

2011 BUDGET ADDRESS

“From Whence We’ve Come”



Introduction

1. Mr. Speaker, I move that the Bill shortly entitled, the Appropriation (2011) Act, 2010, be read a second time and in so doing, I invite this Honourable House to extend its customary indulgence in permitting me to read the Budget Address.

Past Budgets

2. Mr. Speaker in our constant journey and evolution as a Territory, it is important that we sometimes take a close look at the progress we have made over the years. In reflecting on the myriad and complexity of issues with which we are confronted today, I reflected back on the addresses made by distinguished Virgin Islanders who once held the position that I now hold, in their capacity as Minister of Finance. Mr. Speaker in the Budget Address of 1982, the Honourable H. Lavity Stoutt found himself at a crossroads when in the early part of 1981, the Territory had found itself with a Double Taxation Agreement (DTA) that, after having being ratified by the Government of the Virgin Islands six (6) days after being signed in Washington on the 18th February 1981, had been rescinded by process in the US Senate.

3. Mr. Speaker the budget that the then Chief Minister was presenting was to the tune of an anticipated revenue of fourteen million, seven hundred and fifty thousand dollars (\$14,750,000), and anticipated expenditure of fourteen million, five hundred and thirty six thousand dollars (\$14,536,000). This is less than one month of our operational expenditure today.

4. Mr. Speaker the significance of that particular Budget Address, though while perhaps not apparent at the time, is that it signaled the beginning of a chain of events that would

catapult the Virgin Islands to one of the premier destinations of the world in the provision of international financial services. In the following year Mr. Speaker, the Hon. Stoutt again voiced his displeasure at the negotiation process in respect of a Double Taxation Agreement (DTA) with the United States, but with revised revenue provisions that resulted as a consequence of the implementation of recommendations of a Fiscal Review Committee in the prior year, projected revenues were now up to seventeen million, four hundred and forty seven thousand dollars (\$17,447,000), reflecting projected growth of some eighteen percent (18%).

5. Mr. Speaker our double taxation relief arrangements with the United States came to an end on 1st January 1983. This facility had been a mainstay of the BVI economy for some years, Mr. Speaker with many companies using the DTA between the United States and the Virgin Islands as an attractive tax planning tool. After strong growth performance between 1979 and 1981 that had in effect allowed us to come off of grant aid, we were facing a challenge that could affect our optimism for a stronger economy and better way of life for our people. This however was the catalyst for the application of the ingenuity and resourcefulness that has served this Territory so well over the past decade, and has resulted in the economic success we now experience.

6. In his Budget Address of 1985, the then Chief Minister the Honourable C.B. Romney referred to a promise made and which he subsequently kept in introducing the International Business Companies Act (Cap. 291) that came into force in August of 1984. This Ordinance and its subsequent repeal and replacement of the BVI Business Companies Act, 2004 has served us well Mr. Speaker, and in addition to our tourist industry can be traced directly to the phenomenal growth and strong economic performance we saw in the late 1980's, in addition to our resilience in the face of the devastating effects of the fiscal and economic crisis of the past two years. Today we face the shifting goal posts of groups such as the OECD, who though not perhaps not unjustified in the principle behind their actions, will require

that we have more advanced thinking as we begin to forge new ground in serving the clients who currently use our financial services regulatory regime.

Looking Towards the Future

1. Mr. Speaker, history in a manner of speaking, has replicated itself, in terms of the new challenges that we now face, and the absolute necessity for us as a people, and for this House of Assembly as their elected leaders, to make a paradigm shift. To serve as the springboard for this Mr. Speaker, I maintain that a few fundamental things must occur. I crave your indulgence Mr. Speaker, as I mention them.

Fiscal Sustainability and Financial Stability

1. The first of this Mr. Speaker is macro fiscal sustainability and financial stability. Mr. Speaker, it is unreasonable to believe that the Virgin Islands can survive in this global economy without making determined and well coordinated efforts to ensure that our economy remains viable, that our financial systems remain resilient to shocks whether internal or external, and that our people and clients from afield are confident in our systems.

2. Mr. Speaker the introduction of the Securities and Investment Business Act (SIBA) was a first step, and the deposit insurance scheme, the legislation for which is expected to be introduced in this House in the very near future, is another part. We must ensure that our people have the assurance that in the event the unlikely happens, that their deposits are secure.

3. Equally important is the establishment of a medium to long term fiscal strategy that sets out a comprehensive fiscal plan that will be used to guide our decisions and promote the most effective and efficient allocation of resources while ensuring that our actions are sustainable in the medium and long term. This policy will define specific targets for debt, operational cost, developmental costs and the relationship between Central Government's

revenue and expenditure patterns relative to the performance of the economy itself. I can say at this point Mr. Speaker, that the funding of the Reserve and Pension Funds will be tied directly to the projected budgeted revenue, with allocations being made to these funds before any other allocations are made. The goal in these two instances, Mr. Speaker is to grow the reserve fund to at least thirty (30) days of projected annual operational revenue within the next two to three years, and for Central Government's accruing pension liability to be reversed within the next five (5) years. The defined benefit scheme which we currently use to compensate our pensioners will be phased out over a specific period which is yet to be determined, and replaced with a scheme that is sustainable and funded as the liabilities accrue. Parastatals will be tasked with producing for this Government's approval, a three to five year strategy that demonstrates a workable plan to eventual self-sufficiency, being thus no longer dependant on Central Government for subventions to fund their operations.

4. Mr. Speaker Cabinet recently commissioned a Select Committee headed by myself to bring forward strong proposals for the growth of revenues in Central Government. While I will not go into the details of the report that was produced, I can say that it became very clear that the Government of the Virgin Islands has been subsidising for some time now, the provision of many of the services for which it charges fees, with revenue from direct taxation and financial services. The time is now ripe, with some notable exceptions, for us to raise the fees which are charged for services provided to levels that match the cost of providing that service. In concert with this must be a renewed focus on performance, thus ensuring that service delivery standards that were set to calculate the requisite fees are met consistently, that the cost of providing the service is reflective of the price paid for it, and that our clients are satisfied. Additionally, Cabinet recently approved the Innovate and Save Initiative, which is meant to harness the ideas of all stakeholders in coming up with ideas for revenue increases and expenditure cuts in the Civil Service. An exercise much like this one was

recently completed in the United Kingdom, and we expect that the same level of participation and innovativeness will occur in the Virgin Islands.

5. Finally Mr. Speaker, you can expect that in the financial services and tourism sectors we will continue to enhance our products through diligent, continuous improvement, vigilance and ingenuity.

6. Our commitment to cooperation and transparency in the financial service industry remains at the forefront of our strategy in the financial services sector, while we will redouble our efforts to seek new opportunities for development in the financial services arena. The Virgin Islands is not at all interested in just compliance with the established goal posts, but instead in ensuring as much as is possible, that only legitimate business transactions occur in these islands, that this jurisdiction is a bastion against money laundering and the financing of terrorism and remains as a no man's land for the ethically challenged. While we will continue our efforts in maintaining a good reputation internationally with respect to the quality of our industry, more importantly we are doing everything possible to ensure that our industry is second to none in establishing the best mix between robust regulation and supervision and the opportunities for business that our regime can provide.

Social Protection and Cohesion

1. Second, Mr. Speaker, is social protection and cohesion. Mr. Speaker you will recall my comments in the Budget Address of 2010, in which I stressed the importance of the trust and mutual respect for our national systems and each other. Mr. Speaker, the importance of a strong sense of nationalism and pride is an important building block for any society. We must therefore promote this sentiment in our citizens. We must continue to promote knowledge of the achievement of our predecessors. From this soil came the likes of such national heroes as the late Noel Lloyd whose leadership allows us to walk freely on

Wickham's Cay today. From these shores came the design of the US Capitol Building. Our shipwrights were noted for their skills throughout the Caribbean, and our sea captains navigated its seas in conditions that were sometimes extraordinarily difficult. Among our sons and daughters are professionals who are noted for their knowledge and skill in certain spheres of the international community.

2. Mr. Speaker, I also speak of our norms and general outlook towards life that we sometimes describe as our culture. It must be preserved if we are to survive as a cohesive unit in these islands, and though we welcome those who choose to come and want to be a part of our society, we urge that they understand that our identity and expectations are unique to us and must remain.

3. Mr. Speaker, the new Labour Code that was passed in this House earlier this year is a turning point in the history of these islands. In it is enshrined the tools to provide the requisite safety nets and promotion of fair-play, that ensure that all in the workplace are treated fairly and respectfully. It has, for example, in effect legislated a National Pension Scheme, which is meant to ensure that in their twilight years, all who have toiled in these islands to make a living can be assured of an income.

4. The National Health Insurance Scheme is well on its way to eventual full implementation, another commitment and promise made to the people of this Territory. In concert with this Mr. Speaker, and as an added facet to ensure its affordability, in 2011 you will see a stronger commitment to the promotion of lifestyle changes that reduce the proliferation of chronic diseases such as diabetes, liver and heart disease in the Territory. These diseases are affecting the quality of life of our people, have been shown empirically and medically to be directly linked to lifestyle, are affecting our productivity levels and are costing Central Government millions of dollars in corrective medicine each year. Mr. Speaker I must admit that I subscribe to the statement, that *it is better to prepare and*

prevent, than to repair and repent. The Ministry of Health has already progressed significantly on this initiative and you should be seeing the fruits of this work shortly.

5. Mr. Speaker, there is also a disturbing trend in the Virgin Islands today, and indeed the entire Caribbean region, concerning the young males in our society, where we are seeing a consistently worsening trend of young men in our society not achieving tertiary or even secondary level education, and increasing numbers of them existing on the margins of mainstream society. Mr. Speaker, this is not a passing cloud, but a gathering storm, that, if not arrested, will destroy the fabric of our society. It is an issue that requires commitment and resolve from the society at large, and I am expecting that the Ministry of Health and Social Development and the Ministry of Education and Culture will be proposing initiatives in the very near future to treat with this societal ill.

6. Even so, Mr. Speaker, education and training will continue to be a cornerstone in the development of our people, as we seek to develop all aspects of our youths' development, academics and extracurricular programmes. One of the major cornerstones of any society's development is the harnessing of the intellectual capacity of its human resources, and Mr. Speaker we are harnessing this power at every stage of our people's development. This means, as well, that the infrastructure required to provide this development will have to be maintained and developed. The initiatives facilitated by this budget will ensure that this is the case.

7. Perhaps controversial as well, Mr. Speaker, is the promotion of this safety net through the provision of systems to provide for food security. I say controversial Mr. Speaker, since even as the building and pending commissioning of greenhouses on Tortola and Virgin Gorda are being pursued in respect of this particular point, yet this purpose and rationale have not met with a national consensus. Furthermore, we are open to proposals to harness the bounties of our territorial waters to promote this concept even further, and any

environmentally friendly and sustainable proposal that does this will be met with eager anticipation and incentives by this Government.

Innovation

1. Finally Mr. Speaker, is engendering a culture of innovativeness.
2. Previously I mentioned the Innovate and Save Initiative, but whereas this is a programme that is focused on the public sector, there must be a wider consensus and culture of entrepreneurship and innovativeness in our society if we expect to maintain and improve our standard of living. To this end, Mr. Speaker, during the last annual general meeting of the National Bank of the Virgin Islands, I stressed and highlighted the absolute critical need to have the developmental portfolio that is to be administered by that bank on behalf of the Government of the Virgin Islands operating aggressively to assist startup and small businesses in the Virgin islands. I was assured that their proposal to bifurcate the National Bank of the Virgin Islands, in order that the fund could benefit from the expertise and administrative structures of the bank while at the same time having its balance sheet being separate and apart from it, would fulfill this requirement in the most efficient manner. The movement or utilization of premises that would allow them to offer the wide range of services that the other commercial banks in the Virgin Islands now offer, is also a high priority matter, and I expect that significant progress in this regard will be made in the coming months.
3. Mr. Speaker, I am pleased to say as well that the Financial Services Commission has lived up to their international reputation as a premier regulatory institution in the supervision of this bank and its operations, and also recently approved the various required documents in this regard, foremost of which was its strategic plan. Please be assured Mr. Speaker that no stone will be left unturned in ensuring that this institution operates and is managed at the highest standards. I am also very pleased with the service that our other commercial banks have been providing in this Territory, and would like to take this

opportunity to encourage them to continue to provide and to improve on the assistance they have been giving the citizens of this Territory.

4. The intent, Mr. Speaker, is to provide an environment in the Virgin Islands that is business friendly, encourages resourcefulness and provides value added services. It is therefore my charge to all that we seek not to change the natural attributes of these islands, but instead to enhance them through the ingenious use of our natural environment and its endowments. The purpose here Mr. Speaker is to add value, whether it is through the mere enhancement of the natural environment we live in, or in creating services that allow us to sell the experience of enjoying it in a sustainable way.

5. Recently some of the major cruise lines announced a reduction or elimination of some of their sailings to the Caribbean, and though in an economic sense this particular industry is not a large part of our Gross Domestic Product, it does provide for the livelihood of a significant part of our population. Even though we will continue to pursue this industry and provide incentives for its development, we must at the same time develop aggressively our tourism product in other areas. One of these must be the addition of a major resort to the main island of Tortola, an idea which was incubated in the past, and one which I have already begun to pursue aggressively.

6. Mr. Speaker these building blocks of *financial stability, social cohesion and innovation*, can serve us well, and with hard work, strong debate and mutual respect for each other, I am sure that we will arrive at a place that is beneficial to all. These are the cornerstones on which this budget that I present before you are built.

The Economy

1. Allow me then Mr. Speaker, to now put it in the context of the economy of which we are a part.

2. The year 2009 was a challenging one for the Virgin Islands as the slow recovery process began following the worst global economic crisis in recent history. Nominal GDP in the Virgin Islands fell by \$115.7 million to \$876.3 million in from the previous year resulting in an 11.7 percent decline in overall economic activity in the Territory. Interestingly, a reduction similar to this occurred between 2002 and 2003 as a direct result of the economic uncertainty after the September 11th terrorist attacks in the United States. Reduced tourist arrivals and financial services business contributed greatly to the short-falls in output in 2009 and negatively impacted industries such as construction, real estate and wholesale and retail, which are heavily dependent on the robustness of these two sectors. Preliminary summary statistics from the Development Planning Unit indicated that total visitor arrivals were down by approximately eight point three percent (8.3%) in 2009 from 2008. As a result of this, tourism expenditure decreased by an estimated seventeen percent (17%) between 2008 and 2009. Similarly, in the financial services industry, company incorporation figures followed the same trend. Incorporations were down by twenty three percent (23%) in 2009 when compared to 2008. However, the overall impact on Government revenue was less substantial since the number of active companies registered in the Virgin Islands in 2009 remained in the region of four hundred and ten thousand (410,000) thus allowing for re-registration income to remain strong. Government revenue decreased by some four percent (4%) as a result of the nominal reduction in fees from the financial services sector as well as a fall in tax receipts (such as Payroll Tax, Import Duties and tourism related taxes).

3. Mr. Speaker, on a positive note, average prices for goods and services in the Virgin Islands rose by approximately three percent (3.0%) in 2009 compared to seven point five percent (7.5%) in 2008. Declines in international commodity prices including crude oil in the first half of 2009 as well as the reduction in demand for goods and services worldwide in 2009 has resulted in lower inflationary pressures in the Virgin Islands as well as other countries in the region and worldwide.

4. I am pleased to indicate however, Mr. Speaker, that the Virgin Islands economy showed signs of recovery in 2010. Based on provisional statistics for the first half of 2010, tourism arrivals have increased by four percent (4%) and company incorporations by approximately thirty three percent (33%). The increase in tourist arrivals for the first half of 2010 was fueled by increases in overnight tourist arrivals which rose by approximately ten percent (10%) when compared to the same period in 2009. Continued growth in this sector is highly dependent on the performance of the tourism industry during the last two (2) months of the year (November and December 2010) which represents the beginning of the 2011 peak tourism season. Government revenue from the financial services sector continues to be robust. Figures for the first three quarters of the year indicated that total revenue collection for 2010 should not be less than last year where approximately one hundred and sixty four point seven million dollars (\$164.7m) was collected.

5. Mr. Speaker, forecasts had indicated that the economy should grow by an estimated six percent (6%) in 2010 given expected growth in the tourism and financial services industry. Increased economic activity in these two sectors should filter into other industries such as construction, real estate and wholesale and retail resulting in their growth in 2010. Inflation is expected to remain low between two (2) and three (3) percent in 2010.

6. In terms of the coming year 2011, expectations for the Virgin Island's economy are highly dependent on the extent and pace of recovery of the United States, European and Asian economies. If the United States economy in particular, suffers additional setbacks this could have significant implications for growth prospects in the Virgin Islands, since the majority of trade activity in goods and services originates from this market. Mr. Speaker, the Virgin Islands economy is forecasted to grow between four (4) and five (5) percent in 2011 based on growth projections in the United States and anticipated expansion of the tourism and financial services market and subsequent increases in Government expenditure and household consumption.

7. Inflation is expected to continue along the same path as 2010 (between two (2) and three (3) percent) unless there are significant upward changes in the US inflation rate.

8. With this backdrop, Mr. Speaker, I can now get into the merits of the relatively conservative budget that I am presenting to this Honourable House today.

Budgetary Allocations

1. Mr. Speaker, the budget¹ being presented today illustrates in figures, the road map that I laid out in the former portions of this address. First of all we have projected revenues² for 2011 to be some two hundred and eighty seven million, eight hundred and eighty four thousand dollars (\$287,884,000) while operational expenditure is expected to be two hundred and sixty million, fifty one thousand, and six hundred dollars (\$260,051,600). This leaves a surplus on operations of twenty seven million, eight hundred and thirty two thousand, and four hundred dollars (\$27,832,400). Mr. Speaker, of this sum, twenty million, eight hundred and thirty two thousand, four hundred dollars (\$20,832,400) is to be contributed to the Development Fund. Contributions to the Pension and Reserve Funds have both been increased for 2011 with these amounts totaling four million dollars (\$4,000,000) and two million, three hundred thousand dollars (\$2,300,000) respectively. In addition three hundred thousand dollars (\$300,000) each will be contributed to both the Emergency/Disaster Fund and Contingencies Fund and one hundred thousand dollars (\$100,000) will be contributed to the Repairs and Renewal Fund.

Public Debt

1. In regard to Public Debt, Mr. Speaker, our projected annual debt servicing obligations of seventeen million, two hundred thousand, and four hundred dollars

¹ See Appendix I for Cash Flow Statement.

² See Appendix II for brief notes.

(\$17,200,400) for 2011 has increased by 13.2% up from fifteen million, one hundred and eighty-seven thousand, and eight hundred dollars (\$15,187,800) in 2010. Public Debt will now stand at one hundred and thirty-six million, two hundred and ninety-seven thousand, five hundred and eighty-three dollars (\$136,297,583). Mr. Speaker, of this debt, Contingent Liability which is Government guaranteed debts of Statutory Authorities, Government Corporations and Companies accounts for twenty-three million, one hundred and ninety-eight thousand, four hundred and thirty-five dollars (\$23,198,435).

2. For reference purposes, Mr. Speaker, I would like to remind this Honourable House that the Borrowing Guidelines³ agreed with Her Majesty's Government sets a ceiling of ten percent (10%) of projected recurrent revenue on debt servicing, net debt at eighty percent (80%) of recurrent revenue and a floor of twenty five percent (25%) of recurrent expenditure for our liquid assets. I am pleased to state that even though the recent global fiscal crisis and a conscious decision by us to bridge the recessionary period with more Government participation in the economy has caused us to go below the floor on liquidity, compliance with the other ratios remain. We expect to correct this anomaly in 2011.

National Physical Infrastructure

1. Finally, Mr. Speaker, is the matter of our national physical infrastructure. If the events of the past month have illustrated anything it is that our current infrastructure must be enhanced. This fifty year event has mandated that we take a new look at the way we design our roads, bridges and retaining walls. The year 2011 will be one of rebuilding, and we have already begun discussions with various institutions for financing to cover this massive undertaking. A critical part of this programme will be the development of new designs for our physical infrastructure that have as a significant component, the natural water flows and soil mechanics unique to the Territory. We are also hoping that visible

³ See Appendix III for Borrowing Guideline Ratios.

inroads can be made into our water and sewerage crisis through proper coordination with the rebuilding programme. We will use this rebuilding programme as an opportunity to hone the existing skills of our contractors, and will be a major part of our economic recovery goals in the first half of 2011.

Reflections

1. Mr. Speaker, this Territory has grown significantly over the past twenty years, and we have adapted, met many challenges and have always been able to thrive. I am certain that we will continue to forge ahead with the same principles that have allowed us to weather the storms that buffet us.

3. Mr. Speaker, I would like to thank the many organisations that have contributed to the success of, and resilience in the face of the challenges that this country has experienced in the past year, from the Civil Service, local NGOs, the private sector, and regional and global organizations. Further, to avoid the risk of leaving anyone unmentioned, I will merely say, on behalf of the people of the Virgin Islands, that I extend a heartfelt thank you and deepest appreciation.

4. Finally, I would like to thank the people of this Territory, whose patience and belief in the systems of this Territory have contributed to relative peace and tranquility in a global environment where strife and uncertainty prevail. May God bless us all.

5. Mr. Speaker, thank you for your indulgence, and on behalf of my colleagues, I present to you this budget.

APPENDICIES

APPENDIX I

WHOLE OF GOVERNMENT FORECAST FINANCIAL STATEMENTS

GOVERNMENT OF THE VIRGIN ISLANDS

FORECAST CASH FLOW STATEMENT FOR THE YEAR ENDING DECEMBER 31, 2011

	Note	2011 Budget \$000	2010 Est. Actual \$000
OPERATING CASH FLOWS			
<i>Operating Receipts</i>			
Coercive Revenue	1	269,994	255,778
Trading Revenue	2	16,620	16,905
Investment Revenue	3	490	390
Other Revenue	4	780	530
<i>Total Operating Receipts</i>		287,884	273,603
<i>Operating Payments</i>			
Personnel Costs	5	(125,715)	(126,394)
General Operating Costs	6	(67,755)	(63,611)
Grants to Statutory Boards	7	(48,106)	(43,115)
Transfers	8	(9,430)	(9,409)
Financing Costs	9	(7,680)	(7,692)
Grants to Non-Government Organizations	10	(1,367)	(1,568)
<i>Total Operating Payments</i>		(260,052)	(251,789)
Net Cash Operating Surplus (Deficit)		27,832	21,814
INVESTING (ASSET) CASH FLOWS			
<i>Asset-Related Inflows</i>			
Sales of Physical Assets	11	200	200
Loans-Made Repaid	12	(220)	(220)
<i>Total Asset-Related Inflows</i>		(20)	(20)

Asset-Related Outflows

Purchase of Physical Assets	13	(20,832)	(40,242)
Capital Contributions to Statutory Boards	14	-	-
CDB Equity Contributions		(276)	(361)
Loans-Made	15	(220)	(700)
Total Asset-Related Outflows		(21,328)	(41,303)
Net Cash Investing (Asset) Flows		(21,128)	(41,323)

FINANCING (BORROWING) CASH FLOWS

Inflows

New Borrowing (Public Debt)		0	30,000
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Outflows

Repayment of Borrowing (Public Debt Principal)		(9,521)	(7,809)
Net Cash Financing (Borrowing) Flows		(9,521)	24,780

MOVEMENT IN CASH POSITION

Operating Surplus (Deficit)		27,832	21,814
Net Investing (Asset) Cash Flows		(21,128)	(41,323)
Net Financing (Borrowing) Cash Flows		(9,521)	22,191
Net Movement Between Funds	16	-	-
Net Movement in Cash		(3,517)	(2,682)
Plus Opening Bank Balance		50,340	47,658
Plus Net Movement in "Current Accounts"			-
Plus Net Movement in "Deposits"			-
Plus Net Movement in "Other Advances"			-
CLOSING BANK BALANCE	17	46,823	50,340

Notes to the Forecast Cash Flow Statement	2011 Budget	2010 Est.
	\$000	Actual \$000
Note 1: Coercive Revenue		
<i>Levies</i>		
Financial Service Levies	168,708	156,937
<i>Taxes</i>		
Payroll Tax	37,500	35,000
Hotel Accommodation Tax	3,300	2,750
Passenger Tax (Air)	-	1,500
Property Tax	2,200	2,100
Passenger Tax (Sea)	900	1,000
Cruising Permits Tax	2,100	2,100
Corporate Income Tax	200	200
Personal Income Tax	300	300
House Tax	250	250
Land Tax	145	145
Motor Vehicle Rental Surcharge	150	160
Other Taxes	1,400	1,400
<i>Import Duties</i>		
Import Duties - Non-Alcoholic	33,000	32,000
Import Duties - Alcoholic	1,500	1,000
Import Duties - Tobacco	100	100
Commercial Licenses	700	625
<i>Licenses</i>		
Work Permits	6,500	6,500
Drivers & Vehicle Licenses	1,750	1,600

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Trade Licenses	900	800
Registration of Ships & Captains	500	450
Vessel/Captain Licenses	55	45
Non-Belonger Land Holding Licenses	250	250
Fishing Licenses	180	185
Miscellaneous (Other) License Receipts	125	125
Liquor and Still Licenses	106	106
<i>Stamp Duty</i>	6,500	6,500
<i>Royalties</i>		
Telecom Royalties	-	1,000
Coin Royalties	75	50
<i>Fines</i>		
Judiciary Fines	400	400
Other Fines	200	200
<i>Total Coercive Revenue</i>	<i>269,994</i>	<i>255,778</i>

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Note 2: Trading Revenue***Fees***

Water and Sewerage Fees	6,000	6,000
Nationality Fees	925	925
Miscellaneous (Other) Fees	1,500	1,500
Customs & Immigration Services	600	600
Mooring & Berthing Fees	300	290
Development Control Authority Fees	130	130
Registration Fees	47	42
Reprographic Fees	25	24
Abattoir Fees	20	20
Audit Fees	-	5
Ship Survey Fees	45	45
Seafarer Documentation Fees	20	20

Sales

Sale of Postage Stamps	4,000	4,000
Sale of Seafood	1,200	1,500
Sale of Forms & Publications	485	350
Miscellaneous (Other) Postal Receipts	216	365
Miscellaneous (Other) Sales Receipts	250	225
Sale of Produce and Livestock	70	120
Sale of Text Books	70	62
Philatelic Receipts	50	50
Sale of Entry Document Cards	40	35

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Sale of Sand	10	10
Sale of Land	200	200
<i>Rentals</i>		
Public Land Rental	175	160
Letter Box Rental	140	155
Houses and Building Rental	100	70
Vehicle and Plant Rental	2	2
<i>Total Trading Revenue</i>	<i>16,620</i>	<i>16,905</i>
Note 3: Investment Revenue		
Interest on Bank Balances & Deposits	450	350
Interest on Loans to Staff	40	40
<i>Total Investment Revenue</i>	<i>490</i>	<i>390</i>
Note 4: Other Revenue		
Sundry Receipts	750	500
Services to Statutory Corporations	30	30
Development Aid	-	-
<i>Total Other Revenue</i>	<i>780</i>	<i>530</i>

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Note 5: Personnel Costs

Salaries and Allowances	84,933	81,134
Wages	21,001	25,487
Pensions & Gratuities Provided by Law	10,015	10,666
Benefits	7,548	7,576
Other Gratuities	1,151	1,151
Payroll Adjustments	1,066	380
Net Salary Advances		
<i>Total Executive Personnel Costs</i>	<i>125,715</i>	<i>126,394</i>

Note 6: General Operating Costs

General Ministry Operating Expenses	41,495	38,934
Repairs, Maintenance and Minor Equipment	7,227	7,167
Utilities	5,650	5,377
Rental Expenses	5,252	5,137
Travel Expenses	2,588	2,641
Contributions to Overseas Organizations	2,465	1,673
Expenses of Boards and Committees	349	365
Other Operating Costs	2,729	2,317
<i>Total Executive General Operating Costs</i>	<i>67,755</i>	<i>63,611</i>

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Note 7: Grants to Statutory Boards

BVI Health Services Authority	17,100	17,100
Tourist Board	15,000	9,711
H. Lavity Stoutt Community College	11,068	11,068
BVI Airports Authority Ltd	3,159	3,325
Telecommunications Regulatory Commission	95	237
Recreation Trust	550	480
National Parks Trust	406	428
Financial Investigation Agency	665	700
H. Lavity Stoutt Memorial Fund	45	47
Beautification Committees Prospect Reef	18	19
<i>Total Grants to Statutory Boards</i>	<i>48,106</i>	<i>43,115</i>

Note 8: Transfers

Scholarships Abroad	3,515	3,700
Assistance Grants	3,791	3,831
Special Projects	1,120	820
Further Education Programmes	456	480
Graduate Scholarship Programmes	257	271
Legal Aid	181	190
Special Needs Programme	111	117
Other	-	-
<i>Total Transfers</i>	<i>9,430</i>	<i>9,409</i>

Note 9: Financing Costs

Principal	9,521	7,809
Interest on public debt	7,647	7,679
Commission on debt raising	33	13
<i>Total Financing Costs</i>	<i>7,680</i>	<i>7,692</i>

Note 10: Grants to Non-Governmental Organisations

Festival Committees	570	600
Aviation Control (ASSI)	644	644
Independent Medical Providers	-	285
BVI Diabetes Association	35	-
HIV Aids Foundation Ltd	32	-
BVI Red Cross	30	-
Home Care Basics	40	-
Beautification Committees	-	19
Emergency Medical Transportation	-	5
Council for Alcohol and Drug Abuse (CADA)	6	-
VISAR	5	5
Craft Alive	-	5
Nursing Council	-	5
BVI Nurses Association	5	-
Keep the BVI Beautiful	-	-
<i>Total Grants to Non-Governmental Organisations</i>	<i>1,367</i>	<i>1,568</i>

Note 11: Sales of Physical Assets

Sale of Land	200	200
<i>Total Sales of Physical Assets</i>	<i>200</i>	<i>200</i>

Note 12: Loans-Made Repaid

Loans to Staff: Car Loans	-	-
Loans to Staff: Other Advances	220	220
<i>Total Loans-Made Repaid</i>	<i>220</i>	<i>220</i>

Note 13: Purchase of Physical Assets

Roads & Bridges	-	6,619
Buildings	-	8,540
Land	-	-
Other Infrastructural Assets	20,832	10,615
Specialist Plant & Equipment	-	12,059
Water & Sewerage Systems	-	-
Computer Hardware, Software and Databases	-	639
Vehicles	-	-
Harbours, Docks & Jetties	-	-
Furniture & Fittings	-	-
Historical & Other Heritage Assets	-	-
Office Equipment	-	20
Land Development	-	1,750
Boats	-	-
<i>Total Purchase of Executive Physical Assets</i>	<i>20,832</i>	<i>40,242</i>

Note 14: Equity Contributions to Statutory Boards

BVI Health Services Authority	-	-
BVI Airports Authority Ltd	-	-
HL Stout Community College	-	-
Development Bank of the Virgin Islands	-	-
BVI Electricity Corporation	-	-
National Parks Trust	-	-
<i>Total Capital Contributions to Statutory Boards</i>	-	-

Note 15: Loans-Made

Loans to Staff: Car Loans		
Loans to Staff: Other Advances	700	700
<i>Total Loans-Made</i>	700	700

Note 16: Net Movement Between Funds***Transfers Out***

From Consolidated Fund (Contribution to Funds)	(27,832)	(4,333)
From Development Fund		
<i>Total Transfers Out</i>	(27,832)	(4,333)

Transfers In

Development Fund	20,832	633
Pension Fund	4,000	2,000
Reserve Fund	2,300	500
Emergency/Disaster Fund	300	500
Contingency Fund	300	500
Repairs and Renewal Fund	100	200
Car Loan Revolving Fund		
<i>Total Transfers In</i>	27,832	4,333

Note 17: Cash and Bank Balances

Operating Bank Accounts & Deposits*	58,325	58,325
Development Fund Bank Accounts & Deposits	(24,683)	(24,683)
Emergency/Disaster Fund Bank Accounts & Deposits	3,157	3,157
Reserve Fund Bank Accounts & Deposits	1,338	1,338
<i>Total Cash and Bank Balances</i>	<i>38,137</i>	<i>38,137</i>

* Contains cash & bank balances relating to the Advances, Car Loan Revolving Fund, Current Accounts, Consolidated Fund, Contingency Fund, Debt Service Fund, Deposits, Loan Revolving Fund, Pension Fund, Repairs and Renewals Fund, and Transportation Improvement Network Fund.

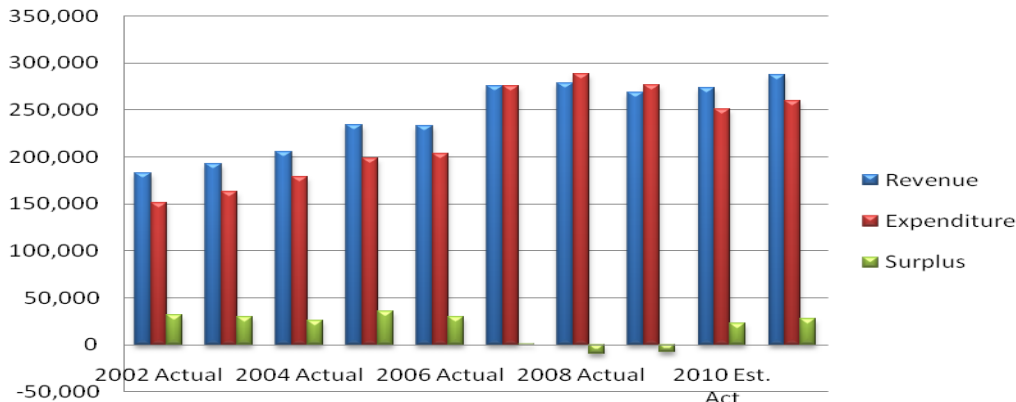


Figure 1

Revenue/Expenditure Combined

Overall, revenue in 2011 is projected to increase by 5% to \$287,718,000 over 2010's budgeted figure of \$273,603,000. Additionally, expenditure is also increasing by 3.6% to \$260,052,000 over 2010's budgeted amount of \$250,877,000. This thus indicates an almost 22% increase in surplus funds to \$27,666,000.

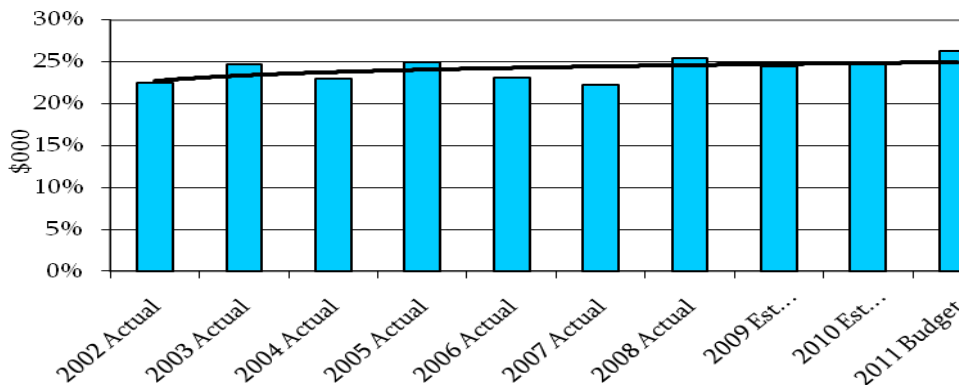


Figure 2

Revenue as % of GDP

With nominal GDP projected to remain flat at \$1.1 million dollars, 2011 budgeted revenue is expected to be 26% of GDP as indicated in Figure 2 above. This is a slight increase from 25% in 2010.

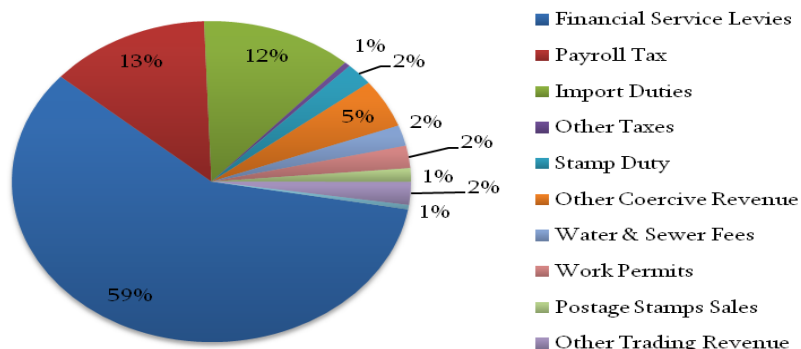


Figure 3

Revenue Composition

Figure 3 above illustrates the revenue make up that is realized by the 2011 Budget. Levies in Financial Services make up the largest percentage of this and accounts for some 59% of the total revenue intake, followed by Payroll tax at 13%, and Import duties at 12%.

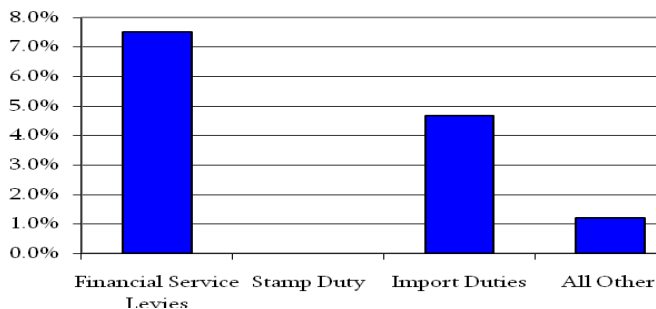


Figure 4

Budgeted Revenue Growth

When compared to the 2010 budget the growth in financial services levies and import duties are most significant and illustrate, based on Figure 4, that they have had the greatest impact on the projected revenues for 2011.

On the expenditure side the three major categories, Personnel Costs, General Operating Costs, and Contribution to Statutory Boards account for \$241,575,000 of total expenditure.

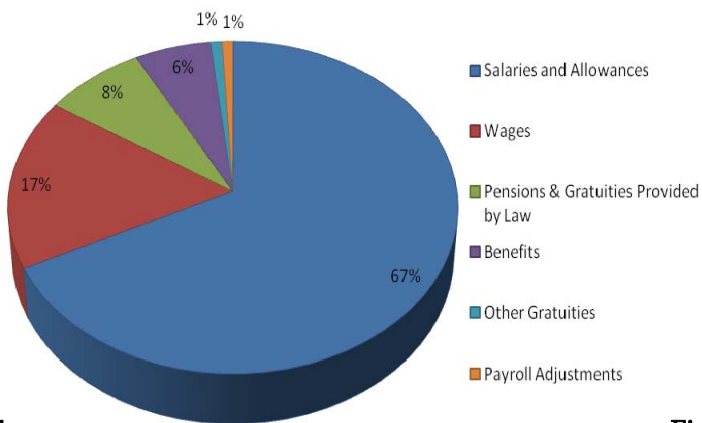


Figure 5
Personnel Costs

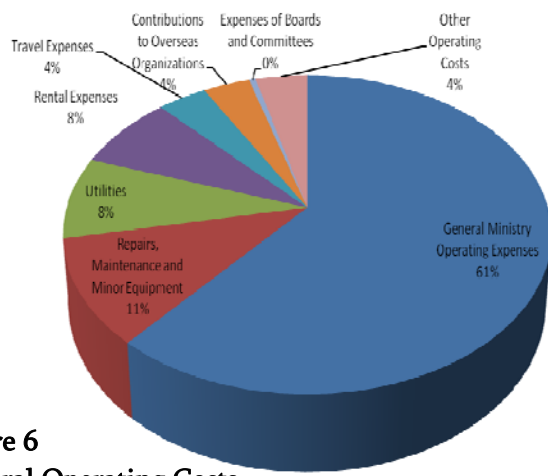


Figure 6
General Operating Costs

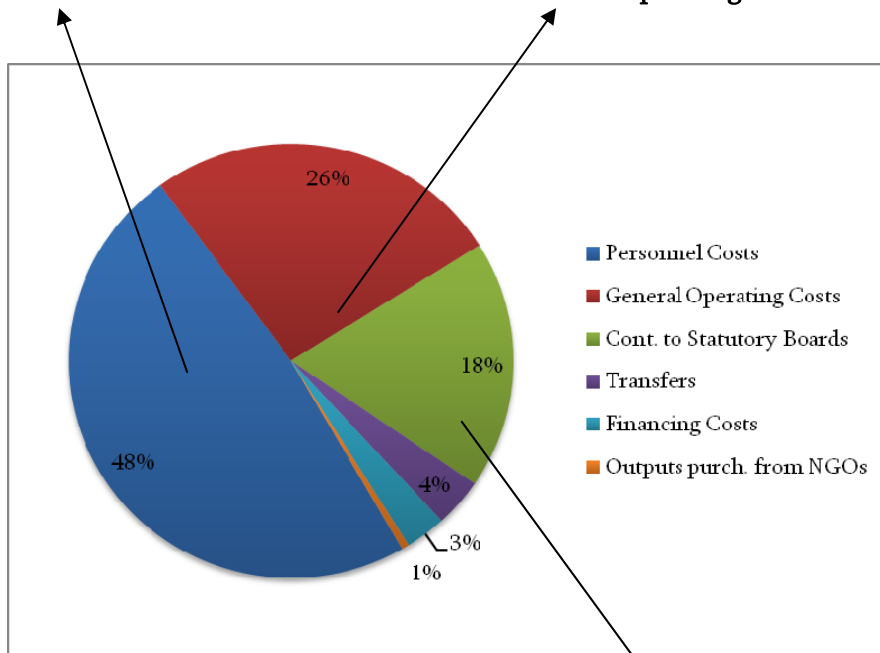


Figure 7

As shown in the figure above, 92% of operating expenditure is spent on Personnel Costs (48%), General Operating Costs (26%) and Contributions to Statutory Boards (18%).

Salaries and allowances account for 67% of personnel costs and wages (salaries to non-established employees) accounts for 17%.

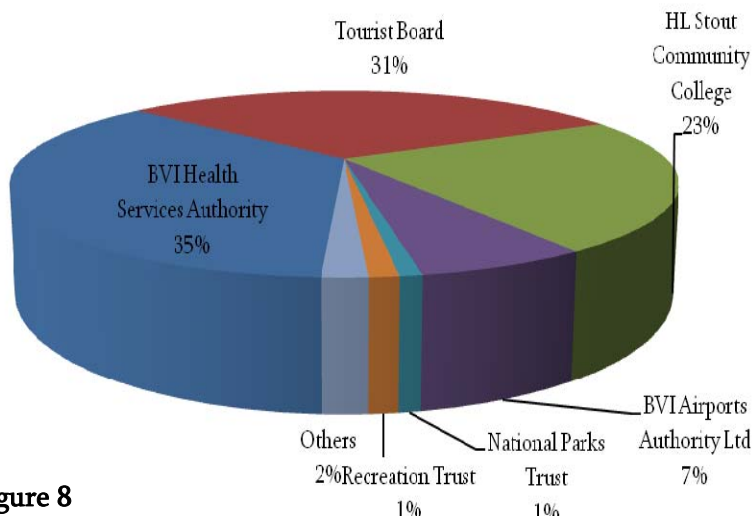


Figure 8
Contribution to Statutory Boards

Recurrent Expenditure

As depicted above, recurrent expenditure accounts for \$260,052,000 of total expenditure in the 2011 budget.

Personnel Costs

Of the major expenditure items, personnel costs, at 48% of total operating expenditure, is the largest single expense. Personal emoluments are comprised of the subcategories as illustrated in Figure 5. In this budget this translates to \$125,715,000, which is 48% of total budgeted expenditure.

General Operating Costs

The second largest expenditure is General Operating Costs (26%) of which General Ministry Operating Costs (61%) is the single largest item. This category is comprised mainly of specific operational initiatives that take the form of a significant part of the services that are being delivered by the ministry or departments, contributions to overseas organizations, consultancies, and transfers.

Contributions to Statutory Boards

The third largest category of recurrent expenditure (18%) is contributions to parastatals (Statutory Boards), with BVI Health Services Authority (35%) and the BVI Tourist Board (31%) receiving the bulk of the appropriated funds.

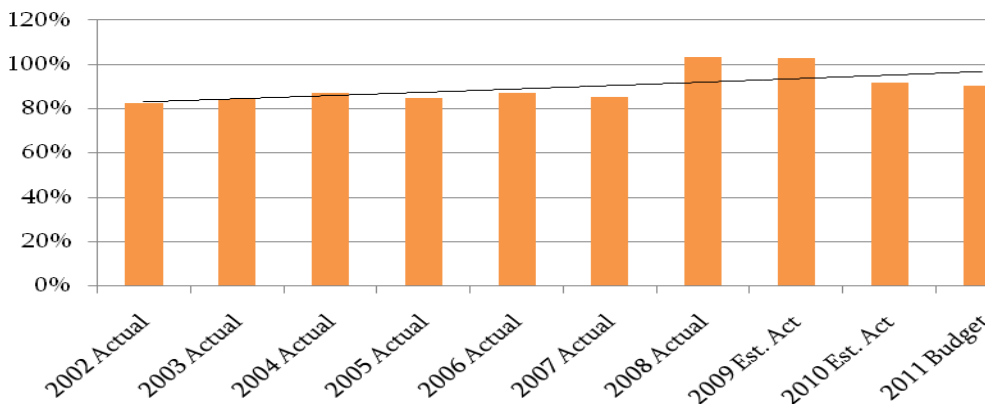


Figure 9

Expenditure as % of Revenue

The figure above illustrates a fairly flat trend in the relationship between revenue and expenditure, with anomalies indicated in 2008 and 2009. A relationship that is less than 100% indicates that revenues are less than expenditures while the converse would indicate expenditures that outstrip revenues and that cash balances are decreasing.

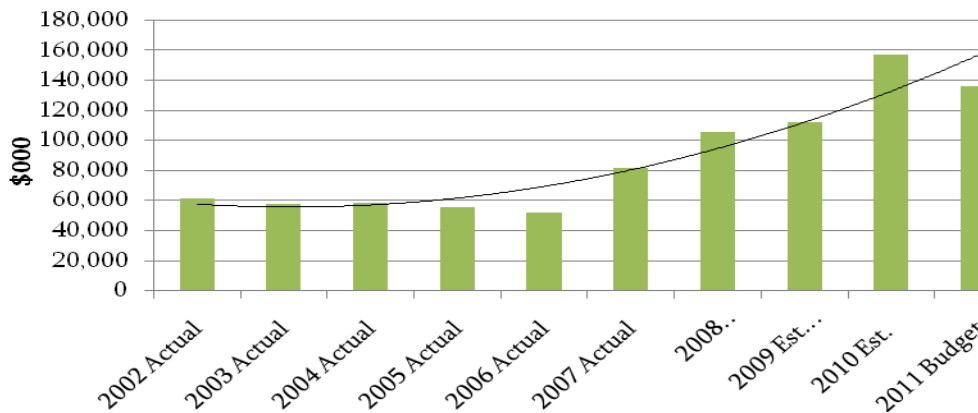


Figure 10

Public Debt

The levels of public debt reached a high in 2010, however for 2011, there has been a decrease in total debt due to finalization of some previous loans held by the Government of the Virgin Islands, even though dept servicing costs have increased.

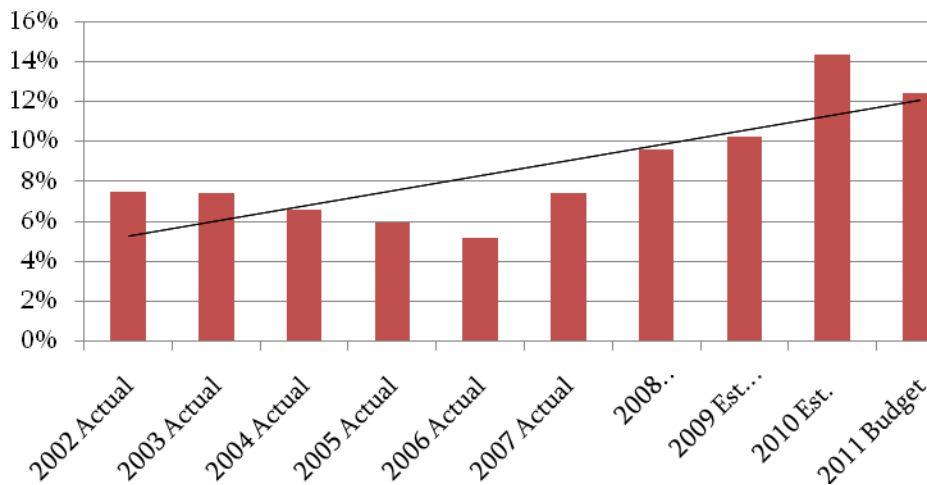


Figure 11

Debt as % of GDP

For 2011, total debt as a proportion of GDP is forecasted to be twelve percent (12%), down from fifteen percent (15%) in 2010. This is indicative of the ability of the Government to continue to manage the current levels of debt.

APPENDIX III

Borrowing Guidelines

The Borrowing Guidelines as agreed to between Her Majesty's Government and the Government of the Virgin Islands continues to be well within the established ratios in Net Debt and Debt Servicing. However, the Reserves Ratio continues to challenge us but the 2011 Budget seeks to address this.

Borrowing Guideline Ratios

Ratio	Calculation	Required	2011 Budget
Net Debt Ratio	Public debt+risk weighted guaranteed debt -liquid assets: recurrent revenue	Max 80%	33.6%
Debt Service Ratio	Debt servicing: operating revenue	Max 10%	6.0%
Reserves Ratio	Liquid assets: operating expenditure	Min 25%	
Assuming no revotes		125.14	34.8%
Assuming all revotes spent		62.08	17.2%
Assuming half revotes spent		93.61	26.0%

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