link between criminal activity and drug dependency. There has been a budgetary allocation for an additional resource at the Assistant Police Commissioner level dedicated to addressing issues related to the scourge of illicit drugs.

Government's policy response is not only to maintain the level of support given to police functions, but also to enhance the rehabilitation services delivered to offenders while they are in our correctional facilities. One of the Ministry's core objectives is to return offenders to the community as law-abiding, contributing, self-supporting citizens who are unlikely to re-

offend. Therefore an allocation of nearly \$3 million is provided in the Ministry's overall budget for various programmes for inmates. These programmes include education, counseling and therapeutic regimens to assist the inmates in the rehabilitation process.

National Drug Control

The Ministry of National Drug Control is provided with a budget of \$4 million in 2006/07. This Ministry will work very closely with those agencies that deal with drug treatment and drug prevention programmes. There is a National Steering Committee that will provide support to this new Ministry that has a mandate to be pro-active in its outlook and outreach.

Telecommunications and E-Commerce

The Ministry of Telecommunications and E-Commerce is to be provided with an operational budget of \$11 million in 2006/07. One of the Ministry's high priority tasks in 2006/07 is to improve Government's IT Infrastructure through upgrades to network bandwidth to 100 megabytes at ten sites that includes Tynes Bay, Marsh Folly Waste Treatment, Child Development Centre and the Customs Yacht Reporting Centre. A sum of \$317,000 has been earmarked for this work.

E-Government expands...

A further sum of \$270,000 has been budgeted to expand the Government network to ten sites including all of the Health Clinics, Orange Valley, Opportunity Workshop, Brangman Home, and the Happy Valley Day Care Centre. This is consistent with the E-Government initiative that is designed to facilitate easier access by the public in its interactions with Government through improved communications linkages.

The E-Government initiative also facilitates on-line enquiries and on-line bookings such as the recently announced inter-active website at the Transport Control Department. Another example is the payment of taxes such as land tax and payroll tax. Greater efficiency and more options for payment should help to minimise the amount of receivables to the Consolidated Fund.

Justice

A budget in the amount of \$22 million is proposed for the Ministry of Justice in 2006/07. Part of the increase in the resource allocation is to cover additional training programmes aimed at preparing Bermudian lawyers for leadership roles in the Justice System. In addition, an amount of \$300,000 has been earmarked for additional Court space for Magistrates Court.

Capital Expenditure 2006/07

Mr. Speaker, as I stated earlier the capital component of the National Budget for 2006/07 is \$126 million. Of this amount, \$95 million, or 75 per cent, is for the continuation or the completion of existing projects that are already underway.

In 2006/07, the emphasis will be on completing capital works that have delivery dates in this financial year. New projects have not been added to the plan unless there was more than a reasonable chance of starting the project in 2006/07. The spending profile for included projects has also be refined to reflect the value of work that was reasonably expected to be put

in place during the year. As a result, the value of projects in the Capital Expenditure Plan for 2006/07 was reduced from an initial sum of \$180 million to \$126 million.

As a Government our aim has been to operate within parameters that are shaped by our desire to be efficient, transparent, fair, and responsible and to promote economic stability. The thinking is that we will promote capital investment, while also working to ensure the sustainability of public finances in the long term. In the medium term we are working to ensure sound public finances and that spending and taxation impact fairly within generations.

First things first...

To this end it should be noted that Government has curtailed all but the necessary number of capital projects. This is due to the recognition that we do not wish to unduly overheat the economy nor to adversely impact the labour market, especially in the construction industry given the consequent spillover effect on other aspects of our infrastructure. The phasing in of capital projects over a period of several years is realistic, reasonable and responsible.

Government will have growing fiscal obligations over the course of the next several decades. Also one recognises that there are a number of challenges that are visible on the horizon and that have the potential to threaten our economic and physical well-being. Accordingly, in looking at public expenditure you will note that not every want is going to be met. Not every desire is going to be fulfilled now.

Mr. Speaker, we recognise that as incomes rise so do expectations. Accordingly, we have sought to provide needed improvements in the quality of life for the people of Bermuda, in the provision of more affordable housing, seniors' homes, other enhancement of benefits for our seniors, the necessary renovations and building of our schools, the further development of our tourism and financial services products, our public transportation infrastructure, our local industries and the business environment.

We have sought to provide, not just for the required physical infrastructure, but also for the social infrastructure. Our fiscal policy is geared to underpin Government's public spending framework and is designed to facilitate proper long term national planning. This should serve Bermuda well. We have done this and sought not to put too heavy a tax burden or too heavy a debt burden on the people of Bermuda in the National Budget 2006/07.

The major projects that will be completed in 2006/07 include the Second Senior School, the new seniors' facility in St. George's, the foreshore protection work in Castle Harbour, runway grooving at the Bermuda International Airport and the fire safety upgrade to the Air Terminal Building. Work on the new Hamilton Police Station and Courts is due to begin in May 2006.

Of the \$32 million in new projects, two-thirds of that allocation or \$20 million is for housing. In addition, a \$1 million capital grant to the proposed Sandys Secondary Middle School Community Centre is included in the new funding in 2006/07.

Other projects in the plan for the first time include renovations to Fort St. Catherine and Fort Scaur. Planned renovations for Fort George and St. David's Battery have been scheduled for the following year in 2007/08. As noted earlier, \$500,000 is earmarked for work on shore-side facilities at Marginal Wharf in support of the local fishing industry. An amount of \$350,000 is set aside in 2006/07 to begin remedial work on the Pembroke Canal to reduce

flooding during heavy rainfall. A capital grant in the amount of \$300,000 to the Bermuda College is also provided in the 2006/07 capital budget.

Mr. Speaker, the combined total of the current and capital components of the 2006/07 National Budget is \$932 million. With estimated revenue of \$835 million and cash in hand of \$11 million, the projected borrowing requirement in 2006/07 is \$86 million all of which will be used to finance the unfunded elements of the capital budget, namely, the investment in hard assets represented by schools, facilities for seniors, infrastructure work, government buildings and vehicles and equipment.

Conclusion

Mr. Speaker, the 2006/07 National Budget marks another historic point in Bermuda's social development. During the seven year period of sound economic management by the Progressive Labour Party administration, Bermudians have enjoyed increases in income and wealth, home ownership has risen, home improvement projects have been completed, overseas vacation travel has increased, pensions for senior citizens have improved, school facilities have been modernised and businesses have prospered.

We are a small, successful country that has attracted the not-so-friendly attention of some other jurisdictions and traditional centres of economic power. We must be able to respond fully and effectively on all fronts, including the international arena, if we wish to lock in our achievements and aspire to greater levels of economic security and social well-being.

The National Budget 2006/07 is grounded on continuing to build on the firm economic foundation, and in forging a stronger and more positive economic reality for the people of Bermuda. Steadiness brings confidence. Our aim in the National Budget 2006/07 is to usher in an 'Age of Empowerment'. Even more important than economic power is the power of ideas, the power of compassion and the power of hope, coupled with real opportunities on the ground.

Our young people come to us wanting to change the world. It is our job and responsibility to provide them with the necessary tools so that they can make a difference and so that they have the necessary opportunities to be able to excel. In an increasingly knowledge-driven global economy, we wish to ensure that our young people have the opportunity to make the most of their talents and to make a difference in their community. That is our awesome task. We are in the business of turning hopes and dreams into reality. That is the overarching framework of National Budget 2006/07. Our senior citizens have helped to change the world. They have helped to make Bermuda a better place for those who come behind. They have done this by dint of hard work, by stick-to-itiveness and by patience and a commitment to serving their community. We have much to learn from our seniors.

Our institutions want to be able to compete effectively in the world. Globalisation is a fact of life – you cannot escape from it, you cannot hide from it. So it means that our educational, financial and commercial institutions must ensure that they are ready, that they have the tools to compete – the right people, policies and programmes. Our job as Government is to create an environment for hope, compassion and opportunities to flourish and for success to materialise for the people and businesses of Bermuda.

This Government is an enabler. We provide the necessary framework of governance, whether

by the regulatory and legislative framework, the laws and policies we pass and by making the necessary funding available. The National Budget 2006/07 is the lynchpin – providing the funding to support the key decisions that Government has taken on a number of fronts:

- the investment and commitment to building homes and a raft of affordable housing schemes to provide necessary options for Bermudian families in need, whether on a rental or purchase basis or for emergency shelter;
- the investment in upgrading seniors' rest homes and in providing a Social Agenda security net for persons who need financial assistance and shelter;
- the investment in education – our teachers and children – and the long term investment in our education infrastructure;
- the investment in the National Work Force Development Programme that will assist and provide increased employment opportunities to Bermudians;
- the investment in and enhanced funding of seniors' HIP prescription drug financing to a prescribed limit;
- the investment in safety, security, law and good order by resourcing necessary initiatives, aimed at enhancing the safety of the people of Bermuda and her visitors and to measures aimed at eradicating the scourge of drugs;
- the investment in tourism marketing and re-branding and Bermuda's onisland tourism product and in efforts directed at significantly increasing air-lift and in diversification of local transport options for the benefit of both the residents of Bermuda and her visitors;
- the investment in our telecommunications infrastructure and efforts to continue to better serve the consumer;
- the investment in addressing our environmental degradation and in promoting environmentally friendly and community-sensitive policies including community renewal projects such as the Community Areas Programme (the 'CAP Programme'); and
- an investment and commitment to enhancing the quality of our community life and to promoting our culture and to funding youth sports development, especially in our two national sports.

All these initiatives and more speak to the PLP Government's commitment to creating a strong platform for economic stability and to continuing to build on a firm economic foundation.

Economic stability provides the platform for building prosperity, achieving social justice and opportunity for all and for maintaining investment in world class public services. Our goal is to make the economy work for the people of Bermuda – consumers and business alike in a way that operates fairly and that benefits our young people and seniors. There are no 'magic bullets' with which to address the challenges in the long run.

When you truly believe in an ‘Age of Empowerment’ your intent is not to protect turf, to resist change, to build empires, to enlarge one’s sphere of control or to protect projects and programmes that are no longer relevant.

In this National Budget 2006/07, we are building on a firm economic foundation and aiming to promote a real ‘Age of Empowerment’ – an age where our people realise and acknowledge that we can do for ourselves. A recognition that we can achieve in our businesses and that we can succeed on our own terms, given our abilities, aptitude and attitude. That is true empowerment – a sense of self, a belief in self, a sense of direction and of moving forward together for the same goal with a deep and abiding faith in the future.

The National Budget for 2006/07 does this: it provides the funding wraparound so that Government has the ability and the financial wherewithal to truly usher in the ‘Age of Empowerment’.

Mr. Speaker – thank you.